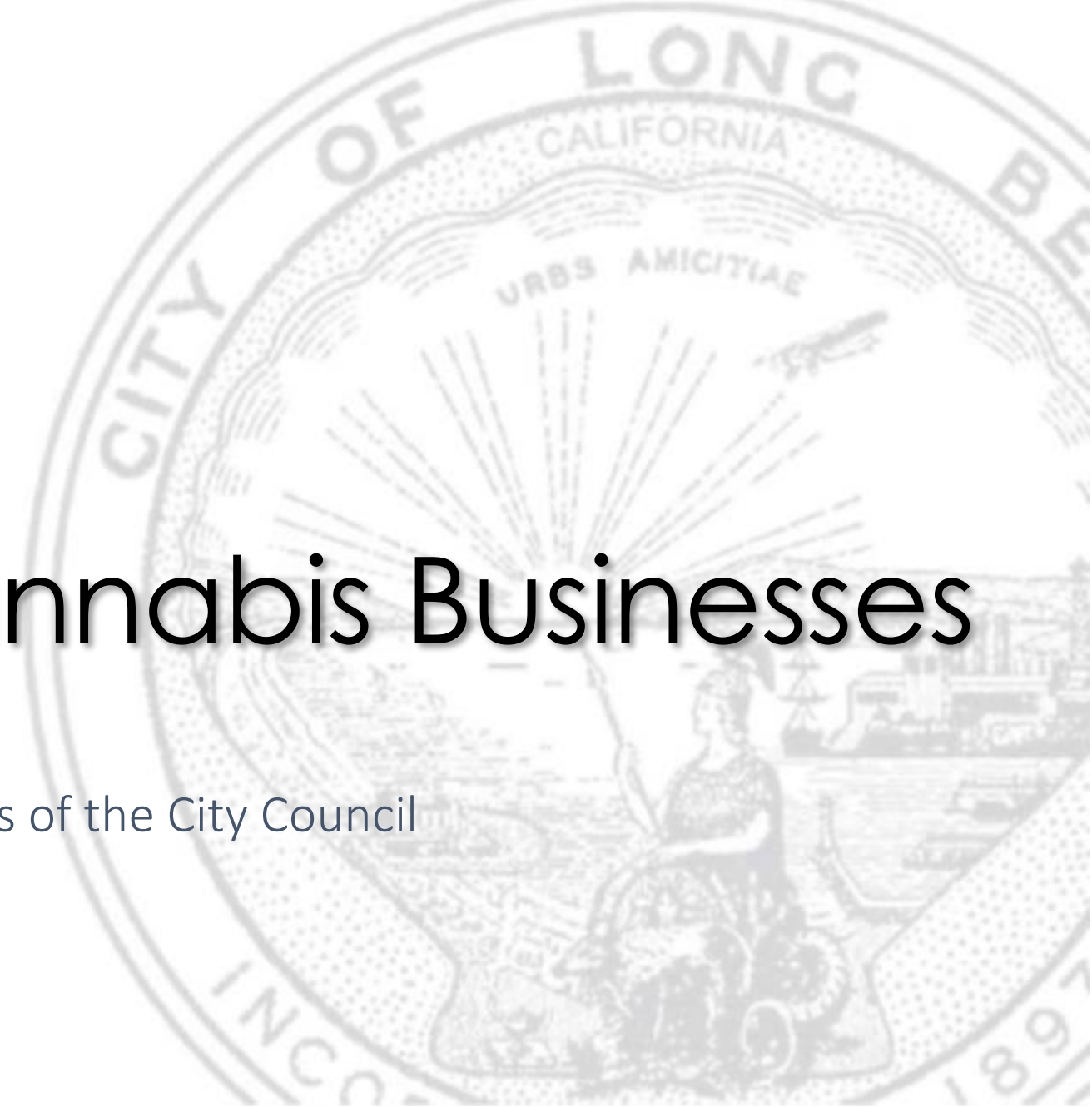


# Non-Retail Cannabis Businesses

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Presented to the Mayor and Members of the City Council  
Tuesday, July 2, 2019



