

Date: August 17, 2022

To: Thomas B. Modica, City Manager



For: Mayor and Members of the City Council

Subject: **Cannabis Cultivation Tax and Retail Tax Feasibility Studies**

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 Committee and the Economic Development and Finance Committee for discussion.

Due to reduced City staffing capacity and interrelationship of these requests, the cultivation and adult-use retail tax reduction feasibility studies were merged into one comprehensive report, as noted in a [memorandum](#) to the Mayor and City Council on June 27, 2022. The findings detailed in this report will be presented to the Economic Development and Finance Committee on August 18, 2022, and Budget Oversight Committee on August 23, 2022, for review and discussion.

The purpose of this memorandum is to provide a cannabis tax recommendations based on the following:

- Overview of the cannabis business supply chain
- Historical information/background on the City of Long Beach's (City) cannabis tax structure
- Cannabis taxes in other cities
- Tax reform policies at the State level, including the recently passed Cannabis Tax Reform Trailer Bill (Assembly Bill (AB) 195)
- Feedback from cannabis cultivators and retailers
- Summary of Measure MA revenues
- Fiscal impacts associated with eliminating or reducing the cultivation tax and reducing the adult-use retail tax cannabis

Background

The City's medical cannabis Ordinance was established by way of a voter-initiated ballot measure (known as [Measure MM](#)) and adopted into the Long Beach Municipal Code (LBMC) as *Chapter 5.90 – Medical Marijuana Businesses* by the City Council on November 8, 2016.

On July 10, 2018, the adult-use cannabis Ordinance was adopted by the City Council into the LBMC as *Chapter 5.92 – Adult-Use Cannabis Businesses and Activities*.

Under the regulations of Chapter 5.90 and Chapter 5.92 of the LBMC, the City currently allows medical and adult-use cannabis businesses to obtain business licenses to participate in commercial cannabis activities including cultivation, manufacturing, distribution, lab testing, and retail storefronts (dispensaries). Businesses may apply for both medical and adult-use cannabis licenses (also known as a “co-located” business) if they wish to serve both markets. There is currently no cap on the number of licenses issued for a specific commercial cannabis activity, except for retail storefronts, which were previously capped at 32 licenses. In May, the City Council increased this cap to 40 retail storefront licenses, allocating an additional 8 licenses to equity applicants. The eight (8) equity retail storefronts will be selected through a Request for Proposals (RFP) process which is expected to be released in mid-August 2022. It is anticipated that selections will be completed by December 2022 and equity businesses can begin submitting their business license applications immediately thereafter.

Additional license types are being developed that would allow for cannabis shared-use manufacturing and delivery (non-storefront retail) businesses. Shared-use manufacturing licenses will be prioritized for equity applicants for a period of one (1) year, or until fifteen (15) Operator licenses have been issued, whichever occurs sooner. The delivery licenses will be exclusive to equity applicants with no licensing cap.

Table 1 below summarizes the number of pending and issued licenses under medical and adult-use cannabis.

Table 1: Summary of Long Beach Medical and Adult-Use Cannabis Licenses

License Category	Pending	Issued	Total
Adult-Use Cannabis Cultivation	63	17	80
Adult-Use Cannabis Cultivation Equity	4	1	5
Adult-Use Cannabis Manufacturing	72	41	113
Adult-Use Cannabis Manufacturing Equity	3	0	3
Adult-Use Cannabis Distribution	76	36	112
Adult-Use Cannabis Distribution Equity	5	1	6
Adult-Use Cannabis Lab Testing	5	2	7
Adult-Use Cannabis Lab Testing Equity	7	0	7
Adult-Use Cannabis Retail Storefront (Dispensary)	0	32	32
Medical Cannabis Cultivation	85	18	103
Medical Cannabis Manufacturing	84	41	125
Medical Cannabis Distribution	92	40	132
Medical Cannabis Lab Testing	6	4	10
Medical Cannabis Retail Storefront (Dispensary)	0	32	32
Total	502	265	767

All medical and adult-use cannabis businesses are required to pay license fees for each separate cannabis business license type as noted in Attachment A of this memorandum. These fees are in addition to plan check, permit, inspection, and other miscellaneous fees as found the City's current Master Fees and Charge Rates schedule.

Aside from the local licensing requirements, cannabis businesses are required to obtain a State license with the Department of Cannabis Control (DCC). A summary of the State license types and fees is found in Attachment B of this memorandum.

Cannabis Business Supply Chain

This general overview of the cannabis supply chain is intended to help provide a better understanding the City's cannabis tax structure and tax reform policies in other jurisdictions and at the State level.

The cannabis business supply chain begins with cultivation (either outdoor or indoor) which includes preparing the soil and growing medium, planting seeds or clones, irrigating, fertilizing, managing pests, harvesting plants, drying, curing, and trimming plants. Following cultivation is manufacturing, which is the process of extracting cannabinoids, refinement of cannabis extract, infusion of extract or plant material with other ingredients, and packaging and labeling cannabis products. Types of cannabis products include food, beverages, lotions, balms, vape cartridges, dab, shatter, and wax. After either the cultivation or manufacturing stage, distributors arrange for testing of cannabis goods, provide storage services for other licenses, and move finished cannabis goods to retail premises, also known as dispensaries.

Testing laboratories are responsible for ensuring that cannabis goods are safe for consumption and labeled with accurate amounts of cannabinoids and terpenes. Cannabis goods must be free of contaminants and are tested for residual solvents and processing chemicals, residual pesticides, heavy metals, microbial impurities, mycotoxins, moisture content and water activity, and foreign material. Once the cannabis goods pass the testing and quality assurance review, distributors can transport these cannabis goods to retailers. Retailers, including delivery-only businesses without storefronts, may sell packaged flower, pre-rolls, topicals, edibles, and cannabis accessories such as pipes, rolling paper, vape cartridge batteries, as well as branded merchandise for a licensed business.

The movement of cannabis and cannabis products throughout the supply chain is tracked and traced using the California Cannabis Track and Trace (CCTT) system. This is commonly known as "seed to sale" tracking. The CCTT system provides invaluable auditing tools to the State's cannabis compliance and enforcement staff, helping them identify anomalies indicative of potentially fraudulent activity.

Cannabis Tax Structure

Long Beach Cannabis Business License Tax

On November 8, 2016, the cannabis business license tax Ordinance was established by way of [Measure MA](#) and adopted into the LBMC under *Section 3.80.261 – Marijuana Businesses*. This Ordinance outlines the cannabis license tax rates, frequency of payments, penalties, and other regulations relating to collection of taxes. The tax rates set by Measure MA can be increased or decreased by the City Council within the established ranges. Changes to the tax cannot exceed the maximum listed rates.

