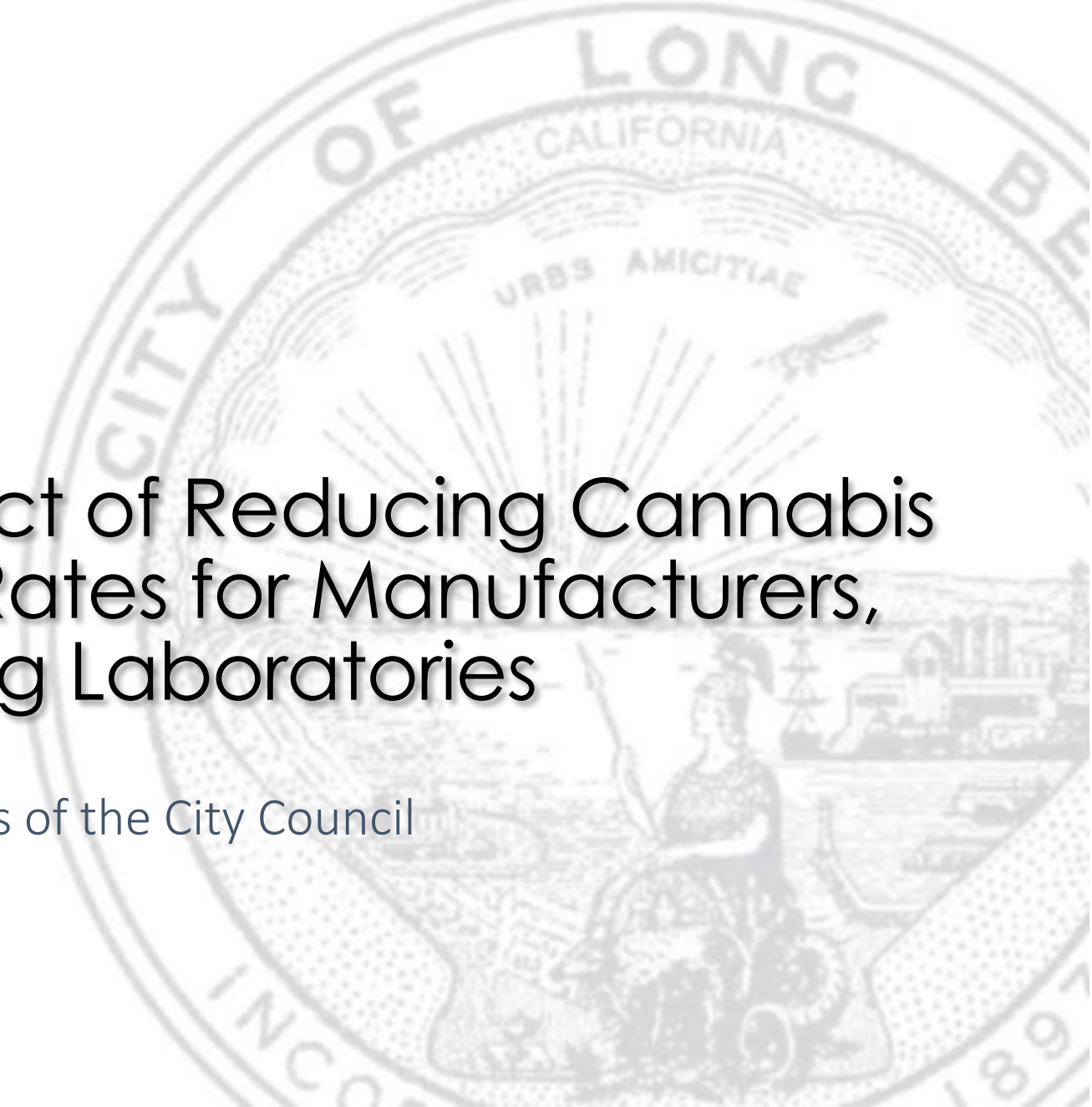


# Fiscal and Jobs Impact of Reducing Cannabis Business License Tax Rates for Manufacturers, Distributors and Testing Laboratories

