



**R-17**

Date: May 10, 2021

To: Honorable Mayor and City Council

From: Councilwoman Cindy Allen, Second District  
Councilwoman Mary Zendejas, First District  
Vice Mayor Rex Richardson, Ninth District

Subject: Feasibility Study on Reducing the City's Adult-Use Cannabis Retail Tax Rate

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**RECOMMENDED ACTION:**

Request the City Manager to prepare a report exploring the feasibility of reducing the City's adult-use cannabis retail tax rate to align with the medicinal cannabis retail tax rate within 90 days, and submit the findings to the Budget Oversight Committee and then the Economic Development and Finance Committee for discussion.

**DISCUSSION:**

In 2016, Measure MA established a framework of adult-use and medicinal cannabis business tax rates to fund the cost of regulating the cannabis industry and provide additional financial resources for city services related to public safety, 9-1-1 emergency response capabilities, and homelessness assistance programs. At that time, Measure MA was estimated to generate approximately \$13 million annually.

Among the taxes established, Measure MA set the tax rate for dispensaries at 6% for medicinal cannabis sales and 8% for recreational (adult-use) cannabis sales at the establishment. Per Municipal Code Chapter 5.92.030:

*"Dispensary" means any person, entity, or operation, in whole or in part, whether operating for-profit or not-for-profit, and all associated owners, employees, managers, or agents engaged in both medicinal and adult-use commercial cannabis activity from the same permitted premises for the retail sale and delivery of cannabis goods to customers. A "Dispensary," as that term is used in this Code, is a "Retailer" under the MAUCRSA.*

The table below shows revenues received from Measure MA for all cannabis business activities since its enactment. As the number of legal cannabis businesses operating has increased since 2016, Measure MA revenues have also grown, and the City is now



receiving nearly \$13 million in annual revenue, with the largest source of revenue being the adult-use dispensary sales tax. It is anticipated that revenues will continue to grow as eight additional dispensary licenses will be issued for social equity applicants within the Cannabis Social Equity Program.

<b>FISCAL YEAR</b>	<b>MEASURE MA REVENUE</b>
2017	\$ 8,700
2018	\$ 2,172,896
2019	\$ 4,265,140
2020	\$ 10,017,557
2021	\$ 12,699,976
<b>TOTAL</b>	<b>\$ 29,164,269</b>

Taxes established under Measure MA are in addition to state taxes levied on cannabis operators, which consist of a 15% excise tax and a quantity-based cultivation tax. On average, the total tax burden from state and local taxes on cannabis operators is more than 40% of gross receipts.

While the State is still considering this issue, the Municipal Code states that the "City Council may in its discretion at any time by ordinance implement a lower tax rate." Council did so in 2020 when taxes on manufacturing, distributing, testing cannabis products were reduced from 6% to 1%. In March, Council also authorized a feasibility study on repealing the cultivation tax, which will also go to committees for discussion.

Continuing to explore cannabis tax reform on the local level, including the study of reducing the adult-use sales tax, will help create a more fair and equitable cannabis business environment in the City and ease the tax burden on existing legal cannabis operators. Additionally, reducing the adult-use sales tax will help our local cannabis businesses expand their local workforce and provide their employees livable wages, lower the price of cannabis products and increase sales, and help divert individuals from purchasing goods in the illicit market.

Due to the potential for creating a stronger and more sustainable legal local cannabis marketplace, this letter requests the City Manager to prepare a report exploring the feasibility of reducing the adult-use cannabis retail tax rate to align with the medicinal cannabis retail tax rate within 90 days, and submit the findings to the Budget Oversight Committee to understand current and projected fiscal impacts, and then the Economic Development and Finance Committee for a discussion on broader workforce and economic impacts.



This matter was reviewed by Budget Manager Grace H. Yoon on April 22, 2022.

**FISCAL IMPACT:**

This recommendation requests the City Manager to prepare a report exploring the feasibility of reducing the adult-use cannabis retail tax rate to align with the medicinal cannabis retail tax rate within 90 days and submit the findings to the Budget Oversight Committee and then the Economic Development and Finance Committee for discussion. The requested action is anticipated to require a moderate level of staff hours beyond the budgeted scope of duties and a moderate impact on existing City Council priorities. There is no local job impact associated with the recommendation, but financial and workforce impacts will be discussed in the feasibility study and explored by the committees.