

T Enteado

From: Lauren Vitelli
Sent: Thursday, June 16, 2022 1:20 PM
To: C Sabo; Peter Burke; D Kurkowski
Cc: T Enteado; Frank Donato; Frank Corrado
Subject: FW: EXTERNALCopy of the PP and ordinances
Attachments: Cannabis Revenue in NJ.pptx; Neptune Ordinance.docx; Maplewood Ordinance.pdf

Good Afternoon,

I recently attended a Finance & Cannabis Webinar. It was very informative. I have attached the power point and handouts for your review.

Lauren

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From: joe monzo <jmonzo57@gmail.com>
Sent: Thursday, June 16, 2022 11:36 AM
Subject: EXTERNALCopy of the PP and ordinances

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see attached

thank you

joe

Joseph P Monzo

Cannabis Revenue in NJ

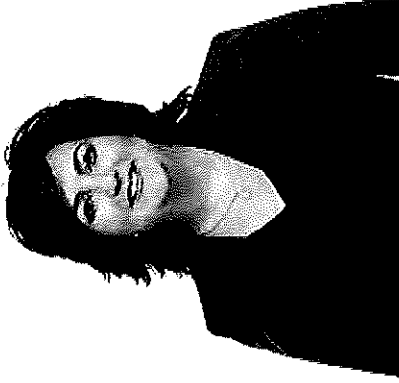
JPMonzo Municipal
Consulting

June 16, 2022



In Memoriam

Lisa Gorab



Eugene Elias



CEU's

CMFO/CCFO- Office Mgmt

CTC- Legislation

CPWM- Government

RMC- Finance

QPA- Office Mgmt

MARIHUANA

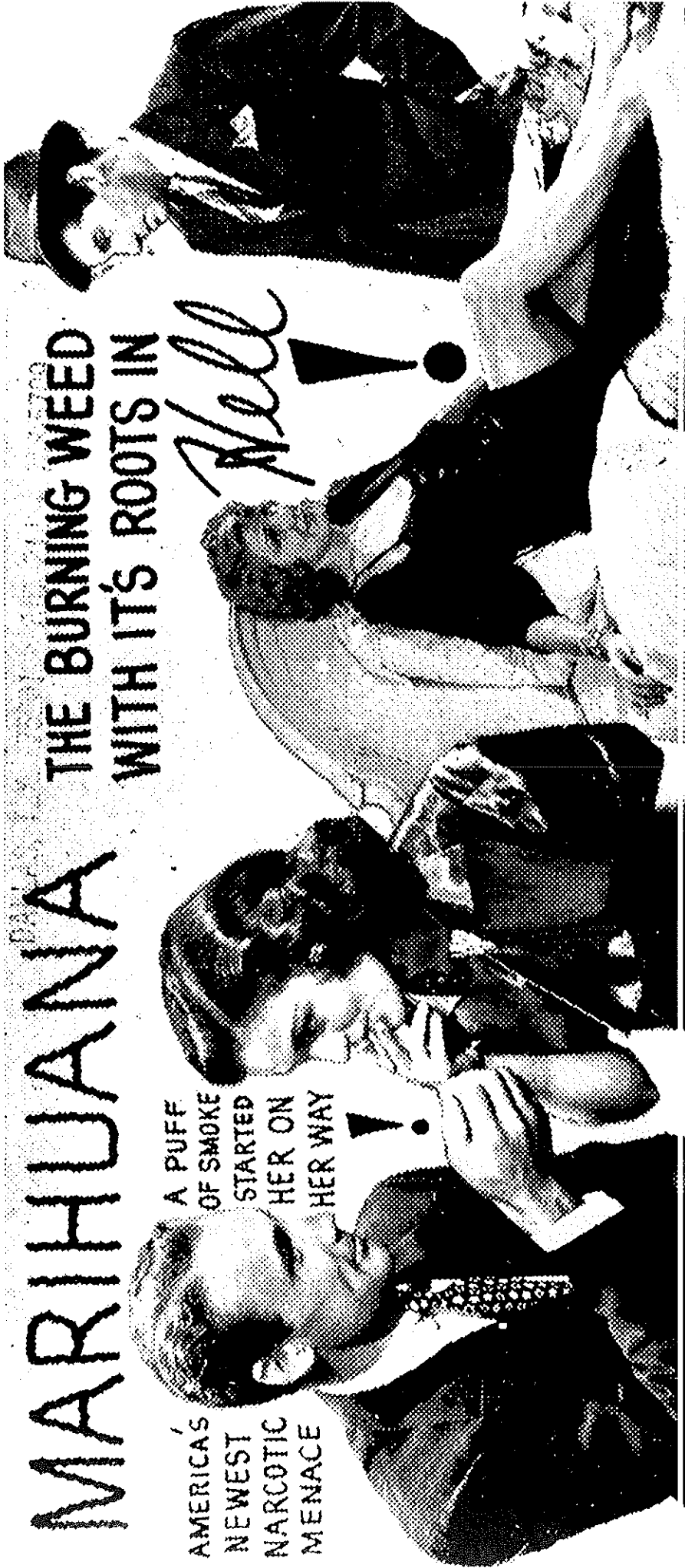
THE BURNING WEED
WITH IT'S ROOTS IN

AMERICA'S
NEWEST
NARCOTIC
MENACE

A PUFF
OF SMOKE
STARTED
HER ON
HER WAY

Well

!



Reffer Madness 1936



The Laws

- The Jake Honig Compassionate Use Medical Cannabis Act provides the framework for the medicinal use of cannabis in New Jersey.
- The Cannabis Regulatory, Enforcement Assistance, and Marketplace Modernization (CREAMM) Act does the same for recreational use and includes the establishment of the Cannabis Regulatory Commission.(crc)

The Laws

- The New Jersey Senate and Assembly passed bills (S21 and A21) in 2021 legalizing recreational marijuana sales, as required since voters passed the question in November 2020. Sales began after the Cannabis Regulatory Commission finalized its rules and regulations.
