

## Hayes, Kathy

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**From:** Dani Burkhart <dani@emeraldheritagefarms.com>  
**Sent:** Saturday, July 09, 2016 6:44 PM  
**To:** Lovelace, Mark; Sundberg, Ryan; Bohn, Rex; Bass, Virginia; Fennell, Estelle; Hayes, Kathy; Blanck, Jeffrey; Quincey, Sean; Nilsen, Amy; County Administrative Office  
**Subject:** Solutions for Humboldt's Excise Tax

Honorable Supervisors, and County Staff:

It is my understanding that the **goals** of the county for the ordinance/permitting process are two-fold:

- 1) To create a successful process for permitting commercial medical cannabis farms/businesses that leads to a sustainable, economy boosting cannabis industry benefitting our entire community.
- 2) To collect revenues from said industry to address the needs of the county.

I would like to take a moment of your time to point out some simple ways I see that we can solve the problems with the tax as it is currently moving forward in order to meet those goals.

### **Issues we face with the current tax schedule:**

*This structure of tax is not as simple as its made out to be:*

If a farm may end up producing more (or significantly less) yield on the same square footage and the square footage tax doesn't account for that. Also missing from this accounting is how fallowed land will be treated, or catastrophic crop loss, in addition to the fact that not all square footage being used for normal activities associated with cultivation necessarily lead to production revenues, but is still counted in the square footage model (i.e. space for seed/clone starts, genetics maintenance, etc.). Many other questions are left unanswered using this structure.

### *Timing:*

The brunt of the costs of coming compliant will be faced over the next two years by farmers who are unable to secure traditional financing for property improvements or setting up their business structures, while also not being able to amortize those costs over a period of time like an average business. There are many business-building resources available to the normalized business community not yet available to the cannabis community that are necessary for cannabis businesses to operate like the traditional businesses of this state. Until those systems of support are in place, we are setting our farms up for failure by tacking on an additional tax before state licenses become available. We need to recognize that while the cannabis industry of Humboldt County has technically been in operation for some time, the reality of the business situation here is that we are dealing with start-up operations that are brand new to normalized business. **My analogy for this process is to imagine asking a toddler who has just taken its first steps to immediately go run a marathon.**



*Fairness:*

The dollar(s) per square foot tax model is punitive towards the smaller farms, as a disproportionately larger percentage of their profits would be going to that tax than the larger farms. This further disincentivizes the small farmer to stay small.

*Recognition and Protection:*

This industry has the potential to provide many benefits and revenue to this county over the long-term if we approach the issues from this perspective. Many startup industries are subsidized, and given resources to protect them from competition until they have a solid industry operating. Currently the cannabis industry has not enjoyed these protections and many have had to seek outside investment and influence from entities who may not share our collective values. Let us not repeat the past with MaxAm and PalCo. Additionally, this tax will not be the only tax levied on our farmers and the first 3 years of business will be critical to determining the long-term success of our county's farms and small businesses in this new regulatory scheme.

**SOLUTIONS!**

I propose a **progressively tiered system based on real production** that accounts for the light source of production as well as the issues with accuracy pointed out in the above problems section. Tier 1 would face a tax rate on up to 300 lbs of 1% of the wholesale reported total (or other reasonable percentage). Tier 2 would be 300-600 pounds at 2% (adjustable). Tier 3 would be 600+ at 3% (adjustable).

*Production Based Structure offers Simplicity:*

Switching to a production based tax with tiered system based on level of production will increase participation in the short-term and county revenues in the long term. In a production-based scheme, you would take advantage of using the tax report that is already being required by the Board of Equalization from farmers. You would have the farmer file a second copy of their already produced report of production to the county for tax assessment based on that figure. This is just one example, there are many other ways to utilize the already required reports farmers will be producing to get the information you need to assess this tax in a timely and efficient manner.

*A tax that captures the whole picture:*

As indoor and Mixed Light crops are already valued higher in the market than outdoor, you get an accurate/fair representation of real production values for all 3 light sources with this system. Also captured by this model are the natural market fluctuations in price that are not accounted for in the square foot model. This model also continues with the theme established at the beginning of encouraging smaller farms.

*Timing and Protection:*

Time this tax to become effective after 1/1/2018 in order to give our county's farmers a leg up on the competition when state permits become available. The long-term gains of this will far outweigh the short-term losses.