Measure MA initially set the tax rates for cannabis businesses as follows:

- Six percent (max eight percent) of gross receipts for medical cannabis retail storefronts
- Eight percent (max 12 percent) of gross receipts for adult-use cannabis retail storefronts (dispensaries)
- Six percent (max eight percent) of gross receipts for processing, distributing, transporting, or testing cannabis and cannabis-related products
- \$12 (max \$15) per square foot for cannabis cultivation¹

On [January 7, 2020](#), the City Council passed an Ordinance to amend the LBMC *Subsection 3.80.261.C.4* to reduce the cannabis business license tax rates for manufacturers, distributors, and testing laboratories from six percent of gross receipts to one percent of gross receipts.

Table 2 below summarizes the current medical and adult-use cannabis business license tax rates based on business type.

Table 2: Summary of Cannabis Business License Tax Rates

Type of Business	Tax Rate
Medical/Adult-Use Cannabis Cultivation	\$13.41 per square foot under cultivation
Medical/Adult-Use Cannabis Manufacturing	1% of gross receipts
Medical/Adult-Use Cannabis Distribution	1% of gross receipts
Medical/Adult-Use Cannabis Lab Testing	1% of gross receipts
*Adult-Use Cannabis Retail Storefront (Dispensary and/or Delivery)	8% of gross receipts
*Medical Cannabis Retail Storefront (Dispensary and/or Delivery)	6% of gross receipts
All cannabis businesses are required to pay a minimum tax of \$1,000 annually.	

* *Adult-Use/Medical Retail Storefront Business have the option to conduct delivery services*

Table 3 on the next page summarizes the penalties imposed on cannabis businesses who fail to pay taxes within thirty (30) days after the due date.

¹ The cultivation tax rate is adjusted annually by the 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.

Table 3: Summary of Cannabis Business License Tax Penalties

Past Due Date	Penalty
30 days	25% of taxes owed
60 days	35% of taxes owed
90 days	45% of taxes owed
120 days	55% of taxes owed
150 days	65% of taxes owed
180 days	75% of taxes owed
210 days	85% of taxes owed
240 days	95% of taxes owed
270 days	100% of taxes owed

A license may be revoked in the case that a cannabis business ceases to provide business license tax returns for two (2) consecutive quarterly reporting periods and fails to submit payment upon fifteen (15) days of receiving notice of late payments, pursuant to LBMC Section 3.80.429.1.

State Taxes

In addition to the local tax requirements, cannabis businesses must register with the California Department of Tax and Fee Administration (CDTFA) for a seller’s permit and regularly file sales and use tax returns. Distributors (or microbusiness licensed to act as distributors) must register with the CDTFA for a cannabis tax permit and regularly file cannabis tax returns.

On June 30, 2022, Governor Gavin Newsom signed legislation implementing the FY 2022-2023 State budget and approved Assembly Bill No. 195 (AB 195). This bill is focused on measures to bring tax reform relief to the cannabis industry, including but not limited to the following:

- Set the State cultivation tax to zero, effective July 1, 2022
- Maintain the current 15 percent cannabis excise rate for three years
- Allow the CDTFA to adjust the cannabis excise tax rate every two years that would capture revenues equivalent to the cultivation tax
- Require an economic study that measures the impacts of tax reform on revenues
- Provide tax relief for equity licensees by creating new tax credits and allowing eligible retailers to keep a percentage of the excise tax they collect
- Add enforcement tools against the illicit cannabis market and worker protections, including enforcement of labor peace agreements.

Any harvested cannabis that entered the commercial market on or after July 1, 2022, is not subject to the cultivation tax.

Table 4 summarizes the current cannabis excise tax rates and former cultivation tax.

Table 4: Summary of CDTFA Cannabis Taxes

Cannabis Excise Tax			
Effective Date	Excise Tax Rate of Average Market Price		Mark-Up Rate for Arm's Length* Transactions
July 1, 2022 – Present	15%		75%
January 1, 2020 – June 30, 2022	15%		80%
January 1, 2018 – December 31, 2019	15%		60%
Cultivation Tax			
Effective Date	Cannabis Flower	Cannabis Leaves	Fresh Cannabis Plants
July 1, 2022 – Present	Set to Zero	Set to Zero	Set to Zero
January 1, 2022 – June 30, 2022	\$10.08 per dry-weight ounce	\$3.00 per dry-weight ounce	\$1.41 per ounce
January 1, 2020 – December 31, 2021	\$9.65 per dry-weight ounce	\$2.87 per dry-weight ounce	\$1.35 per ounce
January 1, 2018 – December 31, 2019	\$9.25 per dry-weight ounce	\$2.75 per dry-weight ounce	\$1.29 per ounce

**Arm's length transaction is a sale entered into in good faith, between the cannabis retailer and its supplier at a sales price that reflects the fair market value in the open market between two informed and willing parties, neither under any compulsion to participate in the transaction.*

The 15 percent cannabis excise tax is imposed upon retail purchasers of all cannabis and cannabis products. The 15 percent excise tax is calculated based on the average market price of the cannabis or cannabis products sold in a retail sale. Distributors are required to calculate and collect the amount of excise tax from cannabis retailers that they supply (sell or transfer) with cannabis or cannabis products. In contrast, the former cultivation tax on all harvested cannabis that entered the commercial market was collected by distributors and manufacturers and imposed on cultivators (upon sale or transfer) based on the weight and category of the cannabis. These categories included cannabis flowers, cannabis leaves, and fresh cannabis plants.

The City has actively supported the elimination of the cultivation tax and reduction of the excise tax at the State level based on City Council direction on May 10, 2022, including support for Senate Bill No. 1281 (SB 1281) and Assembly Bill No. 2792 (AB 2792). In addition to eliminating the cultivation tax, these bills aimed to reduce the State cannabis excise taxes. While some of the provisions of these bills were included in the FY 2022-2023 State budget through AB 195, the City will continue to support State level tax reductions in alignment with the City's Legislative Agenda. Reductions to taxes at the State level are believed to be the best way to help the entire cannabis industry.

Cannabis Taxes in Other Cities

In response to the cannabis industry's concerns of high taxes or over-taxation and continual presence of the illicit market, other cities have explored the feasibility of reducing and/or eliminating the cultivation tax and retail tax at the local level.

Comparable Large Cities

To better understand the fiscal impacts of changing the cannabis tax structure in Long Beach, this feasibility study examines the cannabis tax structures in the following cities: Fresno, Los Angeles, Oakland, San Diego, San Jose, and City and County of San Francisco. These comparable large cities were selected based on similar population size, cannabis license types, tax structures, and recent tax reform policies. Table 5 below is a summary of the cultivation and retail tax rates for these six comparable large cities.