- A "yes" vote supported this constitutional amendment to legalize the possession and use of marijuana for persons age 21 and older and legalize the cultivation, processing, and sale of retail marijuana.

Election results

New Jersey Public Question 1			
Result		Votes	Percentage
✔ Yes		2,737,682	67.08%
No		1,343,610	32.92%

Results by County^[8]

County ↕	Yes ↕	Yes % ↕	No ↕	No % ↕	Total ↕
Atlantic	86,176	69.2%	38,430	30.8%	124,606
Bergen	208,941	66.5%	105,208	33.5%	314,149
Burlington	179,390	71.3%	72,193	28.7%	251,583
Camden	172,531	75.3%	56,667	24.7%	229,198
Cape May	36,353	65.9%	18,775	34.1%	55,128
Cumberland	35,636	66.9%	17,632	33.1%	53,268
Essex	229,144	72.0%	89,315	28.0%	318,459
Gloucester	113,728	70.5%	47,497	29.5%	161,225
Hudson	153,430	71.8%	60,417	28.3%	213,847
Hunterdon	52,994	64.4%	29,292	35.6%	82,286
Mercer	119,390	71.3%	48,171	28.7%	167,561
Middlesex	221,484	62.7%	131,757	37.3%	353,241
Monmouth	244,576	65.6%	128,276	34.4%	372,852
Morris	184,757	61.2%	100,749	35.3%	285,506
Ocean	190,204	60.1%	126,469	39.9%	316,673
Passaic	131,449	63.5%	75,578	36.5%	207,027
Salem	20,911	65.1%	11,188	34.9%	32,099
Somerset	114,904	63.7%	65,595	36.3%	180,499
Sussex	57,583	66.4%	29,158	33.6%	86,741
Union	146,620	67.9%	69,204	32.1%	215,824
Warren	37,481	63.0%	22,039	37.0%	59,520
Total	2,737,682	67.1%	1,343,610	32.9%	4,081,238

The Laws

- Sales of recreational marijuana in New Jersey will be taxed under the general state sales rate of 6.625 percent. This is appropriate, as recreational marijuana is a consumer good and a well-designed general sales tax is levied on all final consumption while exempting all purchases made by businesses that will be used as inputs in the production process.