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Presented to the Mayor and Members of the City Council  
Tuesday, December 3, 2019



# Cannabis Businesses Types

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➤ ***Dispensary*** →



➤ ***Cultivator*** →



➤ ***Manufacturer*** →



➤ ***Distributor*** →



➤ ***Testing Laboratory*** →



# City Council Request (July 2, 2019)

*“Prepare a fiscal and jobs impact analysis on adjusting tax rates for Manufacturers, Distributors and Testing Laboratories to 1%, 2% or 3%”*

➤ **Manufacturer** →

➤ **Distributor** →

➤ **Testing Laboratory** →



*Currently  
taxed at 6%  
of gross  
receipts*

# City Council Authority

Long Beach Cannabis Business License Tax Rates					
Business Type	Medical/Adult	Current Rate	Maximum	Minimum	Per
Dispensary	Medical	6%	8%	0%	Gross Receipts
	Adult-Use	8%	12%	0%	Gross Receipts
Cultivator	Both	\$12	\$15	\$0	Sq. Ft. of Canopy
Manufacturer	Both	6%	8%	0%	Gross Receipts
Distributor	Both	6%	8%	0%	Gross Receipts
Testing Laboratory	Both	6%	8%	0%	Gross Receipts

➤ ***1%, 2% and 3% gross receipts tax rates fall within allowable range under LBMC***

# Tax Rate Comparison

- *Long Beach tax rates remain competitive with many cities in California, with some notable exceptions:*

TABLE I: COMPARABLE CITIES (SOUTHERN CALIFORNIA)				
City	Pop.	Manufacturing	Distribution	Lab Testing
Long Beach	478,561	6%	6%	6%
Los Angeles	4,054,400	2%	1%	1%

TABLE II: COMPARABLE CITIES (NORTHERN CALIFORNIA)				
City	Pop.	Manufacturing	Distribution	Lab Testing
Long Beach	478,561	6%	6%	6%
Sacramento	501,344	4%	4%	4%
Santa Rosa	178,488	1%	0%	0%
San Francisco	883,963	1 - 1.5%	1 - 1.5%	1 - 1.5%

# FY 18 – FY 20 Cannabis Tax Revenues

<b>General Fund - Cannabis Tax Revenues (as of August 1, 2019)</b>						
<b>Bus. Type</b>	<b>FY18</b>		<b>FY19</b>		<b>FY20</b>	
	<b>Actual</b>	<b>%</b>	<b>Estimated</b>	<b>%</b>	<b>Estimated</b>	<b>%</b>
Dispensary	\$ 626,130	51%	\$ 2,965,421	86%	\$ 3,173,534	71%
Cultivation	\$ 517,404	42%	\$ 293,225	8%	\$ 823,577	18%
Lab Testing	\$ 80,506	7%	\$ 154,502	4%	\$ 314,345	7%
Manufacturing	\$ 500	0%	\$ 40,702	1%	\$ 132,804	3%
Distribution	\$ -	0%	\$ 10,500	0%	\$ 47,250	1%
<b>TOTAL</b>	<b>\$ 1,224,540</b>		<b>\$ 3,464,350</b>		<b>\$ 4,491,510</b>	

# Fiscal Impact Projections

<b>Projected FY 20 Number of Licensees</b> <i>(Manufacturers, Distributors and Testing Laboratories <u>Only</u>)</i>	
<b><u>Business Growth Scenarios</u></b>	<b><u>Number of Licensees</u></b>
<b>Current Projections</b>	<b>52</b>
"Low" Growth <i>(+ 5 licensees)</i>	57
"Medium" Growth <i>(+ 25 licensees)</i>	77
"High" Growth <i>(+ 50 licensees)</i>	102