# ED&F Recommendation

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- ***The Economic Development and Finance Committee requested staff to refer to the City Council a report on the feasibility of the creation of a 24-month pilot program to expand the tax base of non-retail cannabis businesses by streamlining processes, adjusting tax rates and providing incentives.***

# Expanding the Tax Base

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- ***Increasing the amount of economic activity subject to taxation.***
  - 1) ***Increase the number of licensed businesses; OR***
  - 2) ***Increase the amount of taxable gross receipts at licensed businesses***

# Non-Retail Cannabis Businesses

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➤ ***Cultivator*** →



➤ ***Manufacturer*** →



➤ ***Distributor*** →



➤ ***Testing Laboratory*** →



# Status of Cannabis Market

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<b>Summary of Proposed Cannabis Facilities (<i>as of May 7, 2019</i>)</b>	
<b>Facility Status</b>	<b>No. of Facilities</b>
Zoning/Application Review	13
Pending Plan Submittal	68
Building Plan Review	77
Under Construction	53
Issued License	37
<b>TOTAL</b>	<b>248</b>

# Status of Cannabis Market (cont'd)

General Fund - Measure MA Tax Revenues <i>(as of May 1, 2019)</i>					
		FY 18		FY 19	
Bus. Type	Tax	Actual	%	Estimated	%
Dispensary	<i>Gross Receipt Tax (6-8%)</i>	\$ 626,130	51%	\$ 2,375,246	75%
Cultivation	<i>Sq. Ft. Tax (\$12)</i>	\$ 517,404	42%	\$ 516,411	16%
Lab Testing	<i>Gross Receipt Tax (6%)</i>	\$ 80,506	7%	\$ 171,429	5%
Manufacturing	<i>Gross Receipt Tax (6%)</i>	\$ 500	0%	\$ 78,274	2%
Distribution	<i>Gross Receipt Tax (6%)</i>	\$ -	0%	\$ 7,250	0%
<b>TOTAL TAX REVENUES</b>		<b>\$ 1,224,540</b>		<b>\$ 3,148,611</b>	

# Outreach Efforts

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- 1) Competitiveness of local tax rates***
- 2) Facility plan check***
- 3) Access to capital***
- 4) Access to statewide retail markets***
- 5) Cost of industrial real estate***

# Options to Expand the Tax Base

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- ***Types of options included in report***
  - *City Council approval required*
  - *Administrative improvements*
- ***Options may be adopted as 24-month pilot***
- ***Limitations to pilot approach***
  - *Business uncertainty*
  - *Market volatility*



# Option # 1: Facility Design/Zoning

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- ***Direct staff from the Planning Bureau to conduct a study of cannabis building design and zoning requirements***
- ***Submit the study to the Planning Commission for review***
- ***Refer recommendations to City Council for final approval***

# Option #1: Facility Design (cont'd)

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- *Planning Bureau to study best practices in cannabis facility design*
- *Current requirements – signage, window installation, exterior lighting, visibility, etc.*
- *Discourage construction of fortress-like facilities*
- *Create additional costs during construction*
- *Non-retail business operational needs – safety, security, lighting, product visibility, etc.*

# Option #2: Adjust Tax Rates

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- ***Adjust tax rates for Manufacturers, Testing Laboratories, and Distributors***
- ***Staff seeks further direction from City Council before recommending specific tax rates.***
- ***Ideal rates depend on City Council preferences:***
  - 1) Competitiveness of Long Beach cannabis market***
  - 2) Short vs. Long Term revenues***
  - 3) Impact on other non-cannabis industrial uses***

# Option #2: Adjust Tax Rates (cont'd)

City of Long Beach Cannabis Business License Tax Rates				
Business Type	Medical/Adult- Use	Current	Maximum	Minimum <sup>(1)</sup>
Dispensary	Medical	6%	8%	0%
	Adult-Use	8%	12%	0%
Cultivator	Both	\$12/sq ft	\$15/sq ft	\$0/sq ft
Manufacturer	Both	6%	8%	0%
Testing Laboratory	Both	6%	8%	0%
Distributor	Both	6%	8%	0%

*(1) Pursuant to Measure MA, Cannabis businesses are required to pay a minimum flat tax of \$1,000 per year.*