In short, it is not too late to save ourselves from a mistake with potentially disastrous consequences to the end goals of this process. I believe the above outlines the best way to increase the breadth of the tax base while also maximizing the county's revenue capturing potential. Humboldt County is leading the way, let's use this momentum to break our boom/bust economy streak by evaluating this tax and its effects thoughtfully for the greatest long-term good of our community. Thank you for your time and consideration in this crucial matter.

Warmest Regards and Deepest Gratitude,

**Dani Burkhart**

Founder/Principal Consultant | Emerald Heritage Farms  
Founding Board Member | Humboldt County Cannabis Chamber of Commerce  
[dani@emeraldheritagefarms.com](mailto:dani@emeraldheritagefarms.com)  
Mobile | [707-273-2905](tel:707-273-2905)





# Margro Advisors

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To: Board of Supervisors' Chambers  
Humboldt County Courthouse  
825 5th Street  
Eureka, Ca 95551

July 14, 2016

From: Margro Advisors  
1120 Myrtle Street  
Eureka, Ca 95501

Dear County Supervisors,

It is an honor to submit this information to the Board, as we continue to believe in your groundbreaking efforts to develop a prosperous economy for both local farmers and the community. We recognize the importance and value of your commitment and want to provide you with sound recommendations to assist you where possible.

We have continued to do research on the legislation and financial forecasts that outline the potential pitfalls and opportunities for the county. By bringing Humboldt cannabis farmers into the emerging industry, the economic impacts and environmental improvements will be historic.

In support of your efforts, we have developed a recommended cycle of compliance as a sample of potential Planning Department operations that would provide the incentives we believe will be necessary to motivate current farmers to enter the legal market. Using proposed fees and penalties, we believe this is a more sound approach to increasing revenues in a more effective way, than the currently proposed excise tax.

A two page summary of our analysis is attached. To provide a more complete description we would like to request the opportunity to present our analysis and provide recommendations to the Board at your next Council meeting. If you would like to learn more about our work in detail, we would also be available to share our assessments and results with you directly. We would be honored to meet with you personally, when convenient, to assist in supporting your on-going efforts.

Respectfully,



Kelly Flores  
Margro Advisors



Suzanne Maese  
Margro Advisors

CC: Estelle Fennell  
Mark Lovelace  
Rex Bohn  
Ryan Sundberg  
Virginia Bass

# Margro Advisors

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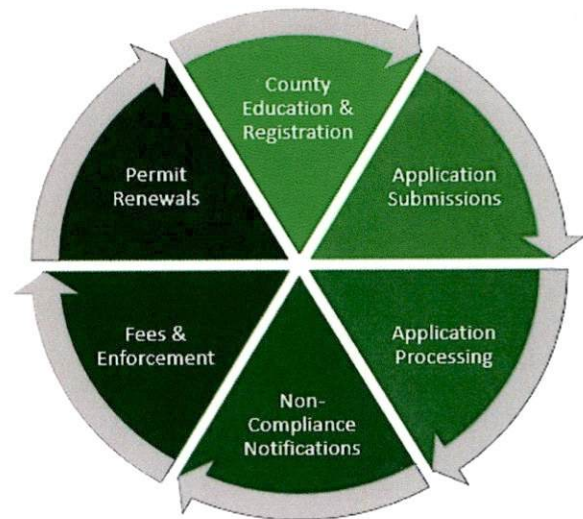
## Developing a Marijuana Grower Compliance Cycle

**Purpose:** Introducing an annual cycle for compliance and permitting can bring departments more predictable and manageable workloads, encourage farmer participation, and unlike an excise tax, raise County revenues in a fair and affordable way.

**Plan:** We recommend for Humboldt County to establish a two-year plan to provide a path to compliance. Increasing non-compliance penalties, along with continued sustainability risks, could provide enough motivation to engage existing farmers. Bringing a cycle of permitting and renewal will help the County build its emerging market, improve the environment, create jobs, increase property values, and generate new revenue until local taxes become viable.

**Annual Cycle:** To manage compliance we recommend a continued cycle of education, registration, application submissions, processing, enforcement, and renewals. This cycle would be established with specific durations to set expectations and provide on-going county income.

**Education and Registration:** January 2017, would begin with a media blitz to highlight compliance benefits and successes. More directly, a notice would be sent to suspected non-compliant farmers regarding upcoming penalties and encouraging them to attend workshops, webinars, obtain compliance materials, and make appointments with staff on how to register. This process would allow the Planning Department to estimate expected applications and plan accordingly. As a final step, the department may consider sending a final round of registration invitations, 30-days prior to the registration deadline.