# Fiscal Impact Projections (cont'd)

Projected FY 20 General Fund Revenue <u>Loss</u> From Cannabis Gross Receipts Tax Reduction (Manufacturers, Distributors and Testing Laboratories <u>Only</u> )				
<u>Business Growth Scenarios</u>	<u>Number of Licensees</u>	<u>FY 20 Revenue Loss For Specific Tax Rates:</u>		
		<u>3% Gross Rec.</u>	<u>2% Gross Rec.</u>	<u>1% Gross Rec.</u>
Current Projections	52	\$ (223,074)	\$ (293,118)	\$ (349,675)
"Low" Growth (+ 5 licensees)	57	\$ (210,061)	\$ (282,527)	\$ (339,675)
"Medium" Growth (+ 25 licensees)	77	\$ (108,791)	\$ (206,742)	\$ (283,267)
"High" Growth (+ 50 licensees)	102	\$ 4,487	\$ (120,562)	\$ (216,859)

- ***Under Current Projections estimated revenue loss of \$220K - \$350K***
- ***Cannabis revenues extremely volatile and subject to change***
- ***Not able to provide FY 21+ projections at this time***



# Jobs Impact Projections

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- ***City Council cannabis jobs request:***
  - ***Types of employment opportunities available in the cannabis industry***
  - ***Range of salaries offered by cannabis businesses***
  - ***Average number of employees by business type***
  - ***Estimated number of jobs created through a reduction in local business license tax rates***

# Cannabis Employment Data

<b>Cannabis Jobs Survey Results</b>		
<b>Average No. of Employees by License Type</b>		
<b><u>Business Type</u></b>	<b><u>Avg. No. of Employees</u></b>	<b><u>Full Time (%)</u></b>
Dispensary	16	80%
Cultivation	14	89%
Manufacturing	7	82%
Distribution	8	80%
Laboratory Testing	21	95%

# Cannabis Salary Data

Cannabis Jobs Survey Results						
Average Senior, Mid-Level and Entry-Level Salaries by License Type						
	Senior/Executive		Mid-Level		Entry-Level	
	<u>Average</u>	<u>% of</u>	<u>Average</u>	<u>% of</u>	<u>Average</u>	<u>% of</u>
<u>Business Type</u>	<u>Annual Salary</u>	<u>Staff</u>	<u>Annual Salary</u>	<u>Staff</u>	<u>Annual Salary</u>	<u>Staff</u>
Dispensary	\$ 57,750	11%	\$ 47,300	16%	\$ 30,396	74%
Cultivation	\$ 96,875	8%	\$ 61,333	20%	\$ 34,764	73%
Manufacturing	\$ 78,441	35%	\$ 61,063	30%	\$ 37,324	35%
Distribution	\$ 77,962	22%	\$ 56,944	26%	\$ 35,246	52%
Laboratory Testing	\$ 162,500	16%	\$ 87,500	24%	\$ 47,500	60%

# Cannabis Employment Projections

Projected FY 20 Cannabis Jobs in Long Beach <i>(Manufacturers, Distributors and Testing Laboratories Only)</i>				
<u>Business Type</u>	<u>Current Projections</u>	<i>Business Growth Scenarios</i>		
		<u>LOW</u>	<u>MEDIUM</u>	<u>HIGH</u>
Full-Time Employees	350	379	511	672
Part-Time Employees	71	78	105	139
<b>TOTAL</b>	<b>422</b>	<b>457</b>	<b>616</b>	<b>811</b>

# Summary of Findings

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- ***City Council has the authority to reduce cannabis business license tax rates for Manufacturing, Distribution and Laboratory Testing to 1%, 2% or 3% of gross receipts***
- ***Reducing rates may improve competitiveness of Long Beach relative to other California cities, including LA***
- ***Projected net revenue loss of \$220K to \$350K in FY20***
- ***Projected job creation of 35 to 390 workers***

# Additional Information in Report

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- ***Statistics on “Green Zone” real estate vacancies***
- ***Comparable tax revenue and jobs data for non-cannabis businesses in the city***
- ***Additional information on the plan review and construction phase of the application process***
- ***Background information on the cultivation square footage tax***
- ***Impact of a tax rate reduction on the illicit market***

# Next Steps

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- *Receive and file fiscal and jobs impact report*
- *Seek additional City Council input on cannabis business license tax rates*
  - *How to best balance potential economic/job growth with projected impact on General Fund tax revenues?*
- *Questions?*