# Option #2: Adjust Tax Rates (cont'd)

COMPARABLE CITIES BY REGION											
City	Pop.	Retail		Cultivation		Manufacturing		Distribution		Lab Testing	
		M	A	M	A	M	A	M	A	M	A
Long Beach	478,561	6%	8%	\$12/sq ft		6%		6%		6%	
Los Angeles	4,054,400	5%	10%	2%		2%		1%		1%	
Santa Ana <sup>(1)</sup>	338,247	6%	8%	6%		6%		6%		5%	
Pomona	155,687	up to 6%		up to 10/sq ft		up to 6%		up to 6%		up to 6%	
Pasadena	144,388	4%		\$7/sq ft		2.5%		2%		1%	
Costa Mesa	115,296	6%		6%		6%		6%		6%	
Carson	93,799	18%		\$25/sq ft		18%		18%		18%	
Bellflower	77,682	5%		\$15/sq ft		5%		5%		5%	
La Puente	40,686	10%	N/A	10%	N/A	10%	N/A	10%	N/A	10%	N/A
Culver City	39,860	5%	6%	\$12/sq ft		4%		2%		1%	
West Hollywood	36,723	0%	7.5%	0%	7.5%	0%	7.5%	0%	7.5%	0%	7.5%
Maywood	28,044	up to 10%		up to 10%		up to 10%		up to 10%		up to 10%	
Malibu	12,957	0%	2.5%	0%	2.5%	0%	2.5%	0%	2.5%	0%	2.5%

*(1) Square footage tax may apply if gross receipts fall below a minimum amount.*

# Option #2: Adjust Tax Rates (cont'd)

General Fund Revenue Impact – Non-Retail Cannabis Tax Rates Reductions				
<u>Bus. Type</u>	<u>Current Tax Rate</u>	<u>Reduction Rate</u>	<u>FY19 Estimated Loss to GF</u>	<u>FY20 Estimated Loss to GF</u>
Lab Testing	6% Gross Receipt Tax	1% Reduction	\$ (18,662)	\$ (56,152)
Manufacturing	6% Gross Receipt Tax	1% Reduction	\$ (11,690)	\$ (42,747)
Distribution	6% Gross Receipt Tax	1% Reduction	\$ (1,125)	\$ (21,162)
<b>Subtotal (Manufacturing, Distribution, Lab Testing)</b>			<b>\$ (31,477)</b>	<b>\$ (120,061)</b>
Cultivation	\$12 Per Sq. Ft. Tax	\$1 Reduction	\$ (28,630)	\$ (58,439)
<b>Total (Non-Retail)</b>			<b>\$ (60,108)</b>	<b>\$ (178,501)</b>
*Assumes reduced tax rates for FY19 would be applied as of June 1, 2019.				

➤ **Long-run revenue projections not available**

# Option #2: Adjust Tax Rates (cont'd)

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- ***Regional competitiveness of Long Beach cannabis market***
  - *Consider reducing non-retail tax rates*
- ***Short-term General Fund Revenues***
  - *Maintain existing non-retail tax rates*
- ***Long-term General Fund revenues***
  - *More data needed to determine appropriate rates*

# Option #3: Shared-Use Manufacturing

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- ***Direct staff to research feasibility of licensing and regulating shared-use manufacturing***
- ***Type S – Shared-Use Manufacturing***
  - ***Multiple businesses authorized to manufacture products from a single premise.***
  - ***Only one business may utilize premise at a given time.***
- ***Feasibility study to identify resources needed to regulate Type S licenses***



# Administrative Changes

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- ***Timing of cultivation tax payment***
- ***Application flow charts***
- ***Inspection checklists***
- ***Coordination with Southern California Edison***

# Summary

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## ➤ ***Further direction from City Council needed:***

- *Revisit cannabis building design/zoning requirements*
- *Adjust non-retail cannabis business license tax rates*
- *Feasibility study of shared-use manufacturing facilities*

## ➤ ***Administrative process improvements:***

- *Delay timing of initial cultivation tax payment*
- *Develop application flowchart*
- *Online publishing of facility inspection checklists*
- *Coordination with SCE on utility upgrade process*