Proposed County Marijuana Land Use Permit Cycle

**Application Submissions:** For the application period, resources would be dedicated to both public support efforts, and internal processing activities. Along with application fees, additional fees received are likely to include permits for building, wells, greenhouses, water tanks, and related items; along with penalties for pre-existing structures.

**Processing:** As applications are received, the department would have several months to process them before the next application cycle in 2018. The county would acquire additional building permit fees from farms that require modifications in order to obtain approval.



# Margro Advisors

**Enforcement:** A follow-up notice would be sent to suspected non-compliant farmers billing them for penalty fees and requesting they register for legal compliance in January. Those not paying, would be subject to late fees and risk the attention of local law enforcement. Significant revenues would be raised from compliance penalties and late fees.

**Renewals:** Approved permits would be billed for renewals January 1, 2018. Late fee notices would follow a payment deadline, and notify recipients that they risk having their permit revoked. The county would receive renewal fees and associated late fees.

**Revenues:** Based on the cycle described, an analysis of potential revenues for 2017 and 2018, is shown below. Estimates include higher permitting fees and penalties year to year.

	Small Farm	Mid-size Farm	Large Farm
Use Permit & Penalty	\$1,500	\$3,000	\$4,500
Building & Land Permits	\$2,600	\$5,286	\$10,280
Business License Estimate	\$300	\$300	\$300
Tank Permits & Penalties	\$150	\$300	\$1000
Application Assistance	\$150	\$150	\$150
Public Hearing Fees	\$45	\$45	\$354
Map Inspection	\$0	\$298	\$298
<b>2017 Fees Per Permit</b>	<b>\$4,745</b>	<b>\$9,379</b>	<b>\$16,882</b>

Estimated 2017 Applicants	360	720	120
2017 Applications Revenue	\$1,708,200	\$6,752,880	\$2,025,840
2017 Non-Compliance Penalties	\$420,000	\$1,750,000	\$1,400,000
<b>2017 Revenue - \$14M</b>	<b>\$2,128,200</b>	<b>\$8,502,880</b>	<b>\$3,425,840</b>

Estimated 2018 Applicants	252	504	84
2018 Applications Revenue	\$1,573,740	\$5,199,180	\$3,592,176
2018 Non-Compliance Penalties	\$588,000	\$2,450,000	\$1,960,000
<b>2018 Revenue - \$15.3M</b>	<b>\$2,161,740</b>	<b>\$7,649,180</b>	<b>\$5,552,176</b>

*Estimates based on 5,000 farms with 30% application submittals each year following 2016*

## Hartwell, Ana

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**From:** Holly Carter <hollysparklebuns@gmail.com>  
**Sent:** Friday, July 15, 2016 8:32 AM  
**To:** Hartwell, Ana

Dear Board of Supervisors,

I am writing in consideration of the excise tax on cannabis cultivation which is being considered for November's ballot.

Although I support the licensing of this industry, and all that goes along with it, including taxes, at this time I request that the tax wait for another election, for the following reasons.

In order to compete with black market, prices must be kept competitive during transition to commercial licensing. Because the market has traditionally placed cultivators in the position of price taking ( being unable to set prices that adequately recoup costs and earn a living wage), having taxes levied before licensing is in place will put those pursuing commercial licensing at a disadvantage in the marketplace, thus not enabling cultivators to access legal markets.

Having money available in legal channels is important to farmers transitioning, to enable building their businesses and brands. Legal points of sales are imperative to farmers in pursuit of licensing, and high overhead will discourage entry to the free market.

I suggest that no taxes are collected from any cultivators until they have secured a state license. I do, however, have interest in local tax rates being in place before the state puts tax rates into place, to ensure that BMMR and other agencies can take into account the cumulative effects taxes will have on all levels of business in this industry.

In regards to cumulative effects, there is within MMRSA opportunity for taxation at multiple levels of the industry. I ask you to take into consideration the other opportunities for taxation that will be available to the county. Other areas of the industry have impact on our communities in a different way than cultivation. Transportation, manufacturing and distribution will bring both benefits and difficulties to our communities, and their impact should be considered as well.

To ensure the health of our local economy, I suggest taxes on Humboldt-cultivated cannabis be collected when the product leaves the county via distributors. This ensures that our as our community draws tourists, we keep the market available to be competitive for the same product that would be found in other areas. Retail sales within the county allow farmers to continue to hone their craft while maintaining a lifestyle and a culture that is unique to our area, which is what is a part of the draw for visitors. Further, retail sales will generate revenue for the county for cannabis retailed within county boundaries.