Table 5: Summary of Cannabis Tax Rates in Comparable Large Cities

City	Cultivation Tax Rate		Adult-Use Retail Tax Rate	
<i>Long Beach (for reference)</i>	\$13.41 per sq. ft. of canopy space		8% gross receipts	
Fresno	\$6 per sq. ft. of canopy space		4% of gross receipts	
Los Angeles	2% of gross receipts		10% of gross receipts	
Oakland	Indoor Cultivation	<u>Equity</u> Based on gross receipts: <ul style="list-style-type: none"> \$0 - \$1.5M = 0.12% \$1.5M - \$5M = 5.00% Over \$5M = 5.00% (non-marginal) 	<u>Equity</u> Based on gross receipts: <ul style="list-style-type: none"> \$0 - \$1.5M = 0.12% \$1.5M - \$5M = 5.00% Over \$5M = 5.00% (non-marginal) 	
		<u>General (Non-Equity)</u> Based on gross receipts: <ul style="list-style-type: none"> \$0-\$750k = 0.12% \$750k - \$1.5M = 4.00% \$1.5M - \$5M = 5.00% Over \$5M = 5.00% (non-marginal) 		
	Outdoor Cultivation	<u>Equity</u> Based on gross receipts: <ul style="list-style-type: none"> \$0 - \$1.5M = 0.12% \$1.5M - \$5M = 4.50% Over \$5M = 5.00% 		<u>General (Non-Equity)</u> Based on gross receipts: <ul style="list-style-type: none"> \$0-\$750k = 0.12% \$750k - \$1.5M = 4.00% \$1.5M - \$5M = 5.00% Over \$5M = 5.00% (non-marginal)
		<u>General (Non-Equity)</u> Based on gross receipts: <ul style="list-style-type: none"> \$0-\$750k = 0.12% \$750k - \$1.5M = 3.50% \$1.5M - \$5M = 4.50% Over \$5M = 5.00% 		

Table 5: Summary of Cannabis Tax Rates in Comparable Large Cities - Continued

City	Cultivation Tax Rate	Adult-Use Retail Tax Rate
San Diego	2% of monthly gross receipts	8% of monthly gross receipts
San Jose	4% of gross receipts	10% of gross receipts
San Francisco	<ul style="list-style-type: none"> • \$1M to \$1.5M in gross receipts = 1% • Over \$1.5M = 1.5% 	<ul style="list-style-type: none"> • \$1M to \$1.5M in gross receipts = 2.5% • Over \$1.5M = 5%

As shown in Table 5 above, San Jose and Los Angeles have the highest gross receipts at ten percent for the adult-use retail tax rate, followed by Long Beach and San Diego at eight percent and Fresno at four percent. Oakland and San Francisco have similar tax structures with their highest retail tax category at five percent

Fresno is the only city that has imposed a cultivation tax per square foot like Long Beach. Fresno’s cannabis cultivation tax rate is set at \$6 per square foot of canopy space, which is \$7.41 less than Long Beach. All other cities base their cultivation tax on gross receipts. Cultivation taxes charged based on square-footage, such as in Long Beach and Fresno, impact businesses regardless of the success of their cannabis grow and their ability to sell goods. Cultivation tax based on gross receipts could provide relief in that taxes would only be accrued once sales are made. Changing the cultivation tax to be based on gross receipts could be beneficial to the industry but would require a public vote to adjust as it would change the basis of the tax.

Recently, on May 1, 2022, San Diego reduced their cannabis tax rates for cannabis production facilities (cultivation, manufacturing, distribution, and storage) from eight percent to two percent of monthly gross receipts. The retail tax remained at eight percent of monthly gross receipts. Similarly, on January 7, 2020, Long Beach passed a similar Ordinance amendment lowering the medical and adult-use cannabis tax rates for manufacturers, distributors, and lab testing facilities from six percent to one percent of gross receipts. The tax rates for retailers remained the same at six percent for medical and eight percent for adult-use. The basis for San Diego’s recent tax reduction was to prevent underutilization of cannabis production facility permits and to become more competitive with other cities including La Mesa, Long Beach, Los Angeles, Oceanside, San Jose, and San Francisco.

San Jose initially set the tax for all cannabis businesses at ten percent beginning in 2010. However, commencing on July 1, 2019, San Jose reduced the taxes for cultivation to four percent, manufacturing to three percent, distribution at two percent, and testing laboratory testing to zero percent.

San Francisco delayed imposition of their taxes until January 1, 2023. In addition, the first \$1 million of gross receipts from cannabis business activities is exempt from their cannabis business tax. This tax does not apply to the receipts from the retail sale of medical cannabis and certain nonprofit organizations and businesses exempt from local taxation.

Out of the six comparable cities, Oakland is the only city with a tiered and category-based tax structure for cannabis equity and non-equity businesses. This includes four different tax rebate

programs totaling nine separate and distinct conditions upon which a cannabis business would be entitled to the rebate of a portion of taxes paid for the tax year. These rebate programs/conditions include local hiring of equity employees, equity supply chain (i.e., cannabis products cultivated, manufactured, or delivered by an equity business), workforce quality of life (i.e., hourly wage, health benefits, and/or full-time employees) and incubation of equity businesses. While Long Beach does not have a separate tax structure for equity businesses, adult-use cannabis (non-equity) businesses are required to employ equity employees for a minimum of 40 percent of total work hours performed at the business. In addition, Long Beach requires these non-equity businesses to submit a community reinvestment and small business incubation plan describing how they intend to support equity businesses, adjacent neighborhoods, and communities with the eligible social equity program census tracts. Long Beach cannabis equity applicants and businesses have continually expressed the desire to be fully equity-owned/operated to further support cannabis equity in Long Beach. A tiered tax structure for equity businesses may lessen the barriers to entry into the capital-intensive cannabis industry, allowing them to be fully equity-owned/operated as opposed to partnering with investors to assist with startup costs.

Neighboring Jurisdictions

Similarly, this feasibility study examines neighboring jurisdictions within 30 miles of Long Beach that allow cannabis cultivation and/or retail including: Bellflower, Costa Mesa, Los Angeles, Maywood, Santa Ana, Stanton, and unincorporated areas of Los Angeles County. Understanding the tax structure of neighboring jurisdictions can provide insights into what market competition there may be locally. The cultivation and retail tax rates for these neighboring cities are summarized in Table 6 below.