NJ Excise Taxes

- In addition to the sales tax, New Jersey will levy a so-called excise fee. This fee (or tax) will kick in at a rate depending on retail prices in the preceding year. The levels are:
 - up to \$10 per ounce if the average retail price of an ounce was \$350 or more;
 - up to \$30 per ounce if the average retail price of an ounce was less than \$350 but at least \$250;
 - up to \$40 per ounce if the average retail price of an ounce was less than \$250 but at least \$200; and
 - up to \$60 per ounce if the average retail price of an ounce was less than \$200.

This structure is a first in the nation and is seemingly an attempt to allow the legal market to compete with illegal operators by charging a lower tax when prices are high.

STATE RESOURCE

<https://www.nj.gov/cannabis/>

Cannabis Regulatory
Commission

The role of municipalities PER THE CRC

- Municipalities determine their own regulations and zoning ordinances governing the number, type, and operations of cannabis businesses within their borders. The CRC will not issue a license that would be in violation of a local ordinance or regulation.

Q and A with the CRC Cannabis Regulatory Commission

Is there a deadline for towns to allow or ban recreational cannabis?

- Yes, there is a statutory deadline. Based on the CREAMM Act, municipalities have until August 21, 2021, to decide whether to allow or ban recreational cannabis businesses in their towns.

What happens if a town takes no action?

- The failure of a municipality to enact an ordinance banning one or more classes of cannabis businesses shall result in any class of cannabis businesses not prohibited from operating within the municipality as being automatically permitted to operate in the municipality:
- Operating as a cannabis cultivator, manufacturer, wholesaler, distributor, or delivery service shall be permitted uses in all industrial zones of the municipality;
- Operating as a cannabis retailer shall be a conditional use in all commercial zones or retail zones, though they must still meet any applicable zoning ordinance or get a variance in accordance with the "Municipal Land Use Law," P.L.1975, c.291 (C.40:55D-1 et seq.).

Classes of Cannabis

- Class 1-Cannabis **Cultivator** license, for facilities involved in growing and cultivating cannabis;
- Class 2-Cannabis **Manufacturer** license, for facilities involved in the manufacturing, preparation, and packaging of cannabis items;
- Class 3-Cannabis **Wholesaler** license, for facilities involved in obtaining and selling cannabis items for later resale by other licensees;
- Class 4-Cannabis **Distributor** license, for businesses involved in transporting cannabis plants in bulk from one licensed cultivator to another licensed cultivator, or cannabis items in bulk from any type of licensed cannabis business to another;
- Class 5- Cannabis **Retailer** license for locations at which cannabis items and related supplies are sold to consumers;
- Class 6- Cannabis **Delivery** license, for businesses providing courier services for consumer purchases that are fulfilled by a licensed cannabis retailer in order to make deliveries of the purchased items to a consumer, and which service would include the ability of a consumer to make a purchase directly through the cannabis delivery service which would be presented by the delivery service for fulfillment by a retailer and then delivered to a consumer.

Q and A with the CRC Cannabis Regulatory Commission

- What authority to towns have regarding the establishment of a cannabis business?
 - So long as it does not conflict with the CREAMM Act, a municipality may enact an ordinance or regulation to:
 - Determine which classes of cannabis businesses are allowed in their jurisdiction, and how many of each class;
 - Regulate location and hours of operation for cannabis businesses, **except** for the times of operation of a licensed delivery service. Local regulations may include requirements that a cannabis business premises be a certain distance from the closest church, synagogue, temple, or other place used exclusively for religious worship; or from the closest school, playground, park, or child daycare facility;
 - **Levy local taxes of up to 2%;**
 - Institute additional local approval processes, though local fees must be reasonable;
 - Enact civil penalties for violations within the municipality; and
 - Weigh in with the CRC on preferences for license applicants.

Q and A with the CRC Cannabis Regulatory Commission

- Can a town impose additional fees?
 - Yes. The rate of a transfer tax established shall be at the discretion of the municipality, but in no case shall a local rate exceed:
 - 2% of the receipts from each sale by a cannabis cultivator;
 - 2% of the receipts from each sale by a cannabis manufacturer;
 - 1% of the receipts from each sale by a cannabis wholesaler; or
 - 2% of the receipts from each sale by a cannabis retailer.

