

Date: April 18, 2023

To: Members of the City Council

From: Councilmember Joni Ricks-Oddie,
Vice Mayor Cindy Allen,
Councilmember Suely Saro

Subject: **Establishing a Tax Relief Plan to Stimulate the Growth and Success of Long Beach's Legal Cannabis Retail Industry**

RECOMMENDATION:

Request the City Manager to work with the Office of Cannabis Oversight to develop a tax relief plan to help stimulate the growth of local cannabis retail establishments with structured incentives that promote community benefits, local hiring, livable wages, and fair labor standards, and return to the City Council as part of the FY24 budget process.

DISCUSSION:

On November 8, 2016, voters in Long Beach approved Measure MA, authorizing a tax structure on medical and adult-use cannabis to coincide with the State-level passage of Prop 64, which legalized specified personal use and cultivation of marijuana for adults 21 years of age or older. Starting in FY 20, Measure MA tax revenues have significantly increased when compared to the onset of the tax. In FY 22, Measure MA tax revenues peaked at \$13.1 million, primarily from adult use retail sales. The FY 23 General Fund budget anticipates \$12 million in Measure MA revenues. These revenues not only support staffing to administer, enforce and oversee the City's cannabis operations, they also fund an array of general City services including homeless outreach, equity programs, and park maintenance.¹

As Long Beach aims to grow its revenue streams through Mayor Richardson's Grow Long Beach Initiative to make up for the phasing out of oil production, it will need to look at all available revenue sources, including cannabis. Last fiscal year, City revenues generated through the cannabis industry surpassed the City's transfer of net Uplands oil revenues to the General Fund. Cannabis taxes in Long Beach currently sit at 6% of gross receipts for medical retail sales and 8% of gross receipts for adult-use retail sales, 1% of gross receipts for lab testing, distribution, and manufacturing businesses, and \$13.70 per square foot of canopy under cultivation. The illicit cannabis market, which is estimated to be three times larger than the legal market statewide, poses problems for

¹ City of Long Beach Measure MA: FY 23 Summary of Uses
<https://www.longbeach.gov/globalassets/finance/media-library/documents/city-budget-and-finances/budget/budget-documents/fy-23-proposed-budget/07e-attachment-e---measure-ma---fy-23-summary-of-uses>

both legitimate cannabis retailers and the City's tax revenues. Illicit operators are able to outcompete licensed dispensaries on price by dodging not only the City's cannabis tax structure, but also its 10.25% general sales tax.² Targeted tax relief for legitimate operators in the local cannabis market could allow them to better compete with the illicit market, leading to a larger share of total cannabis sales taking place in the legal, taxed market, helping to close the tax-collection gap in the cannabis sector.

The State has followed this strategy recently in an effort to provide some relief to the struggling legal cannabis industry. Lawmakers in Sacramento eliminated cultivation tax paid to the state in 2022. However, many retail storefront owners are still struggling to stay afloat due to the high cost of local taxes, which has placed some legitimate businesses at risk of closure as unlicensed dispensaries continue to siphon away sales from legal operators.

Across several California cities, including Long Beach, narrowly tailored tax reductions have been used to lower operating costs for cannabis businesses, make legal cannabis products more affordable to patients and consumers, and help the legal industry remain competitive against the illicit market.

Reducing the tax liability on retail establishments has the potential to help local retailers expand their businesses, hire more local residents, supplement worker wages, and potentially draw in new operators looking to start a business in the City of Long Beach.

In September 2022, the City Council of the City of Santa Ana unanimously voted to provide a 3% tax reduction for cannabis retail businesses with key incentives directed to businesses that prioritize local hiring, provide living wages and career pathways for workers, and promote social equity in their surrounding communities.³

Santa Ana's approved tax structure provided an across-the-board 1% tax break for the majority of retail cannabis businesses operating within the city, and an additional 2% reduction for "high road employers" who met the optional social equity measures and community benefits requirements outlined in the ordinance.

Santa Ana's cannabis retail tax reduction policy was designed so that businesses benefiting from the tax adjustment would invest back into the community by meeting basic labor standards, giving workers opportunities to work full time, and providing career advancement for employees.

In determining business eligibility for the tax reduction, the City of Santa Ana has authorized a reduced tax rate for cannabis retail operators who:

² "California now has the biggest legal marijuana market in the world. Its black market is even bigger" Patrick McGreevy, Los Angeles Times, Aug. 2019. [California has the biggest legal marijuana market in the world. Its black market is even bigger - Los Angeles Times \(latimes.com\)](https://www.latimes.com)

³ City of Santa Ana October 2022 Cannabis Ordinance (No. NS-3026) <https://www.santa-ana.org/documents/cannabis-ordinance/>

- Pay their employees at least 115% of the state minimum wage
- Offer the majority of their workers full-time hours
- Assure that delivery drivers are reimbursed appropriately for using their vehicles
- Provide on-the-job paid training opportunities with state-certified programs to create career pathways
- Create an on-ramp into the industry for community members, and promote growth from within
- Hire at least 40% of their employees from low-income neighborhoods in Santa Ana by 2025

By making it financially feasible for local cannabis retailers to pay higher wages and provide better benefits, developing an incentive-based local tax relief plan can help keep working families out of poverty and bolster Long Beach's local economy.

City staff should consider tax relief models implemented by other California jurisdictions, including the City of Santa Ana, to support the continued success and competitiveness of legal cannabis retail operators in Long Beach while minimizing administrative burden, and include recommendations in the FY24 budget.

This matter has been reviewed by Revenue Management Officer Geraldine Alejo on April 7, 2023.

Fiscal Impact

This recommendation requests the City Manager to work with the Office of Cannabis Oversight to develop a tax relief plan to help stimulate the growth of local cannabis retail establishments with structured incentives that promote community benefits, local hiring, livable wages, and fair labor standards. The financial and local job impact to the City will be based on specific tax relief and incentive plan recommendations. The impact will be addressed as part of the FY 24 budget, which is currently being prepared and will be presented for City Council consideration in August. This recommendation is anticipated to have a moderate impact on staff resources and moderate impact on existing City Council priorities.

Suggested Action

Approve recommendation.