Table 6: Summary of Cannabis Tax Rates in Neighboring Jurisdictions

City/County	Cultivation Tax Rate	Adult-Use Retail Tax Rate
<i>Long Beach (for reference)</i>	<i>\$13.41 per sq. ft. of canopy space</i>	<i>8% gross receipts</i>
Bellflower	Cultivation: \$15.00 per sq. ft. of canopy space Nursery: \$2.00 per sq. ft. of canopy space	5% of gross receipts
Costa Mesa	N/A	7% of gross receipts
Los Angeles	2% of gross receipts	10% of gross receipts
Maywood	6% of gross receipts	10% of gross receipts
Santa Ana	6% of gross receipts or \$10 per square foot (annually), whichever is higher.	8% of gross receipts or \$25 per square foot (annually), whichever is higher.
Stanton	Cultivation/Nursery: \$12.00 per sq. ft. of canopy space	6% of gross receipts

Table 6: Summary of Cannabis Tax Rates in Neighboring Jurisdictions - Continued

City/County	Cultivation Tax Rate	Adult-Use Retail Tax Rate
Unincorporated Areas of Los Angeles County	<u>Proposed as November 2022 Ballot Measure</u> Starting July 2023: <ul style="list-style-type: none"> • \$7/sf of canopy (indoor artificial light) • \$4/sf of canopy (mixed light) • \$4/sf of canopy (outdoor) • \$2/sf of canopy space (nursery) 	<u>Proposed as November 2022 Ballot Measure</u> Starting July 2023: <ul style="list-style-type: none"> • 4% of gross of receipts
	<u>Proposed as November 2022 Ballot Measure</u> Starting July 2026: <ul style="list-style-type: none"> • \$10/sf of canopy (indoor artificial light) • \$7/sf of canopy (mixed light) • \$4/sf of canopy (outdoor) • \$2/sf of canopy space (nursery) 	<u>Proposed as November 2022 Ballot Measure</u> Starting July 2026: <ul style="list-style-type: none"> • 6% of gross of receipts

**The Los Angeles County Board of Supervisors recently approved a resolution to place a cannabis tax measure on the election ballot for November 8, 2022.*

Maywood and Los Angeles have the highest retail taxes, followed by Santa Ana and Long Beach. The City of Bellflower has the highest cultivation tax rate based on the square foot of canopy space amongst the neighboring cities. However, Bellflower has a separate cultivation tax rate for nurseries (\$2 per square foot of canopy space) which are cultivators that only grow clones, immature plants, seeds or other types of cannabis used for propagation. Like Bellflower, Los Angeles County is proposing separate tax rates for each cultivation activity such as a nursery, outdoor cultivation, and cultivation with indoor artificial light and mixed light. In Long Beach, outdoor and mixed light cultivation are not allowed and only two out of 36 cultivation licensees operate as a nursery.

Feedback from Cultivators and Retailers

The Office of Cannabis Oversight hosted a series of roundtable discussions with licensed cultivators (including pending equity licensees) and retailers to examine potential impacts to the illicit market, consumer habits, business and workforce impacts, and tax changes at the State level. Specifically, businesses were asked if they believed an elimination/reduction of the cultivation and adult-use retail tax rates would:

- Encourage businesses operating in the illicit market to join the legal market
- Increase the number of legal cannabis businesses in Long Beach
- Impact local cannabis industry, their business, and/or vertically integrated businesses
- Impact pricing of cannabis goods, consumer habits, sales at retail, and/or tax revenue

The businesses generally stated that these potential tax changes would have little to no impact on the illicit market as local taxes are not the sole deciding factor on whether to enter the legal market. Other factors including consumer base, regulatory compliance, limited commercial and industrial space within the permitted areas, State taxes, and inadequate enforcement in neighboring cities and communities. These factors, or a combination thereof, is not enough to incentivize illicit operators to join the legal market, according to the businesses.

In addition, the businesses generally stated that an elimination/reduction of the cultivation and adult-use retail tax would help them reduce their debt ceiling and provide more financial flexibility in such a competitive and volatile market. This may allow for needed business improvements to take place and potentially optimize operations, including cultivation canopy size and product, and consumer experience. However, impacts to the businesses' workforce such as the number of employees and/or hourly wages, would be minimal and not immediate as each business model varies.

Furthermore, the businesses consistently stated that the number of legal businesses in the City may increase if the cultivation tax is eliminated. Vertically integrated businesses typically prefer to have all their cannabis activities (e.g., cultivation, manufacturing, distribution, and retail) in the same location or city to maximize operations and reduce costs. The businesses also stated that a potential elimination of the cultivation tax (both at the State and local level) would have the greatest impact on the pricing of cannabis goods and consumer habits.

The businesses generally agreed that lowering taxes at a competitive rate with neighboring cities would be the best approach to encourage customers to participate in the legal market in Long Beach instead of the illicit market. At this time, price conscious consumers may prefer to purchase their cannabis goods in a neighboring city where taxes are significantly lower or opt for an illicit retailer. However, if the price of cannabis goods is significantly reduced because of a cultivation tax reduction, then price conscious consumers may decide to purchase their cannabis goods with a licensed retailer in Long Beach. In other words, a domino effect may occur if a significant reduction in the cultivation tax takes place, reducing the price of cannabis goods as they move through the supply chain.

Lastly, the businesses generally agreed that the pending eight equity retail storefronts may face significant challenges with establishing a consumer base and market share since the current 32 retail storefronts have been operational for several years. A lessor tax burden upfront for equity retail storefronts may reduce these startup challenges. Similarly, this may have a positive impact on the number of delivery-only licenses which will be exclusive to equity applicants with no licensing cap. As a result, this could give way for cannabis goods produced by equity businesses to be sold by equity and non-equity retailers (delivery-only and storefront), encouraging partnerships throughout the cannabis supply chain.

Measure MA Revenue Summary

The City has collected Measure MA tax revenues since FY 18. Table 7 below summarizes the revenues from FY 18 through FY 23.

Table 7: Summary of Annual Measure MA revenues from FY 18 – FY 23

FY 18 Actuals	FY 19 Actuals	FY 20 Actuals	FY 21 Actuals	FY 22 Estimate	FY 23 Proposed
1,321,479	\$4,684,986	\$9,979,940	\$12,099,297	12,000,000	12,000,000

Revenue in the early fiscal years were low due to the slow pace of business starts. The licensing process for cannabis business typically takes about a year to a year and a half depending on the location and zoning requirements; however, challenges often arise during the build-out phase of the process, extending the timeline even further. In FY 20, the City experienced a significant revenue increase due to a surge in cannabis sales during the pandemic and further increased in FY 21. FY 22 and FY 23 projections anticipate that activity levels will remain at the higher levels.

Table 8 summarizes the Measure MA funds by license category from FY 21.

Table 8: Summary of Measure MA Funds by license category for FY 21

License Category	FY 21 Actuals
Adult-Use Cannabis Retail Storefront (Dispensary)	\$9,764,915
Medical Cannabis Cultivation	\$1,072,214
Adult-Use Cannabis Distribution	\$463,822
Medical Cannabis Retail Storefront (Dispensary)	\$411,927
Adult-Use Cannabis Manufacturing	\$141,808
Medical Cannabis Lab Testing	\$115,491
Medical Cannabis Distribution	\$47,169
Medical Cannabis Manufacturing	\$38,442
Adult-Use Cannabis Cultivation	\$38,184
Adult-Use Cannabis Distribution Equity	\$4,130
Adult-Use Cannabis Lab Testing	\$1,190
Total	\$12,099,297

For FY 21, the City collected \$12,099,297 in cannabis business license tax revenue. Of the 12 license categories, the adult-use cannabis retail storefront taxes have generated the highest amount at \$9,764,915 with medical cannabis cultivation taxes following at \$1,072,214.