The lifestyle that Humboldt County, and specifically Southern Humboldt, has been built upon, also lends itself to exempting artisan farmers from paying excise tax for those pursuing cottage industry licensing. The taxes for product from these licensees will be collected at the retail end.

The size of gardens and farms has impact on the culture and the land. Instead of asking cultivators to be taxed based on square footage, however, I suggest basing taxes on the value at the time of sale, except in the above mentioned situations.

I ask that services be considered for cultivators if they are to be paying taxes, such as remediation for historical damages and infrastructure. I ask for reference to be made to the grand jury report that was recently released which discussed the difficulties the county has been experiencing in managing funds.

Thank you for taking the time to reconsider the impacts taxation and other regulations will have on all levels of commercial cannabis industry, and the work to retain the culture of Humboldt rooted in respect for the land and community connections.

Holly Carter

SHC Alliance





## Hartwell, Ana

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**From:** Sunshine Johnston <420yoga@gmail.com>  
**Sent:** Friday, July 15, 2016 9:02 AM  
**To:** Hartwell, Ana  
**Subject:** Excise Tax

Dear Board of Supervisors,

I am writing in consideration of the excise tax on cannabis cultivation which is being considered for November's ballot.

Although I support the licensing of this industry, and all that goes along with it, including taxes, at this time I request that the tax wait for another election, for the following reasons.

In order to compete with black market, prices must be kept competitive during transition to commercial licensing. Because the market has traditionally placed cultivators in the position of price taking ( being unable to set prices that adequately recoup costs and earn a living wage), having taxes levied before licensing is in place will put those pursuing commercial licensing at a disadvantage in the marketplace, thus not enabling cultivators to access legal markets.

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To ensure the health of our local economy, I suggest taxes on Humboldt-cultivated cannabis be collected when the product leaves the county via distributors. This ensures that our as our community draws tourists, we keep the market available to be competitive for the same product that would be found in other areas. Retail sales within the county allow farmers to continue to hone their craft while maintaining a lifestyle and a culture that is unique to our area, which is what is a part of the draw for visitors. Further, retail sales will generate revenue for the county for cannabis retailed within county boundaries.

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I ask that services be considered for cultivators if they are to be paying taxes, such as remediation for historical damages and infrastructure. I ask for reference to be made to the grand jury report that was recently released which discussed the difficulties the county has been experiencing in managing funds.

Thank you for taking the time to reconsider the impacts taxation and other regulations will have on all levels of commercial cannabis industry, and the work to retain the culture of Humboldt rooted in respect for the land and community connections.

Sunshine Johnston  
July/15/2016  
SHC Alliance, Founder



## Hartwell, Ana

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**From:** Craig Johnson <alpenglowfarms@gmail.com>  
**Sent:** Friday, July 15, 2016 9:58 AM  
**To:** Hartwell, Ana  
**Subject:** Excise Tax

Dear Board of Supervisors,

In regards to the excise tax that is to be considered for the November ballot, I would like you to consider and take into account that our family farm has not only registered with the county, but has also entered and paid our full county application, in hopes of completing our permitting process. This reflects our sincerity and transparency with you, yet is proving time consuming and costly for our family farm.

Our biggest infrastructure need for our farm is the sixth month forbearance water storage program. Our hired engineer has recommended a lined, rain catchment pond; however, we are unable to immediately move forward with this permit requirement as we have been informed we now need a county issued grading permit to proceed with the pond, that is, in and of itself required for compliance.

Also, a portion of our personal permit is mixed light, which is a grey area for our family farm, as we use less than 2,000 solar powered watts total for less than three weeks a cycle. This is yet another example of why tax considerations for small family farms that operate within this unique model need to be considered.

We ask that until state licenses are secure for family farms, no excise tax is collected. We understand and support the need for taxes, however, with the current proposed excise tax, family farms will be taxed prematurely; and as we have yet to secure our future earnings on this years crop, and with the numerous unseen and required costs that incur through the permitting and compliance process, we ask that you consider a tax structure that would occur during point of sale.

Our family farm hopes to generate more tourism within our community, by opening our gates and home to the you and the public, to witness and experience this unique and sustaining land stewardship lifestyle we have created.