Local Transfer Tax

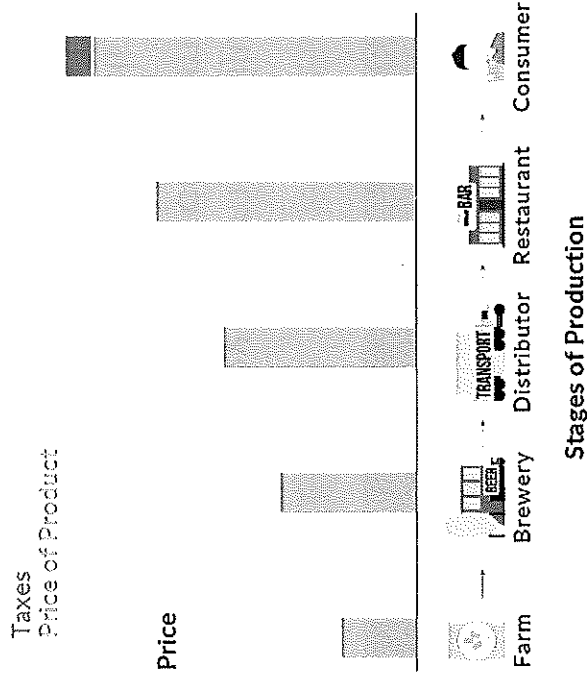
- This tax, which is optional for localities, is a gross receipts tax on all marijuana businesses. The rate is capped at 2 percent or less per transaction, but the tax can be imposed at multiple points in the process, leading to tax pyramiding. The tax can be imposed at each of the following stages of sales:
 - By a cannabis cultivator (up to 2 percent)
 - By a cannabis manufacturer (up to 2 percent)
 - By a cannabis wholesaler (up to 1 percent)
 - By a cannabis retailer (up to 2 percent)

Effect of the Tax

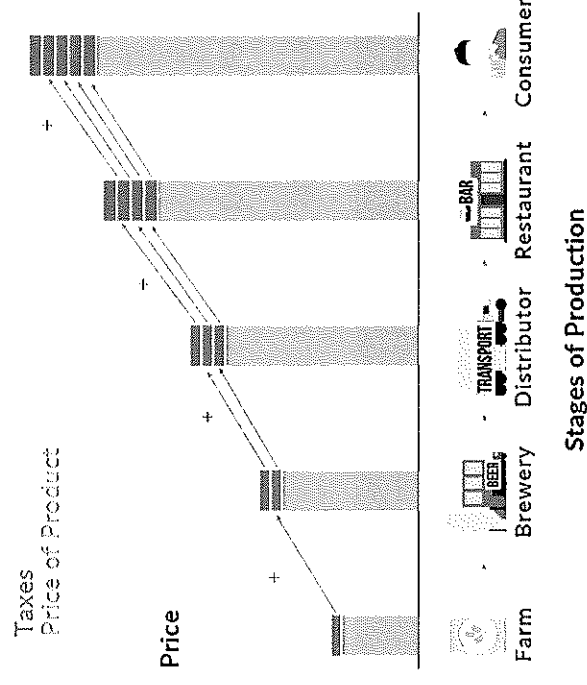
- In other words, by the time marijuana is sold to a consumer, local taxes could be applied four different times—by one or more localities.
- It could be the same locality, if all transactions occurred within the borders of one jurisdiction, or alternatively, one locality might tax the sale by the cultivator, and another by the manufacturer and wholesaler, and yet another by the retailer.
- If any of these functions are combined within a single entity, the tax is imposed on the value of the non-sale transaction, meaning there would be a deemed (and taxed) sales price between manufacturer and wholesaler even if they are the same company.
- As a result, by the time the product reaches the consumer, the product's effective tax rate has become very high.