Current Uses Funded by Measure MA Revenues

The Long Beach cannabis business licenses taxes set by Measure MA are considered general taxes to fund City services. The City Council has previously expressed its intent to prioritize spending of Measure MA funds for the following purposes:

- Regulation and Enforcement, including the costs of regulating and enforcing the cannabis industry, which includes administration and oversight, licensing, plan checks, inspections, enforcement, and legal services.

- Public Health and Safety, including the costs of providing public health and public safety services, related to emergency response, police and fire services, continuum of public safety services, homelessness, drug prevention and treatment, environmental and food safety services, and other health and safety services.

For FY 23, Measure MA funds will be utilized to continue to support the following categories: the City's Cannabis Regulatory and Enforcement Program at \$2,222,052; Racial Equity Programs support at \$2,634,989; Public Health and Safety Programs support at \$7,022,959; and the required Measure B Stabilization Fund at \$120,000. This allocation includes the funding of several enhancements proposed in the FY 23 Budget, such as support for people experiencing homelessness (PEH), interpretation and translation services, the Office of Veteran's Affairs, the Fire Department's Diversity Recruitment Program, and the Park Safety Ambassador Program. These enhancements are discussed in further detail in the Fiscal Impacts section below.

Fiscal Impacts

The following estimated revenue impacts from changes to the City's current cannabis cultivation and retail tax rates are based on FY 21 actual revenues which are anticipated to continue into both FY 22 and FY 23. The following high-level analysis performed by staff includes activity from 32 retailers and 20 cultivators currently in operation and assumes activity remains unchanged at each incremental change to tax rate scenarios. Actual annual revenue realized is based on many variables that may influence the impact of a tax reduction on revenue generation, and actual experience may vary from this analysis. In addition, Measure MA revenues are still stabilizing after the unexpected spike in 2020, and it may be too early in the program to truly understand all impacts of reducing tax rates.

If the City Council decides to reduce the cultivation and retail tax rates to zero, any future tax increases would require voter approval due to the provisions in Article XIII C of the California Constitution (also known as Proposition 218, Voter Approval Requirement for Local Tax Increases Initiative). If the taxes were suspended for any period of time, this would be considered the same as eliminating the taxes and would require voter approval to reinstate. However, if the tax rates are not eliminated and simply reduced under the established thresholds, then voter approval is not required for future tax rate increases.

Cannabis Cultivation Tax Elimination and Reduction

The estimated revenue impact of repealing the cannabis cultivation tax for both medical and adult-use on FY 23 revenues is approximately \$1.1 million in reduced revenue, or about 9 percent of total Measure MA revenue received by the City. This amount includes \$38,000 from Adult-Use Cannabis Cultivation and \$1.07 million from Medical Cannabis Cultivation. The potential revenue loss is based on FY 21 actuals and FY 22 estimated revenue collected at the current cultivation tax rate of \$13.41 per taxable square foot (currently at around 82,804 square feet). Should the City Council consider a cultivation tax rate reduction, as opposed to a complete elimination of the tax, this would result in an estimated revenue loss of \$82,804 per every \$1 reduced from the current rate (see table 9).

Table 9: Impact of Cultivation Tax Rate Reduction on Revenues

Rate per Square Foot	Rate Reduction Scenario	Annual Revenue Reduction
\$13.41 <i>(current effective rate)</i>	\$--	\$--
\$12.66	\$0.75	\$62,103
\$12.41	\$1.00	\$82,804
\$11.41	\$2.00	\$165,608
\$10.41	\$3.00	\$248,412
\$9.41	\$4.00	\$331,216

Cannabis Retail Tax Reduction

Cannabis retail tax revenue is approximately 84 percent of total Measure MA revenue received by the City. A 1 percent decrease to the current retail tax rates is estimated to result in a revenue decrease of \$1.2 million for adult-use cannabis and \$69,000 for medical cannabis. Table 10 below shows how FY 23 revenues might be impacted by various reductions in the retail tax rates for adult-use. A total revenue loss column shows the revenue loss in a scenario where the tax rates are both reduced to the same level. Actual total combined revenue loss will depend on the specific tax changes implemented for adult-use and medical.

Table 10: Impact of Various Cannabis Retail Tax Reductions on Revenues

Tax Rate	Adult-Use Cannabis Retail Tax Revenue Loss	Medical Cannabis Retail Tax Revenue Loss	Total Adult-Use and Medical Cannabis Retail Tax Revenue Loss
8%	\$ -- <i>(current effective rate)</i>	N/A	\$ --
7%	\$1,220,614	N/A	\$1,220,614
6%	\$2,441,229	\$ -- <i>(current effective rate)</i>	\$2,441,229
5%	\$3,661,843	\$68,655	\$3,730,498
4%	\$4,882,458	\$137,309	\$5,019,767
3%	\$6,103,072	\$205,964	\$6,309,036
2%	\$7,323,687	\$274,619	\$7,598,306
1%	\$8,544,301	\$343,273	\$8,887,574

Impact to Services within the General Fund Group

As all the Measure MA revenues are programmed and utilized for services in the Proposed FY 23 Budget, any reduction to the revenue will have an impact on the FY 23 Budget’s funded items. For example, eliminating the cultivation tax and even a 1 percent reduction to the current adult-use cannabis retail tax may result in a total revenue loss of \$2.3 million. In this scenario, structural reductions or new funding sources of \$2.3 million would need to be identified to continue funding the Proposed FY 23 Budget at the current level. This would be the equivalent

to eliminating all the new enhancements funded by Measure MA revenues in the Proposed FY 23 Budget listed below, which would no longer have funding.

