

Date: July 23, 2021

To: Mayor and Members of the City Council

From: Thomas B. Modica, City Manager 

Subject: **Update on Cannabis Retail Storefront (Dispensary) Tax Study**

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On September 8, 2020, the City Council adopted the Proposed FY 21 Budget with changes from the recommendations of the Mayor, Budget Oversight Committee (BOC), and other City Council actions. In a [memorandum dated December 29, 2020](#), staff provided the City Council with a summary of the Adopted FY 21 Budget actions. As part of the City Council motions approved on adoption night, the City Council approved a motion to extend business hours for dispensaries by two hours, delay a business license tax increase of 0.5 percent on cannabis businesses until an economic impact study could be performed, and request the City Manager to report back mid-year for review. This memorandum provides an update on the requested economic impact study.

To assist in this analysis, staff requested proposals from two companies, Macias Gini & O'Connell LLP (MGO) and HdL Companies (HdL), to perform the economic impact study. The economic impact study would require the collection of Point of Sale (POS) data from licensed cannabis dispensaries who chose to extend their hours. Based on POS data, the analysis would then determine the impact to dispensary sales after extending hours of operation by comparing sales activity with extended hours to sales activity prior to the extended hours during a similar period. In addition, the study would determine whether sales and transactions increased or decreased, and how revenue from a tax increase would have compared to revenue generated from an increase in operational hours.

MGO proposed to use data from all 32 dispensaries in the economic impact study and estimated that the study would take 3.5 months to complete and cost an estimated \$39,910. HdL proposed to conduct the economic impact study using a sample of three to six cannabis dispensaries, rather than all 32, and estimated that the study would take 4 to 6 weeks to complete and cost between \$15,000 to \$20,000 depending upon the scope of work performed.

Both firms note that although an economic impact study could be performed, there are various factors that would affect the reliability of the study. There are numerous factors which may influence sales during the review period, including seasonality, increased or decreased competition, marketing and promotions, price increases, general market fluctuations, and impacts stemming from the State's health orders from the COVID-19 pandemic. The study would also need to rely on Point of Sale (POS) data provided by the dispensaries, which could contain errors or omissions. In addition, each dispensary has their own unique tax reporting quarters based on the dispensary's start date, which may differ from the quarters defined for the scope of the study. It would be extremely difficult to provide a like-for-like comparison of the data for each dispensary due to this inconsistency. Due to the potential cost and timeframe to perform the study, as well as the lack in reliability of the report based on the factors identified above, staff chose to perform an internal economic impact analysis using readily available data.

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Staff conducted an analysis of FY 21 cannabis revenue performance and compared it to potential revenue generated from a 1 percent business license tax increase on cannabis businesses, as originally recommended by the BOC. Staff estimated that the 1 percent tax increase would generate \$600,000 in additional General Fund revenue, increasing the total projected FY 21 cannabis revenue from \$7,985,051 to \$8,585,051.

As of June 22, 2021, a total of \$8,367,000 has been collected in cannabis business license tax revenue, including activity during the extended hours of operation. With three months remaining in the fiscal year, staff estimates FY 21 cannabis revenues at \$9,237,523, which is \$1.25 million higher than the FY 21 budget, \$652,472 more than the estimated revenues from a 1 percent tax increase, and \$952,472 more than estimated revenues from a 0.5 percent tax increase. The amount of increased revenue that is specifically attributable to the extension of operating hours is unclear; however, it is apparent that cannabis revenues are performing well under current conditions with extended operating hours.

If you have questions, please contact Emily Armstrong, Cannabis Program Manager, at (562) 570-6406 or via email at [Emily.Armstrong@longbeach.gov](mailto:Emily.Armstrong@longbeach.gov).

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