

January 23, 2024

Honorable Mayor and City Council
City of Long Beach
California

RECOMMENDATION:

Recommendation to receive and file an update on the Cannabis Tax Relief Plan; and,

Request the City Attorney to prepare an Ordinance to amend the Long Beach Municipal Code (LBMC) to reduce the cannabis cultivation tax rate and adult-use cannabis retail tax rate, and add the Pilot Tax Credit Program provisions. (Citywide)

DISCUSSION

On April 18, 2023, the City Council requested 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 Fiscal Year 2024 (FY 24) budget process.

The FY 24 Budget included a high-level approach for a Cannabis Tax Relief Plan, which was reviewed with the Budget Oversight Committee (BOC) on August 8, 2023. This proposed plan, including the projected fiscal impact, was approved by the City Council as part of the Adopted FY 24 Budget on September 5, 2023.

On November 29, 2023, a memorandum was released to the City Council that provided the details of the Cannabis Tax Relief Plan and implementation next steps, along with a comprehensive overview of staff's research of recent and relevant cannabis tax relief examples in other jurisdictions. A copy of this memorandum is included as an attachment to this letter.

The proposed Cannabis Tax Relief Plan utilizes a two-tiered approach to provide eligible businesses the opportunity to receive a combined four percent in tax relief, and at the same time, address City Council priorities and strengthen and enforce existing local and state cannabis regulations. Under Tier 1, staff proposes to reduce the adult-use retail tax rate by one percent (eight percent to seven percent) and the cultivation tax rate by an amount equivalent to a one percent tax reduction (\$14.96 to \$13.09). The one percent tax reduction will not be made retroactive. Under Tier 2, staff proposes a Pilot Tax Credit Program that would provide a tax credit of three percent for eligible adult-use retail and cultivation businesses who are in good standing and meet local hiring, workforce quality of life, training, and equity business support criterion. It is important to note that the combined tax relief under Tier 1 and Tier 2 may not result in a tax rate less than two percent (or equivalent) for adult-use retail and cultivation businesses.

The tax reduction for cultivation and adult-use retail businesses would become effective upon

amendment of Section 3.80.261(C)(2) and Section 3.80.261 (C)(5) of the Long Beach Municipal Code (LBMC). The Pilot Tax Credit Program would require new provisions to be added to Section 3.80.261 of the LBMC to become effective. Should the City Council approve the proposed amendments to the LBMC, the Office of Cannabis Oversight will work in partnership with the Department of Financial Management, Business License Division to implement the Cannabis Tax Relief Plan.

This matter was reviewed by Deputy City Attorney Arturo D. Sanchez and Budget Development Officer Jennifer Rodriguez on January 3, 2024.

TIMING CONSIDERATIONS

City Council action is requested on January 23, 2024 to ensure timely implementation of the Cannabis Tax Relief Plan.

FISCAL IMPACT

The proposed tax relief plan is projected to increase the General Fund structural shortfall by \$3,060,000 in FY 24. The total fiscal impact is comprised of a \$1,080,000 revenue decrease from the one percent tax rate reduction and a cost of \$1,980,000 for the Pilot Tax Credit Program. The FY 24 Budget includes these projected impacts, which will be offset on a one-time basis with previously set-aside Measure MA revenues and other reserves. The FY 24 Measure MA revenues are budgeted at \$10,920,000, and an appropriation of \$1.98 million included in the FY 24 Budget will be used to rebate funds back to eligible businesses. The potential structural ongoing impact in the outyears (FY 25 and beyond) will be evaluated and addressed as part of future budget development processes.

Should this proposed tax relief plan be approved by City Council, staff will monitor over the next two years to assess whether these actions are successful in achieving policy objectives and what the longer-term fiscal impacts are to determine the feasibility of these actions continuing in the future. City Council, at their discretion, may reinstate the tax rates for adult-use retail and cultivation businesses as initially set per Section 3.80.261 of LBMC, if the plan is not fiscally sustainable. In addition, City Council may at any time amend the tax rates as long as the change does not result in increased tax rates beyond the maximum tax rates allowed, as authorized by the voters under Measure MA. This recommendation has no staffing impact beyond the normal budgeted scope of duties and is consistent with existing City Council priorities.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



Thomas B. Modica
City Manager