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PRESS RELEASE

12-16-2021

Rio Dell Critical of State Cannabis Tax System

At a special meeting of the Rio Dell City Council on Tuesday, December 14th the Council approved a resolution urging the State government to consider reforming its cannabis taxation system. Specifically, the Council requested that State dramatically reduce or eliminate State cultivation taxes. The State's original tax scheme called for cultivation rates ranging from $9.25 to $2.75 per ounce, depending on the type of dried product. This is in addition to a 15% State transaction tax at the retail level.

Starting on January 1, 2022 the State plans to raise their cultivation taxes to range from $10.08 to $3.00 per ounce despite a deep decline in legal cannabis prices.

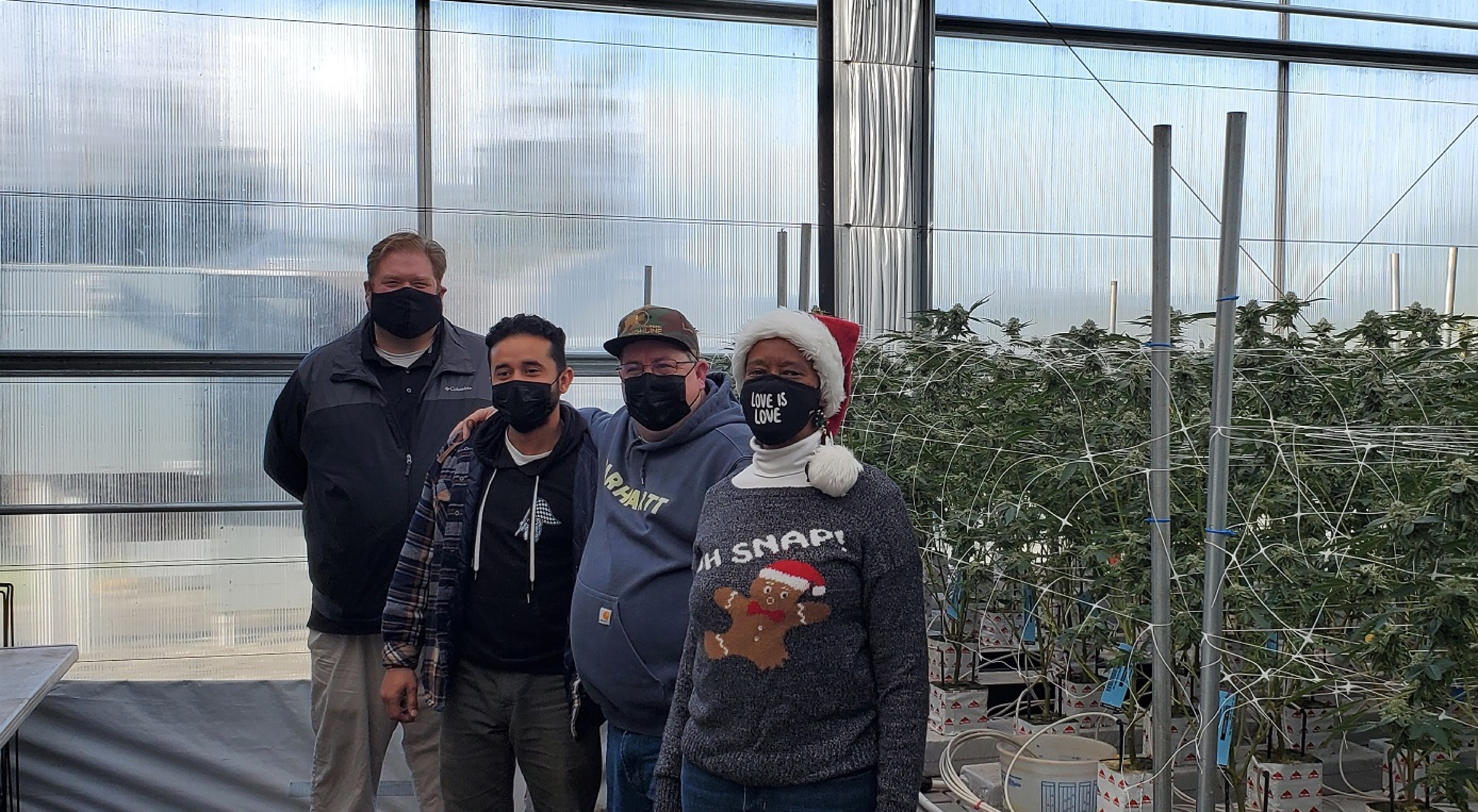
"This is a case where what is going up should be going down, and what's going down needs to be going back up." States Rio Dell Mayor Debra Garnes. "It's upside down. The State needs to correct this. The State needs to respond. They are by far taking the lion's share of cannabis tax receipts and they risk killing the concept of the small legal cannabis farmer. That's not good for anyone in Humboldt."

