

To: CHEAC General Membership
From: [Betsy Armstrong](#), Senior Policy Analyst
Date: February 20, 2018
RE: Proposition 64 – Cannabis Funding Distributions

Background. In November 2016, California voters approved Prop 64, which legalized the adult use of cannabis for persons 21 years and older. Prop 64 included several tax provisions and directed the funding for multiple purposes. This memo serves to provide members with a general overview of how cannabis funding related to the proposition is directed for various purposes.

General Tax Provisions. Prop 64 included the following tax provisions:

- A 15% statewide excise tax is applied to purchases of cannabis or cannabis products.
- A statewide cultivation tax is applied to all harvested cannabis entering commercial market. The cultivation tax is \$9.25 per dry weight ounce of cannabis flowers and \$2.75 per dry weight ounce for cannabis leaves.
 - Cultivation taxes apply to all cannabis grown in the state except for personal use or by a qualified patient or primary caregiver in accordance with the Compassionate Use Act.
- Medical cannabis (including edible or topical products) is exempt from all existing state sales and use taxes.

California Marijuana Tax Fund Distributions. Prop 64 created the California Marijuana Tax Fund. Funding flows down in a series of tiers based on the amount of revenues collected, prioritizing revenues in the following manner: 1) state administration and implementation; 2) community reinvestments, research and DUI protocols; and 3) youth, environment and law enforcement.

The Governor's FY 2018-19 Budget noted that the amount and timing of revenues generated by the new cannabis taxes is uncertain, and in turn deferred all cannabis-related budget proposals until the May Revision. However, the Governor's budget proposal did estimate cannabis excise taxes would generate \$175 million in the current year and \$643 million in 2018-19. Finally, the 2018-19 Budget proposal assumed Prop 64 program funding (Tiers Two and Three outlined below), would be available starting in 2019-20 as those two tiers rely on tax proceeds collected in the prior year though Prop 64 indicates FY 2018-19.

Tier One – State Administration and Implementation

Prior to the disbursement of any program funds created by the initiative, revenues collected are first distributed for all reasonable costs incurred for implementing and administering the statewide cannabis regulatory system for the following state departments:

- Bureau of Cannabis Control

- Department of Consumer Affairs
- Department of Food and Agriculture
- Department of Public Health
- Department of Fish and Wildlife
- State Water Resources Control Board
- Department of Pesticide Regulation
- State Controller's Office
- State Auditor's Office
- Legislative Analyst's Office
- Division of Labor Standards Enforcement and Occupational Safety and Health

Of note, implementation activities to date have been funded through loans from the state General Fund, hence some portion of revenues will go towards repaying those loans.

Tier Two – Community Reinvestments, Research and DUI Protocols

Community Reinvestments Grants

Starting in FY 2018-19, funding will be appropriated on an annual basis to the Governor's Office of Business and Economic Development (GO-Biz), in consultation with the Labor and Workforce Development Agency and the Department of Social Services to administer a Community Reinvestments grant program. The funding will be appropriated as follows:

- 2018-19 - \$10 million
- 2019-20 - \$20 million
- 2020-21 - \$30 million
- 2021-22 - \$40 million
- 2022-23 and ongoing - \$50 million

This funding will be disbursed to **local health departments** and at least 50% to qualified community-based nonprofit organizations via grants to support:

- Job Placement
- Mental Health Treatment
- Substance Use Disorder Treatment
- System Navigation Services
- Legal Services to address barriers to reentry
- Linkages to Medical Care for communities disproportionately affected by past federal and state drug policies

Community Reinvestment grants will be awarded starting no later than January 1, 2020.

Please note: GO-Biz will begin to convene stakeholders this spring (2018) to discuss implementing the Community Reinvestments grant program.

Cannabis Research

\$10 million is appropriated to a public university or universities in California annually (starting FY 2018-19 and ending FY 2028-29) to research and evaluate the implementation and effect of Prop 64 and make recommendations to the Legislature and Governor regarding potential amendments to Prop 64. Research topics for those universities funded would include:

- Impacts on public health
- Impact of treatment for maladaptive cannabis use and the effectiveness of different treatment programs
- Public safety issues
- Cannabis use rates
- Maladaptive use rates for adults and youth
- Diagnosis rates of cannabis-related substance use disorders
- Market prices, illicit market prices, tax structures and rates
- Economic impacts in both the private and public sector

California Highway Patrol

\$3 million is appropriated on an annual basis to the California Highway Patrol (CHP) to establish and adopt protocols to determine whether a driver is operating a vehicle while impaired while using marijuana.

Cannabis Medical Efficacy Research

\$2 million appropriated annually to the UC San Diego Center for Medicinal Cannabis Research to further understand the efficacy and adverse effects of marijuana as a pharmacological agent. The UC Center was established by the Legislature in 1999, and its purpose is to coordinate rigorous scientific studies to assess the safety and efficacy of cannabis and cannabis compounds for treating medical conditions. Funding for the Center dried up a number of years ago, but the Center survives as a clearinghouse for information on medical marijuana and potential research funding opportunities.

Tier Three – Youth, Environment and Law Enforcement

Each FY, beginning in FY 2018-19, after funds have been distributed to the *Community Reinvestments* program, universities for research, and the CHP, funds would be disbursed into three sub-accounts including:

- 60% - *Youth Education, Prevention, Early Intervention and Treatment* account
Funding would go to the Department of Health Care Services (who would also contract with the California Department of Public Health and the California Department of Education for this purpose) for youth education programs focusing on accurate information, prevention, early intervention, school retention and timely treatment services. The Departments may contract with county behavioral health programs and funding will be allocated at the local level based on demonstrated need.

- 20% - *Environmental Restoration and Protection* account
Funding would go to the Departments of Fish & Wildlife and Parks & Recreation for marijuana cultivation cleanup, remediation, and environmental damage restoration.
- 20% - *State and Local Government Law Enforcement* account
Funding would go to:
 - CHP for training programs on detecting, testing and enforcement of driving under the influence of marijuana, for grants to qualified nonprofits and local governments for education, prevention and enforcement related to driving under the influence, traffic safety education, etc.
 - Board of State and Community Corrections for local government grants to assist with law enforcement, fire protection, or other local programs addressing public health and safety associated with implementing the Act.