Sincerely,

Melanie and Craig Johnson  
Alpenglow Farms Inc.  
SHC Alliance Members

# Costs for Small Family Farm

50 plants = 100 lbs.  
natural fence line 11,000 sqft.

## COGS

Training \$200 p/lb.

Other Labor \$100 p/lb.

Other Supplies 50 p/lb  
350 p/lb.

so 100 lbs x \$350

35,000

Avg. Wholesale Dispensary \$1200

COGS

120,000  
35,000

85,000

11,000

14,000

59,200

Proposed Tax  
Income Tax IRS/state

State Tax?  
Distribution?

Cost of Living in Humboldt?



Hartwell, Ana

7-19-16 Hem I-2

**From:** Fred Bauer <fredbauer@luminknow.net>  
**Sent:** Saturday, July 16, 2016 10:46 AM  
**To:** Hartwell, Ana  
**Subject:** Excise Tax

Dear Board of Supervisors,

In regards to the excise tax that is to be considered for the November ballot, I would like you to consider and take into account that our family farm has not only registered with the county, but has also entered and paid our full county application, in hopes of completing our permitting process. This reflects our sincerity and transparency with you, yet is proving time consuming and costly for our family farm.

Our biggest infrastructure need for our farm is the sixth month forbearance water storage program. Our hired engineer has recommended a lined, rain catchment pond; however, we are unable to immediately move forward with this permit requirement as we have been informed we now need a county issued grading permit to proceed with the pond, that is, in and of itself required for compliance.

Also, a portion of our personal permit is mixed light, which is a grey area for our family farm, as we use less than 2,000 solar powered watts total for less than three weeks a cycle. This is yet another example of why tax considerations for small family farms that operate within this unique model need to be considered.

We ask that until state licenses are secure for family farms, no excise tax is collected. We understand and support the need for taxes, however, with the current proposed excise tax, family farms will be taxed prematurely; and as we have yet to secure our future earnings on this years crop, and with the numerous unseen and required costs that incur through the permitting and compliance process, we ask that you consider a tax structure that would occur during point of sale.

Our family farm hopes to generate more tourism within our community, by opening our gates and home to the you and the public, to witness and experience this unique and sustaining land stewardship lifestyle we have created.

Sincerely,

Fred Bauer

## Hartwell, Ana

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**From:** Douglas Fir <dfir@asis.com>  
**Sent:** Monday, July 18, 2016 2:40 PM  
**To:** Hartwell, Ana  
**Subject:** Public Input

Humboldt County Board of Supervisors  
Courthouse  
Eureka

Dear Board Members,

While I recognize that one of the principle reasons that the county favors legalization of medical cannabis is to create a robust revenue stream from the county's dominant industry, I must take issue with how you've structured the excise tax proposal.

First, in my review of California taxes on agriculture, I can find no other example of a crop that is taxed in the manner proposed — by area under cultivation. In fact I can find no examples of an excise tax on any crop in California in my cursory research. Thus, like the regulations promulgated by the NCRWQCB, cannabis is being singled out for special treatment. It should not be!

An excise tax in my opinion should be based on revenue, not land base. I am not opposed to a sales-based tax, but I reject the notion of a land based tax for several reasons. Chief amongst them is that cannabis cultivation is, duh, an agricultural enterprise. As such it's subject to a number of possible variations in production (weather, disease, water limitations etc). The yield therefore varies based on these factors. The county would be better served and growers more fairly taxed if that tax were on sales rather than having an arbitrary and fixed tax based on area.

Thank you for your consideration

Sincerely,

Douglas Fir



Hayes, Kathy

7-19-16 Item I-2

**From:** julie robbins <arcanadelights@gmail.com>  
**Sent:** Tuesday, July 19, 2016 8:31 AM  
**To:** Hayes, Kathy; Lovelace, Mark; Bohn, Rex; Fennell, Estelle; Bass, Virginia; Sundberg, Ryan; Blanck, Jeffrey; County Administrative Office  
**Subject:** Cannabis Cultivation Tax

From: Julie Robbins  
City: Mckinleyville  
Email/return address: [arcanadelights@gmail.com](mailto:arcanadelights@gmail.com)

To: Humboldt County's Board of Supervisors, County Counsel, and Staff

I'm writing in response to the specific language now included Humboldt County's upcoming proposal to place a cannabis cultivation tax onto the November ballot. I share several key concerns with many in my community regarding the long term consequences of rushing to tax Humboldt's nascent cannabis industry.