- Add a Restorative Engagement to Achieve Collective Health (REACH) team at \$471,721 in the General Fund in the Health and Human Services Department to expand services for people experiencing homelessness (PEH).
- Add two Counselor II positions at \$246,640 in the General Fund in the Health and Human Services Department to provide support from a holistic perspective for PEH requesting help.
- Structurally add funding of \$255,000 in the General Fund in the Health and Human Services Department for the Proactive Homeless Initiative to support the activities of the City's Interdepartmental Work Group, including rapid response, clean-ups, and outreach.
- Decrease the Towing Fund Transfer to the General Fund from \$1 million to \$750,000 to provide support for direct Homelessness Waivers and other unreimbursed costs.
- Add structural support of \$20,000 in the General Fund in the City Manager's Office to increase interpretation and translation services.
- Structurally add a Fire Captain at \$163,248 (partially offset with other revenues) in the General Fund in the Fire Department to continue to lead Fire's Diversity Recruitment Program.
- Upgrade 0.5 FTE Community Program Specialist III to 1.0 FTE Public Health Professional III at \$70,938 in the General Fund in the Health Department to lead the Office of Veteran's Affairs.
- Add six Maintenance Assistant III positions, one Building Services Supervisor position, and supplies/equipment budget at \$575,234 in the General Fund in the Parks, Recreation, and Marine Department to staff the Park Safety Ambassador Program.
- Add four Maintenance Assistant IIs at \$289,090 in the General Fund in the Parks, Recreation, and Marine Department to coordinate with the Park Safety Ambassadors to provide service requests for repairs, power washing, graffiti abatement, and miscellaneous maintenance.

In a scenario where the cultivation tax and the adult-use cannabis retail tax is completely eliminated, the total combined revenue loss would be approximately \$11 million. This would be the equivalent of nearly all the services currently covered by Measure MA revenues, which total to \$12 million. One-time or structural solutions would need to be found in FY 23 to cover this loss. If one-times are utilized to address the gap in FY 23 assuming one-time sources are identified and available, structural solutions would still need to be identified in FY 24.

Alternatively, in a scenario where the cannabis taxes are deferred for one year, the fiscal impact would be minimal as the owed taxes would be considered as accrued revenue for the previous fiscal year, assuming they were collected in a timely fashion. Cannabis businesses may experience temporary relief during the deferred tax year; however, once the deferral year has concluded, businesses would have to pay deferred taxes plus the new year's taxes at the same time.

A one-time lowering of the tax for one fiscal year would require the City to identify reductions one-time dollars for that year to keep service levels at the same level.

Recommendation

Based on the information and financial analysis above, staff recommends that the City Council reduce the adult-use and medical cannabis cultivation and retail taxes for equity businesses, which would promote equity goals while not resulting in revenue loss from the current budget.

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. Reducing taxes for equity businesses would support them as they start their businesses in an environment where non-equity businesses already have established operations. This structure could also make equity businesses more attractive wholesale cannabis suppliers for other cannabis retailers, which often decline to sell products from equity businesses according to feedback from various programs across the State. In terms of the fiscal impact of this recommendation, as the Cannabis Equity Program began in 2018, equity businesses are still starting up and have not yet been included in the expected revenues. As a result, no budget cuts or service reductions will be necessary to reduce taxes for equity businesses.

Any additional reduction to cannabis taxes will result in revenue loss and loss of funding for services currently funded by Measure MA revenues including new services added through the Proposed FY 23 Budget. These services under the categories of Cannabis Regulatory and Enforcement, Racial Equity, and Public Health and Safety are listed in Attachment C. As the Cannabis Regulatory and Enforcement operations are already very lean, staff would be looking to City Council for direction on what services under the categories of Racial Equity and Public Health and Safety to reduce to offset any projected revenue loss. Alternatively, an option that might result in lowering taxes without requiring budget cuts would be for City Council to provide the policy direction that staff will recommend any annual adjustments to the tax rates necessary to keep Measure MA revenues at the current \$12 million level. In this scenario, any projected growth in Measure MA revenues above \$12 million would be calculated into reductions in taxes to keep revenues at the current \$12 million level. This would only apply if revenues exceed \$12 million moving forward and not if revenues go below \$12 million at the current tax level. In a scenario where taxes have been reduced and actual revenues fall below \$12 million, City Council and staff can revisit and reassess if any adjustments should be made to adjust the tax rates back to their pre-reduction levels.

If further reductions are considered, reductions in the cultivation tax would have the least impact on revenues as compared to reductions in the retail tax. Additionally, as cultivation is the first step in the cannabis supply chain, a reduction in the cultivation tax could have a broader impact on the entire supply chain as compared to a reduction in the retail tax. Furthermore, staff anticipates that the eight equity retail storefronts that City Council authorized will be licensed and operational by early 2025. A reduction in the adult-use retail tax rate prior to the operation of the eight equity retail storefronts further the head start that the other 32 existing non-equity retail storefronts have, potentially increasing the competition and barriers equity businesses will face when entering the market.

Cannabis Cultivation and Retail Tax Feasibility Study

August 17, 2022

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If you have any questions, please contact Valencia Mota, Cannabis Oversight Manager, at (562) 570-6406 or via email at valencia.mota@longbeach.gov.

ATTACHMENTS: A - SUMMARY OF LICENSE FEES FOR MEDICAL AND ADULT-USE CANNABIS LICENSES
 B – SUMMARY OF LICENSE TYPES AND FEES FOR DEPARTMENT OF CANNABIS CONTROL (DCC)
 C – SUMMARY OF MEASURE MA USES AND ENHANCEMENTS

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 MONIQUE DE LA GARZA, CITY CLERK
 DEPARTMENT HEADS

Summary of License Fees for Medical and Adult-Use Cannabis Licenses

Adult-Use Cannabis License Fees	
Description: The following fees are charged to all adult-use applications including new applications, major transfer of ownerships, and change of address applications.	
Fee Type	Fee Amount
Adult-Use Cannabis Business Annual Regulatory Fee*	\$3,099.00
Adult-Use Cannabis Social Equity Program Fee*	\$1,545.00
Adult-Use Cannabis Application Review Fee*	\$415.00
Adult-Use Cannabis Background Investigation Fee*	\$165.00
Zoning Base Application Fee	\$33.00
Building Review Application Fee	\$23.30
Total (for application with one owner)	\$5,280.30

*Fees marked with an asterisk are waived for Equity Businesses.