Effect of Tax Pyramiding

Ideal Sales Tax on Final Consumption



Gross Receipts Tax



Tax Law Implications

- When designing state and local taxes for recreational marijuana, lawmakers should take note of 26 U.S. Code § 280E, which concerns sales of controlled substances. Because recreational marijuana is a Schedule I drug according to the federal Controlled Substances Act, marijuana businesses must conform with section 280E.
- In practice, marijuana businesses cannot deduct common business expenses from their income taxes (except for Cost of Goods Sold), which means they often pay a much higher effective rate than other businesses.
- High state and local taxes combined with discriminatory federal tax treatment can make it very difficult for marijuana businesses to scale and survive—especially early on when expenses are often higher than earnings.

Tax Law Implications

- Revenue from the NJ state-level taxes will largely be dedicated to the Cannabis Regulatory, Enforcement Assistance, and Marketplace Modernization Fund (100 percent of revenue from the excise fee, and 70 percent of revenue from the sales tax), and will be spent on social equity programs like grants, loans, reimbursements of expenses, and other financial assistance, in municipalities defined as *impact zones*.
- The remaining revenue will be spent on operating the program
- Cannabis revenue is expected to generate \$19 million for New Jersey's general fund in the new \$48.9 billion state budget laid out by the Gov. in March. (.0004)

Tax Law Implications

- New Jersey's tax design adds another element to the ongoing experiment with legal recreational marijuana in the states, but there is still much we do not know.
- One thing is certain, though: general fund revenue should not be a short-term key priority when it comes to recreational marijuana legalization.
- However, in the long term, a successful legalization could yield meaningful revenue—beyond the general sales tax, legal marijuana businesses would also pay business taxes and employees would pay personal income taxes.
- A similar conclusion was recently reached by the Congressional Budget Office when it scored a proposal for a federal excise tax on recreational marijuana. Revenue from these broad-based taxes, combined with a potential saving as illicit operations decline, do represent a meaningful and sustainable form of revenue for the state.

NJ Recreational Sales

- More than 12,000 customers bought almost \$2 million worth of recreational cannabis products on the first day of recreational marijuana sales in New Jersey last week, according to numbers released by the state Cannabis Regulatory Commission .
- Twelve dispensaries reported total gross sales of nearly \$1.9 million made by 12,438 customers. (\$ 152 per customer)
- Despite fears that recreational sales might threaten the supply for medicinal users, the medicinal market remained robust, with about 64,000 ounces of medicinal cannabis products dispensed to patients and their caregivers in the past month, the commission reported.
- Medicinal customers hurried to stock up, with dispensaries selling 5,400 ounces alone the day before the recreational market launched — more than twice the daily average for the previous month, sales figures show.

CASH IS KING

- Although it's still listed as a Schedule I drug by the Food & Drug Administration (FDA) — and therefore **illegal under federal law** — marijuana is now legal for medicinal purposes in 37 states and recreational use in 18 states. With new dispensaries opening around the country all the time, the need for a cannabis credit card processing solution has never been greater.
- Unfortunately, such a solution does not exist at this time. Because the issuing banks are regulated at the federal level, all of the major credit card associations (Visa, Mastercard, Discover, American Express, etc.) have firm policies against their cards being used for marijuana sales, even in jurisdictions where it's legal.
- Despite this outright prohibition and intense demand from consumers to be able to use their credit cards at a dispensary, there is currently no legal, secure method to accept credit cards for cannabis sales.

National Sales Impact

- “While federal legalization flounders in Washington, D.C., the American cannabis industry’s economic impact could near \$100 billion by end of 2022 and nearly \$158 billion by 2026,” said Jenel Stelton-Holtmeier, editor of MJBiz Factbook. “This means that for every \$1 consumers and patients spend at adult-use stores and dispensaries, an additional \$1.80 will be injected into the economy, much of it on a local level.”
- At present, the cannabis industry in the U.S. is responsible for roughly 520,000 jobs—a number that’s expected to exceed 800,000 by 2026.
- Right now, more than three-quarters (77%) of the U.S. population resides in a state with some form of legalized cannabis, says MJBiz. And all states that don’t have some form of legalization share at least one border with one that does. Of the population that does not have some form of legal access to recreational or medicinal marijuana, Texas makes up one-third of the total
- At present, 37 states and Washington, D.C., have enacted laws legalizing medical marijuana. And 18 states and D.C. have legalized pot for recreational purposes.