This could make or break our farmers following the newly opened path to compliance. I understand that once the tax is passed it cannot be raised. Choosing this method stops us from accounting for natural fluctuations in the medical cannabis market, let alone the turbulence expected in the next two years. While the county may drop its rates for difficult times, we will be missing out on greater revenues during times of economic prosperity. This hasty action will negatively affect the county's revenues and farmers in the long run.

Our populace would support nearly any tax on cannabis. This is not an indicator of good economic policy. Emerald Heritage Farms recently polled an international panel of drug policy economists who unanimously concluded that this iteration of the tax would do greater damage than good to our county and farmers in the long run and is especially punitive towards farms belonging to the smaller tiers. It is to our own detriment to continually put off addressing the needs and concerns of the smallest farms and may condemn them to extinction. They are the most vulnerable segment of the industry and the broadest part of your potential tax base if we successfully engage them.

It is my understanding that the goals of the county are to create a successful process for permitting commercial medical cannabis farms/businesses that leads to a sustainable cannabis industry engaged in Humboldt's community development; and to collect revenues from cannabis farmers to address the deficit left by other industries which have faltered. I am concerned that the proposed tax initiative fails to support these goals in three key ways.



First, this structure of tax is not as simple as it's made out to be. A farm may end up producing more (or significantly less) yield on the same square footage but the square footage tax doesn't account for that. Further agricultural issues that are unaddressed include a method to account for fallowed land, catastrophic crop loss, or the fact that not all square footage is being used for normal activities associated with cultivation necessarily lead to production revenues (i.e. space for seed/clone starts, genetics maintenance, etc.), but is still counted in the square footage model. This sets the stage for unintended consequences in the future.

Second, while cannabis farming has long been a Humboldt industry, the best actors in that industry now face all the complications of creating a startup company with none of the county's business resources. The brunt compliance costs will be faced over the next two years by farmers unable to secure traditional financing for property improvements or business development. Meanwhile, they're unable to amortize those costs over a period of time like an average business. Business building resources available to the rest of Humboldt's business community are not yet available to the cannabis community. Until those systems of support are in place we are setting our farms up for failure by adopting an additional tax before state licenses become available. We must recognize that while the cannabis industry of Humboldt County has been in operation for decades, it has had to do so without the support of infrastructure traditionally available to start-ups. The timing of this impact to this transition period would mean losing many of these farms to lack of traditional business resources, leaving our county vulnerable to exploitation by a very eager corporate cannabis mentality developing in other areas.

This leads to my third concern: the matter of encouraging a decentralized cannabis industry. The dollar(s) per square foot tax model is punitive towards the smaller farms, as a disproportionately larger percentage of their profits would be going to that tax than the larger farms. This further disincentivizes the small farmer to stay small, and once again builds in vulnerability for external actors to snap up failing farms just as we've seen in other agricultural commodities.

I agree with the solution proposed by Emerald Heritage Farms, consisting of a progressively tiered system based on real production that accounts for the light source of production while addressing my concerns. Under this proposal, Tier 1 would face a tax rate on up to 300 lbs of 1% of the wholesale reported total (or other reasonable percentage). Tier 2 would be 300-600 pounds at 2% (adjustable). Tier 3 would be 600+ at 3% (adjustable).

Switching to a production based tax with tiered system based on level of production will increase participation in the short-term and county revenues in the long term. In a production-based scheme, you would take advantage of using the tax report that is already being required by the state from farmers. You would have the farmer file a second copy of their report of production to the county for tax assessment based on that figure. There are several other examples of points in the emerging medical cannabis system where this information can be collected for use in assessing tax. You get an accurate/fair representation of real production values and variance due to methods (like indoor, or



mixed light) with this system. Also captured by this model are the natural market fluctuations in price that are not accounted for in the square foot model. Time this tax to become effective after 1/1/2018, and we can give our county's farmers a leg up when state permits become available. The long-term gains of this will far outweigh the short term losses.

I believe this is the best way to increase our tax base while also maximizing the county's revenue capturing potential. Humboldt County is leading California in cannabis policy, let's use this momentum to break our boom/bust cycle by evaluating this tax and its effects thoughtfully for the greatest long-term good of our community. I encourage our county's elected officials to ignore the political gains of a rushed win in favor of a system which better supports the county's goals for its cannabis farmers and community at large.

Respectfully Yours,

--

Julie Robbins  
Owner, Arcana Delights