Medical Cannabis License Fees	
Description: Medical cannabis application fees are based upon the number of owners and business managers listed on the application.	
# of Owners and Business Managers	Fee Amount
1	\$212.55
2	\$367.55
3	\$522.55
4	\$677.55
5	\$832.55
6	\$987.55

Miscellaneous Fees	
Fee Type	Fee Amount
Minor Transfer of Ownership	\$235.00
Modification of Premises	\$109.00
Incomplete Application Fee (per resubmittal)	\$52.00

**State of California
Department of Cannabis Control (DCC)
License Types**

Cultivation	
License Type	Description
Specialty Cottage	<ul style="list-style-type: none"> • Specialty cottage outdoor – up to 25 mature plants • Specialty cottage indoor – up to 500 square feet of canopy • Specialty cottage mixed-light tier 1 and 2 – up to 2,500 square feet of canopy
Specialty	<ul style="list-style-type: none"> • Specialty outdoor – up to 50 mature plants or up to 5,000 square feet of canopy • Specialty indoor – 501 to 5,000 square feet of canopy • Specialty mixed-light tier 1 and 2 – 2,501 to 5,000 square feet of canopy
Small	<ul style="list-style-type: none"> • Small outdoor – 5,001 to 10,000 square feet of canopy • Small indoor – 5,001 to 10,000 square feet of canopy • Small mixed-light tier 1 and 2 – 5,001 to 10,000 square feet of canopy
Medium	<ul style="list-style-type: none"> • Medium outdoor – 10,001 square feet to 1 acre of canopy • Medium indoor – 10,001 to 22,000 square feet of canopy • Medium mixed-light tier 1 and 2 – 10,001 to 22,000 square feet of canopy
Nursery	For cultivators that only grow clones, immature plants, seeds or other types of cannabis used for propagation
Processor	For cultivators that only trim, cure, dry, grade, package, or label cannabis

Manufacturing	
License Type	Description
Type 7: Volatile Solvent Manufacturing	<ul style="list-style-type: none"> • Use volatile solvents for extraction or post processing (refinement) of cannabis extract • Use non-volatile solvents for extraction or post processing • Use mechanical methods for extraction • Make cannabis products through infusion • Package and label cannabis products
Type 6: Non-Volatile Solvent Manufacturing or	<ul style="list-style-type: none"> • Use non-volatile solvents for extraction or post processing • Use mechanical methods for extraction • Make cannabis products through infusion

Mechanical Extraction	<ul style="list-style-type: none"> Package and label cannabis products
Type N: Infusion of Products	<ul style="list-style-type: none"> Make cannabis products through infusion Package and label cannabis
Type P: Packaging and Labeling	<ul style="list-style-type: none"> Type P manufacturers can only package and label cannabis products.
Type S: Manufacturers Who Work in a Shared-use Facility	<ul style="list-style-type: none"> Extract cannabis using butter or cooking oils Make cannabis products through infusion Package and label cannabis

Distribution	
License Type	Description
Type 11: Distributor	<ul style="list-style-type: none"> Move cannabis and cannabis products between cultivation, manufacturing, or distribution premises Move finished cannabis goods to retail premises Provide storage services to other licensees Arrange for testing of cannabis goods
Type 13: Transport-only Distributor	<ul style="list-style-type: none"> Type 13 distributors can move cannabis and cannabis products between cultivation, manufacturing, or distribution premises.

Testing Laboratory	
License Type	Description
Type 8: Testing Laboratory	<ul style="list-style-type: none"> The Type 8 license is for laboratories that test cannabis goods prior to sale at a retailer. Testing laboratories must obtain and maintain ISO/IEC 17025 accreditation.

Retail	
License Type	Description
Type 9: Non-Storefront Retailer (delivery only)	<ul style="list-style-type: none"> A non-storefront retailer sells cannabis goods to customers only through delivery.
Type 10: Storefront Retailer	<ul style="list-style-type: none"> A storefront retailer has a physical location where cannabis goods are sold. Storefront retailers can also deliver cannabis goods.

Microbusiness	
License Type	Description
Type 12: Microbusiness	<p>The Type 12 license is for businesses that do at least three of the following activities at one location:</p> <ul style="list-style-type: none"> • Cultivation – up to 10,000 total square feet • Manufacturing – use of non-volatile solvents, mechanical extraction or infusion • Distribution or distribution transport-only • Retail – storefront or non-storefront

Event	
License Type	Description
	<p>There are two cannabis event license types:</p> <ul style="list-style-type: none"> • Event organizer – for the person hosting cannabis events • Temporary cannabis event – for the event itself

**Department of Cannabis Control (DCC)
Application & License Fees**

Cultivation License Fees		
<i>Cultivation licenses fees are based on the size and type of production or lighting.</i>		
Cultivation license type	Application fee	License fee
Specialty cottage outdoor	\$135	\$1,205
Specialty cottage indoor	\$205	\$1,830
Specialty cottage mixed-light tier 1	\$340	\$3,035
Specialty cottage mixed-light tier 2	\$580	\$5,200
Specialty outdoor	\$270	\$2,410
Specialty indoor	\$2,170	\$19,540
Specialty mixed-light tier 1	\$655	\$5,900
Specialty mixed-light tier 2	\$1,125	\$10,120
Small outdoor	\$535	\$4,820
Small indoor	\$3,935	\$35,410
Small mixed-light tier 1	\$1,310	\$11,800
Small mixed-light tier 2	\$2,250	\$20,235
Medium outdoor	\$1,555	\$13,990
Medium indoor	\$8,655	\$77,905
Medium mixed-light tier 1	\$2,885	\$25,970
Medium mixed-light tier 2	\$4,945	\$44,517
Nursery	\$520	\$4,685
Processor	\$1,040	\$9,370

Manufacturing License Fees		
<i>Type 7, 6, N and P licenses</i>		
Gross annual revenue	Application fee	License fee
Less than or equal to \$100,000 (Tier I)	\$1,000	\$2,000
\$100,001 to \$500,000 (Tier II)	\$1,000	\$7,500
\$500,001 to \$1,500,000 (Tier III)	\$1,000	\$15,000
\$1,500,001 to \$3,000,000 (Tier IV)	\$1,000	\$25,000
\$3,000,001 to \$5,000,000 (Tier V)	\$1,000	\$35,000
\$5,000,001 to \$10,000,000 (Tier VI)	\$1,000	\$50,000
More than \$10,000,000 (Tier VII)	\$1,000	\$75,000
<i>Type S Licenses</i>		
Gross annual revenue	Application fee	License fee
Less than or equal to \$100,000 (Tier I)	\$500	\$2,000
\$100,001 to \$500,000 (Tier II)	\$500	\$7,500
\$500,001 to \$1,000,000 (Tier III)	\$500	\$15,000
<i>There is no additional fee for a Type 7, 6 or N licensee to register a shared-use facility.</i>		

Distribution License Fees		
Gross annual revenue	Application fee	License fee
Less than or equal to \$1,000,000	\$1,000	\$1,500
\$1,000,001 to \$2,500,000	\$1,000	\$6,000
\$2,500,001 to \$5,000,000	\$1,000	\$11,250
\$5,000,001 to \$10,000,000	\$1,000	\$22,500
\$10,000,001 to \$20,000,000	\$1,000	\$45,000
\$20,000,001 to \$30,000,000	\$1,000	\$75,000
\$30,000,001 to \$50,000,000	\$1,000	\$120,000
\$50,000,001 to \$70,000,000	\$1,000	\$180,000
Distributor Transport-Only Licenses		
Gross annual revenue	Application fee	License fee
Less than or equal to \$1,000	\$1,000	\$200
\$1,001 to \$3,000	\$1,000	\$500
More than \$3,000	\$1,000	\$1,000