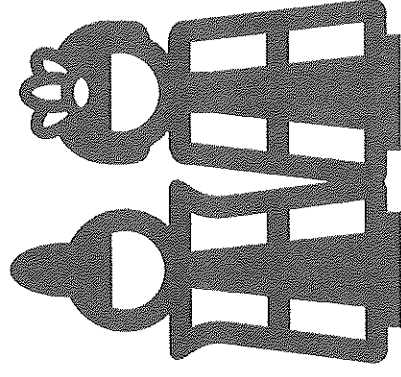
2021 recreational marijuana tax revenue for each adult-use state:

- Alaska: \$28,900,231
- Arizona: \$153,824,757
- **California: \$1,294,632,799**
- Colorado: \$396,157,005
- Illinois: \$424,206,703
- Maine: \$12,362,622
- Massachusetts: \$227,474,842
- Michigan: \$209,912,278
- Nevada: \$159,885,501
- Oregon: \$177,773,944
- Washington: \$630,863,570

Adult-use state
cannabis sales
tax revenue
combined:

- 2014: \$68,503,980
- 2015: \$264,211,871
- 2016: \$530,521,110
- 2017: \$723,145,481
- 2018: \$1,275,483,830
- 2019: \$1,707,204,090
- 2020: \$2,766,027,570
- 2021: \$3,715,994,252

What are our
locals doing?



Neptune

- \$10,000.00 application fee for the first year and \$5,000.00 per year thereafter
 - first expected recreational use retailer (they have been operating a medical distribution facility in Neptune). They expect that their tax revenue to the Township will be in the range of \$100,000.00 to \$150,000.00 per month.
 - begin recreational sales by mid-July.
 - expect to authorize three (3) recreational licenses in 2022.
 - BUDGET IS \$ 47 M
 - \$ 1.8 M is 3.8% of the budget
-

Montclair

- Medical for years- did not tax
- Recreation just approved- 3 retail licenses
- 2 % plus these fees

License	Application fee (initial)	Application fee (renewal)	Annual registration fee
Retailer	\$5,000	\$2,500	\$10,000
Manufacturer	\$10,000	\$5,000	\$10,000
Grower	\$10,000	\$5,000	\$10,000
Wholesaler	\$10,000	\$5,000	\$10,000
Distributor	\$10,000	\$5,000	\$10,000
Delivery Service	\$5,000	\$2,500	\$5,000

Maplewood

- Medical dispensary began June 2021
 - revenue for 2021 and 1Q22 was \$110,000
 - anticipate total 2022 revenue to be double this figure for medical alone.
- 5 new applications in addition to the medical dispensary applying for recreational.
 - issued a license to the medical guys to also sell recreational and they have been selling recreational since February of 2022.
 - approved a 2nd recreational license with the remaining applications under review to award another recreational license.
- Our collection experience is these guys are super anxious to remit their payments ahead of deadlines.
- Payment has been received by check and there has been no issues with collecting the 2% or the side agreement for matching Municipal Alliance funds.

Bellmawr

- 1 medical cannabis facility that has been open for years.
- started collecting the 2% sales tax on medical cannabis for 4Q 2020
 - the first check received was \$327,832.58.
 - The second check received in February 2022 in the amount of \$1,035,534.77, which was 2% of the gross sales in 2021.
- Budget is \$ 15 M – 10% of the budget

4 Steps to \$\$\$\$

Establishment

Billing

Collection

Enforcement

Establishment (by ordinance)- Neptune

RESTATEMENT OF THE LAW

It is the purpose of this Section to implement the provisions of P.L., 2021,c,16 which authorizes the governing body of a municipality to adopt an ordinance imposing a tax at a uniform percentage rate not to exceed (2%) of the receipt from each sale by a cannabis cultivator; two percent (2%) of the receipts from each sale by a cannabis manufacturer; one (1%) of the receipts from each sale by a cannabis wholesaler; and two (2%) of the receipts from each sale by a cannabis retailer, which shall be in addition to any other tax or fee imposed pursuant to statute or local ordinance or resolution by any governmental entity upon the cannabis establishment.

