



AL COUNCILMAN
8TH DISTRICT
AUSTIN

R-14

Date: March 15, 2022

To: Mayor and Members of the City Council

From: Councilmember Al Austin II, Eighth District
Councilmember Suzie Price, Third District
Councilmember Cindy Allen, Second District

Subject: Feasibility of Repealing the Cannabis Cultivation Tax in Long Beach

RECOMMENDED ACTION:

Recommendation to request the City Manager to investigate the feasibility of repealing the tax for cannabis cultivation in Long Beach, including fiscal and workforce impacts, and present to the Budget Oversight Committee in 90 days.

BACKGROUND:

In 2016, Long Beach voters passed Measure MA, which established tax rates for local medical and adult-use cannabis businesses. Among them included a tax related to the cultivation of cannabis (cultivation tax). Per Municipal Code chapter 3.80.261:

“Marijuana Cultivation” shall mean the seeding, planting, watering, warming, cooling, growing, cultivating, harvesting, drying, curing, grading or trimming of marijuana.

Businesses performing cultivation activities are currently charged \$12 for every square foot under cultivation by the City, and another \$161 per pound of dried cannabis flower by the state. This tax is the only of its kind; no other industry in Long Beach is taxed based upon the cultivation of its products.

Over-taxation has been a barrier for potential cultivators, as revenue is severely impacted once taxes are taken. Further, dwindling profits impact these businesses' ability to provide livable wages to employees and expand their workforces. Recognizing these obstacles, the Long Beach City Council reduced cannabis business license tax rates for non-retail cannabis operators (distributors, manufacturers, and lab testing facilities) in 2019. While a General Fund revenue loss between \$220,000 and \$350,000 was projected, the opposite occurred. FY 20 saw \$5.6 million more generated from cannabis fees and taxes than in FY 19, with FY 21 bringing in \$1.8 million more than FY 20. Although the initial windfall may be attributed to the COVID-19 pandemic, gains made over the last few years suggest that removing the cultivation tax may help contribute to a fair and sustainable local cannabis industry.

Governor Newsom has signaled his support for cannabis tax reform, but currently, no plan has been proposed to address the struggling adult-use cannabis industry. While more work must be done to create a vibrant legal cannabis market, repealing the local cultivation tax could remove an impediment for those already participating and others who hope to. Given the potential economic impact for the City and local cultivators, we would like to request the City Manager to investigate the feasibility of repealing the cultivation tax in Long Beach and present the findings to the Budget Oversight Committee in 90 days.

This matter has been reviewed by Budget Analysis Officer Greg Sorensen on March 3, 2022.

FISCAL IMPACT:

This recommendation requests the City Manager to investigate the feasibility of repealing the tax for cannabis cultivation in Long Beach, including fiscal and workforce impacts, and present to the Budget Oversight Committee in 90 days. The requested action is anticipated to have a moderate impact on staff hours beyond the budgeted scope of duties and is expected to have a moderate impact on existing City Council priorities. Actual elimination of the cultivation tax will have more financial impact and will be discussed in the feasibility report.