Testing Laboratory License Fees		
Gross annual revenue	Application fee	License fee
Less than or equal to \$160,000	\$1,000	\$3,000
\$160,001 to \$320,000	\$1,000	\$6,000
\$320,001 to \$480,000	\$1,000	\$8,000
\$480,001 to \$800,000	\$1,000	\$13,000
\$800,001 to \$1,200,000	\$1,000	\$20,000
\$1,200,001 to \$2,000,000	\$1,000	\$32,000
\$2,000,001 to \$2,800,000	\$1,000	\$48,000
\$2,800,001 to \$4,400,000	\$1,000	\$72,000
More than \$4,400,000	\$1,000	\$112,000

Retail License Fees		
Gross annual revenue	Application fee	License fee
Less than or equal to \$500,000	\$1,000	\$2,500
\$500,001 to \$750,000	\$1,000	\$5,500
\$750,001 to \$1,000,000	\$1,000	\$7,500
\$1,000,001 to \$1,500,000	\$1,000	\$11,000
\$1,500,001 to \$2,000,000	\$1,000	\$14,500
\$2,000,001 to \$3,000,000	\$1,000	\$22,500
\$3,000,001 to \$4,000,000	\$1,000	\$30,500
\$5,000,001 to \$6,000,000	\$1,000	\$46,500
\$6,000,001 to \$7,500,000	\$1,000	\$57,000
More than \$7.5 million	\$1,000	\$96,000

Microbusiness License Fees		
Gross annual revenue	Application fee	License fee
Less than or equal to \$1,000,000	\$1,000	\$5,000
\$1,000,001 to \$2,000,000	\$1,000	\$12,000
\$2,000,001 to \$3,000,000	\$1,000	\$20,000
\$3,000,001 to \$4,000,000	\$1,000	\$32,000
\$4,000,001 to \$6,000,000	\$1,000	\$45,000
\$6,000,001 to \$7,000,000	\$1,000	\$60,000
\$7,000,001 to \$10,000,000	\$1,000	\$80,000
\$10,000,001 to \$20,000,000	\$1,000	\$100,000
\$20,000,001 to \$30,000,000	\$1,000	\$120,000
\$30,000,001 to \$40,000,000	\$1,000	\$140,000
\$40,000,001 to \$50,000,000	\$1,000	\$160,000
\$50,000,001 to \$60,000,000	\$1,000	\$180,000
\$60,000,001 to \$80,000,000	\$1,000	\$220,000
More than \$80,000,000	\$1,000	\$300,000

Cannabis Event License Fees		
<i>Cannabis event annual license fees are based on the number of events the business plans to hold during the year.</i>		
Number of planned cannabis events	Application fee	License fee
5 or fewer	\$1,000	\$3,000
6 to 10	\$1,000	\$5,000
11 to 20	\$1,000	\$9,000
More than 20	\$1,000	\$20,000
<i>Temporary cannabis event licenses are \$1,000 per event.</i>		

Cannabis Regulatory and Enforcement Program		
Department	Amount	Scope
City Attorney	\$ 156,577	Supports one position for the current level of cannabis work and funds outside legal counsel services to help defend the City in cannabis litigation and administrative proceedings and assist with enforcement of unlicensed facilities.
City Manager	549,642	Supports 1.5 FTE positions to coordinate the City's overall multi-Department efforts to regulate the cannabis industry, including licensed business regulation, unlicensed business enforcement, cannabis social equity and personal use policy development. A budget of \$300,000 was added in FY 22 and will be used to effectively implement cannabis enforcement and abide by labor agreements for the safety of employees. These funds will assist with a multi-department approach to enforcement. This use is in line with City Council's intent to prioritize the spending of Measure MA funds for Regulation and Enforcement, and Public Health and Safety and Racial Equity Program support.
City Prosecutor	154,416	Provide advisory support to the administrative enforcement team, and assist with criminal prosecution of illegal cannabis operators.
Development Services	155,401	Supports 0.5 FTE of Code Enforcement inspection staff responsible for proactively identifying cannabis businesses' facilities that have not obtained the proper building permits and responding to requests for service, including site visits; coordination with other City departments and property owners; issuance of citations; and court appearances and materials and supplies. Other responsibilities include the vacant lot monitoring program and general nuisance abatement.
Financial Management	478,560	Supports two Business License staff who field complaints, track cases, schedule site visits, enforce operating conditions, issue citations, coordinate with Community Liaisons, schedule inspections, process license revocations, and manage general administrative duties. Staff also participate in the unlicensed enforcement approach and receive and account for taxes paid by cannabis businesses.
Health and Human Services	218,814	Supports 1.0 FTE to plan check and inspect cannabis businesses to ensure compliance with food safety, hazardous waste, and other public health requirements. Additionally, coordinates public education and prevention programs to address cannabis perception and use.
Fire	453,642	Supports a two person team to perform inspections, issue citations, and red tag facilities when appropriate and part time clerical staff to assist the team. Staff also review, inspect and certify legal cannabis facilities to ensure that businesses will open safely and in a timely manner, and develop policies.
Police	55,000	Support background investigations of cannabis business owners prior to license issuance. Additionally, funds overtime and training costs to expand the number of police officers who are certified as Drug Recognition Experts (DRE).
Racial Equity Program Support		
Racial Equity Program Support	2,634,989	Measure MA revenues has been allocated to fund the structural costs of the enhancements related to the Racial Equity and Reconciliation Initiative. This includes \$1.5 million for Plan implementation; a Deputy City Manager position; Community Program Specialist position for the Office of Equity; funding to study and implement reforms for the CPCC; REACH team to have a greater public health focus; and Senior programming at the Expo Center.
Public Health and Safety Program Support		
Public Health and Safety	7,022,959	In addition to Cannabis regulation and enforcement and Racial Equity program support, Measure MA revenues have been prioritized for public health and safety related operations. Funds are helping to support the costs two Quality of Life (QOL) Police Officers; a Clean Team to coordinate homeless cleanups in the City; Citywide Equity efforts, Language Access, Health Department programming to maintain support for homeless services; Violence prevention unit; Lifelong learning programs at Obama and Twain libraries; Neighborhood Resource Center and Improvement program; Be SAFE structural funding for 3 sites; Senior Center Administration; Fire Captain for Diversity Recruitment, Homeless Services Interdepartmental work group, Park Safety Ambassador Program, a Veterans Affairs personal upgrade, an additional REACH Team, two Counselors for Homeless Outreach and Service Connections, four Maintenance Assistants in Parks and other programming.
Budget Stabilization Fund: Measure B		
Budget Stabilization Fund	120,000	Measure B requires 1 percent of new tax revenues generated each year to be reserved. This figure represents the amount of Measure MA funds anticipated to be reserved per Measure B.
Total	\$ 12,000,000	