

April 18, 2023

R-31

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Request the City Attorney to prepare an Ordinance to amend the Long Beach Municipal Code (LBMC) to reduce the adult-use and medical cannabis cultivation and retail taxes for equity businesses by half the rate set in Section 3.80.261 of the LBMC. (Citywide)

DISCUSSION

On March 15, 2022, the City Council directed City staff to investigate the feasibility of repealing the tax for cannabis cultivation (medical and adult-use) in Long Beach, including fiscal and workforce impacts, and present to the Budget Oversight Committee within 90 days.

On May 10, 2022, the City Council directed City staff to prepare a report exploring the feasibility of reducing the City's adult-use cannabis retail tax rate to align with the medical cannabis retail tax rate within 90 days and submit the findings to the Budget Oversight and Economic Development and Finance Committees for discussion.

On June 27, 2022, a memorandum was released to the City Council regarding the status of the cultivation and adult-use retail tax reduction feasibility studies. The findings of these feasibility studies were released to City Council in one comprehensive report on August 17, 2022.

Staff presented the findings of the cultivation and adult-use retail tax reduction feasibility studies to the Economic Development and Finance Committee on August 18, 2022, and Budget Oversight Committee on August 23, 2022.

As part of the budget adoption process on September 6, 2022, City Council passed the following motion:

Motion to reduce the adult-use and medical cannabis cultivation and retail taxes for equity businesses, and direct City Manager to come back to City Council with a report on how a potential rebate program would work where any revenues above \$12 million would be rebated back to businesses who paid taxes with a prioritization on rebating back to cultivation businesses, along with an updated projection report to City Council on the status of cannabis revenues. This action will promote equity goals while not resulting in revenue loss from the proposed budget.

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The motion passed as part of the Fiscal Year 2023 (FY 23) budget adoption process was identical to the recommendation from the Budget Oversight Committee which was informed by the recommendation from the Economic Development and Finance Committee to reduce the adult-use and medical cannabis cultivation and retail taxes for equity businesses by 50 percent and rebate any cannabis tax revenue above a \$12 million baseline, with adjustments to maintain service levels.

This item is to address the first part of the motion to reduce cannabis cultivation and retail taxes for equity businesses. Staff will return to the City Council with details for the potential tax rebate program as part of the FY 24 budget proposal.

Reduced Taxes for Cannabis Cultivation and Retail Equity Businesses

Based on direction from the City Council and the recommendations from the Budget Oversight and the Economic Development and Finance Committees, it is recommended that the City Council request the City Attorney to prepare an Ordinance amendment for Section 3.80.261 of the Long Beach Municipal Code (LBMC) to reduce the adult-use and medical cannabis cultivation and retail taxes for equity businesses by 50 percent. Under Section 3.80.261 of the LBMC, the tax rate for adult-use cannabis retail is set at eight percent of gross receipts with medical cannabis retail following at six percent of gross receipts. The cultivation tax rate was initially set at \$12.00 per square foot of canopy space with an annual adjustment. The cultivation tax rate is adjusted equivalent to the most recent change in the annual average of the Consumer Price Index (CPI) for all urban consumers in the Los Angeles-Riverside-Orange County areas as published by the United States Government Bureau of Labor Statistics. The current cultivation tax rate is \$13.70 per foot square under cultivation.

The proposed reduced tax rates for equity businesses will set adult-use and medical cannabis cultivation and retail taxes for equity businesses at half the normal rate. Currently, this would set the adult-use cannabis retail tax at four percent of gross receipts, medical cannabis retail tax at three percent of gross receipts, and adult-use and medical cannabis cultivation tax at \$6.85 per square of canopy space for equity businesses. The reduced cannabis cultivation tax rate for equity businesses would continue to be half the normal rate and follow any future CPI adjustments. The minimum \$1,000 yearly tax payment as required in Section 3.80.261(C)(7) of the LBMC would continue to apply to equity businesses. Reducing taxes for equity businesses will reduce the barriers to entry in an already established and competitive local market with 32 retailers and 37 cultivators in operation. This recommendation utilizes a cannabis equity lens to support the City's goal of creating equitable opportunities in the local cannabis industry in Long Beach.

This matter was reviewed by Deputy City Attorney Art Sanchez and by Revenue Management Officer Geraldine Alejo on February 16, 2023.

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TIMING CONSIDERATIONS

City Council action is requested on April 18, 2023, to ensure that Ordinance amendment is implemented expeditiously and prior to additional equity businesses becoming licensed and incurring tax charges.

FISCAL IMPACT

The proposed reduced tax rates for equity businesses will set adult-use and medical cannabis cultivation and retail taxes for equity businesses at half the normal rate. The proposed reduced tax rates for equity businesses will not impact anticipated cannabis tax revenues, also known as Measure MA revenues, budgeted for FY 23. Currently, there is only one licensed equity cultivation business, and since this business began operating recently, the tax revenues from this business were not included in the projected Measure MA revenue for FY 23. The selection process for the eight equity dispensary licenses is currently underway with these businesses expected to become licensed by mid-2024. Revenues for these new equity dispensary licenses will not be realized until businesses are licensed and operating, beginning approximately in FY 24. This recommendation has no staffing impact beyond the normal budgeted scope of duties and is consistent with existing City Council priorities. There is no local job impact associated with this recommendation.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



THOMAS B. MODICA
CITY MANAGER