LOCAL ESTABLISHMENT OF THE TRANSFER TAX

There is hereby established a local cannabis transfer tax in the Township of Neptune which shall be fixed at a uniform percentage rate of two percent (2%) of receipts from each sale by a cannabis cultivator and two percent (2%) of the receipts from each sale by a cannabis manufacturer, one (1%) of the receipts from each sale by a cannabis wholesaler; and two (2%) of the receipts from each sale by a cannabis retailer

Billing- Neptune

The transfer tax or user tax imposed by this article shall be collected or paid and remitted to Neptune Township by the cannabis establishment from the cannabis establishment purchasing or receiving the cannabis or cannabis item. The transfer Tax or user Tax shall be stated, charged, and shown separately on any sales slip, invoice, receipt, or other statement or memorandum of the price paid or payable, or equivalent value of the transfer, for the cannabis or cannabis item.

All revenues collected from the transfer tax or user tax imposed by ordinance pursuant to this section shall be remitted to Neptune Township Chief Financial Officer on a quarterly basis payable for the prior three month's activities and due at the same time as quarterly dates for the collection of property taxes.

- The revenues due on February 1 of each year shall include all transfer taxes and user taxes collected for the immediate prior months of October, November and December.
- The revenues due on May 1 of each year shall include all transfer taxes and user taxes collected for the immediate prior months of January, February and March.
- The revenues due on August 1 of each year shall include all transfer taxes and user taxes collected for the immediate prior months of April, May and June.
- The revenues due on November 1 of each year shall include all transfer taxes and user taxes collected for the immediate prior months of July, August and September.

There shall be a ten (10) day grace period for the payment of said transfer tax and/or user tax which will coincide with the ten (10) day grace period typically permitted for property tax payments. There shall be no extension of the cannabis transfer tax / user tax grace period without a resolution of the governing body authorizing a specific extension.

Collection (Maplewood)

- The tax imposed by this section shall be paid to the Township on a quarterly basis no later than the fifteenth (15th) day of the month following the last month of the quarter along with a report certified as true and accurate by the Cannabis Establishment's Chief Financial Officer, Controller or other similarly situated person showing the gross revenues for the Cannabis Establishment for each month of the quarter.
- A Cannabis Establishment operating within the Township of Maplewood shall file on an annual basis no later than February 1 of each year a financial report from an independent accountant certifying as to the annual revenues for the preceding year

Collection - Neptune

All payments to Neptune Township shall be accompanied by certain supporting data and made in a manner prescribed by the Chief Financial Officer.

tax filings, state reports etc

The Chief Financial Officer shall collect and administer the Local Cannabis Transfer Tax and User Tax imposed by this ordinance. The Township shall enforce the payment of delinquent Local Cannabis Transfer Tax and User Tax in the same manner and at the same interest rates as provided for municipal real property taxes.

Enforcement- Neptune

In the event that the Local Cannabis Transfer Tax and User Tax imposed by this section is not paid as and when due by a cannabis business, the unpaid balance, and any interest accruing thereon, **shall be a lien on the parcel of real property comprising the cannabis business in the same manner as all other unpaid municipal taxes, fees, or other charges.**

The lien shall be superior and paramount to the interest in the parcel of any owner, lessee, tenant, mortgagee, or other person, except the lien of municipal taxes, and shall be on a parity with and deemed equal to the municipal lien on the parcel for unpaid property taxes due and owing in the same year.

In the event of a delinquency, the Chief Financial Officer shall file with the Tax Collector a statement showing the amount and due date of the unpaid balance and identifying the lot and block number of the parcel of real property that comprises the delinquent cannabis business.

The lien shall be enforced as a municipal lien in the same manner as all other municipal liens are enforced.

How are the \$\$ being used?

Uncertainty on the revenue stream should lead to caution

MRNA for a couple of years until the full tax levels are stable

- Builds up the fund balance

After that use sparingly as revenue to preserve fund balance

Like the hotel tax the flow of revenue will eventually level off

- So, the use of the funds as an increase to recurring appropriations is probably ill-advised initially

CAPITAL INVESTMENT

- Use to do those capital projects that were thought to be too costly
- Little or no debt issue
- Appropriate the revenue as CIF or direct capital

Next Webinar

- Debt Management

