

April 9, 2024

Honorable Mayor and City Council
City of Long Beach
California

RECOMMENDATION:

Recommendation to approve ordinance amendment to Section 3.80.261 of the Long Beach Municipal Code (LBMC) to reduce the cannabis cultivation tax rate and adult-use retail tax rate and add provisions for the Pilot Tax Credit Program. (Citywide)

DISCUSSION

On January 23, 2024, the City Council received a presentation from staff on the proposed Cannabis Tax Relief Plan that will include a one percent tax reduction (or equivalent) for cultivation and adult-use retail businesses and Pilot Tax Credit Program. Following the staff presentation, public comment, and City Council discussions, the City Council passed a motion to amend the Pilot Tax Credit Program eligibility criteria as follows:

- Reduce the Local Hiring criterion from 50 percent to 40 percent to align with the existing equity employee requirement as stated in Section 5.92.1660; and,
- Remove the part-time employees wage requirement under the Workforce Quality of Life criterion and, instead, set the wage requirement for all employees at 110 percent (or above) the state minimum wage, with 80 percent of employees receiving 115 percent (or above) the state minimum wage.

The updated Pilot Tax Credit Program chart is found in Attachment A.

In addition, the City Council motion requested staff to provide clarification on the requirement for businesses to be up to date with local cannabis taxes as part of their eligibility for the aforementioned tax relief. A business interested in applying for Pilot Tax Credit Program must be in good standing with local and state cannabis regulations to be eligible to apply for the three percent tax credit. The timeline for business eligibility is dependent on their good standing status. For example, businesses who are currently in “bad standing” due to delinquent taxes may become eligible in the future to receive a tax credit, upon payment of the delinquent taxes in full. In contrast, the one percent tax reduction will apply to all cultivation and adult-use cannabis businesses regardless of their good standing status. A reduced tax rate cannot be based on good standing status, as it is subject to change at any time.

The tax compliance and enforcement actions being administered by the Department of Financial Management, Business Services Bureau, are separate and parallel processes to the tax relief program. To operate legally in Long Beach, all cannabis businesses must be in compliance with Section 3.80.261 of the LBMC, Chapter 5.90 and 5.92, and other related

cannabis regulations (local and state). Specific to tax compliance, the Department of Financial Management has increased enforcement and collection efforts to address the estimated outstanding \$8.5 million in unpaid cannabis taxes owed to the City, accumulated since 2020, particularly during the period of deferred payments permitted during the pandemic. A timeline of tax enforcement operations is found in Table 1 below.

Table 1: Cannabis Tax Enforcement Operations

Date	Action
August 21, 2023	Email notification sent to businesses regarding delinquent balances.
October 23, 2023	Email notification sent to businesses with expired licenses requiring delinquent balances to be paid in full in order to renew license.
January 3, 2024	Certified mail letter sent to businesses with delinquent accounts stating balance and reporting status and payment plan offer.
February 16, 2024	Payment demand letter sent via certified mail to businesses requesting to pay delinquent balances in full or enter into a payment plan by March 18, 2024. Failure to take any action by deadline will result in license suspension.

It is important to note that continuous verbal communication has taken place prior to and during the aforementioned enforcement actions as part of regular tax collection operations and field interactions with businesses. Businesses that are out of compliance can work with the Business Services Bureau to pay their delinquent balances to enter into a payment plan. Outreach to businesses will continue in an effort to gain compliance.

TIMING CONSIDERATIONS

City Council action is requested on April 9, 2024, to ensure timely implementation of the Cannabis Tax Relief Plan.

FISCAL IMPACT

The Adopted FY 24 Budget included a projected impact on the General Fund structural shortfall of \$3,060,000, due to the proposed tax relief plan. This impact is comprised of a \$1,080,000 budgeted 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 Measure MA revenues are budgeted at \$10,920,000, including an appropriation of \$1.98 million in the FY 24 Budget that will be used to rebate funds back to eligible businesses. This projected structural impact will be offset on a one-time basis with previously set-aside Measure MA revenues and other reserves. The potential structural ongoing impact in the outyears (FY 25 and beyond), inclusive of potential impacts from increased collection efforts, will be evaluated and addressed as part of future budget development processes. This recommendation has no staffing impact beyond the normal budgeted scope of duties and is consistent with existing City Council priorities.

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SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read 'T. B. Modica', with a stylized flourish at the end.

Thomas B. Modica
City Manager

ATTACHMENTS: ORDINANCE
A - PILOT TAX CREDIT PROGRAM CHART