The Council's Resolution resulted from the request of Margro Advisors, a cannabis consulting firm that has invested in the City.

California voters passed cannabis legalization via Proposition 64 on November 8, 2016. Over the subsequent years, the City of Rio Dell worked hard to develop a comprehensive framework to allow the newly legal industry to invest in the community, including cultivation.

"I think locally we've done a good job of turning this newly legal industry into something that benefits Rio Dell as a whole." Stated Rio Dell City Manager Kyle Knopp. "We've been able to pave roads and invest in public safety, in good part because of cannabis legalization and how we've approached it. But the State's taxation system is now putting these local benefits at risk, perpetuating the black market and shutting down legal north coast cultivators." Knopp concluded by underlining the disconnect between the January 1st cultivation tax increase and the State's current record $30+ billion surplus. ///


OH SNAP


LOVE IS LOVE
SNAP!

RESOLUTION NO. 1517-2021

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF RIO DELL REQUESTING STATE CANNABIS CULTIVATION TAX REFORM

WHEREAS, California voters passed Proposition 64 in 2016, establishing two commercial cannabis taxes that, effective January 1, 2018, imposed an excise tax upon the retail sale of cannabis or cannabis products at a rate of fifteen percent (15%), and a cultivation tax on all harvested cannabis that enters the commercial market at a rate of nine dollars and twenty-five cents ($9.25) for dry-weight flower per ounce, and two dollars and seventy-five cents ($2.75) per dry-weight leaves/trim per ounce; and

WHEREAS, the City of Rio Dell embraced legalization and established a regulatory framework to permit and facilitate commercial cannabis businesses, including cultivation; and

WHEREAS, cannabis farmers have been burdened by the onerous nature of State regulations, rapidly expanding illicit cultivation, and the economic instability of the legal market has impacted the jurisdiction's ability to provide other core mandated services; and

WHEREAS, Proposition 64 required that the Bureau of Cannabis Control convene a committee to advise the licensing authorities on the development of standards and regulations, including best practices and guidelines that protect public health and safety while ensuring commercial cannabis regulations do not impose barriers that perpetuate, rather than reduce and eliminate, the illicit market for cannabis. This committee came to be known as the Cannabis Advisory Committee (CAC); and

WHEREAS, in 2018, and again in 2019, the California Legislature considered, but did not approve, bills to temporarily eliminate the cultivation tax. California State Treasurer Fiona Ma, sponsor of Assembly Bill 286 (Bonta, 2019) argued that "given that we now have seen a year of severe under-collection of expected tax revenue and that the black market still exists, it is understood that excessive taxation is an obstacle to establishing a fully viable legal market. Compliant businesses are at a significant disadvantage, and this high tax rate incentivizes businesses to stay underground." Treasurer Ma characterized the bill as "imperative to temporarily lessen California's total tax on cannabis, and give these businesses and the State enough time to fully implement Prop 64."; and

WHEREAS, in 2019, Harinder Kapur, Senior Assistant Attorney General, testified to the California Legislature stating that upwards of 80 percent of California's cannabis businesses remained in the illicit market; and

WHEREAS, in November 2019, the California Department of Tax and Fee Administration announced that effective January 1, 2020, per statutory mandate, the cultivation tax would increase to account for inflation leading the CAC to express concern in its 2019 Annual Report that the increase in taxation would, "...come[s] at a time when the complex regulatory framework, coupled with high taxation, pose[s] significant challenges to the licensed cannabis market," noting a report published by Arcview Market Research, that these two factors could disadvantage the licensed market by as much as 77 percent on pricing compared to well-established illicit market operations.; and

WHEREAS, in 2020, the Legislature again considered a bill to eliminate the cultivation tax, but, due to emergency orders and economic uncertainty caused by the COVID-19 pandemic, held the bill in Committee, and instead approved Assembly Bill 1872 (Committee on Budget, Chapter 93, Statutes of 2020) which suspended for one year the California Department of Tax and Fee Administration's authority to adjust the cannabis cultivation tax for inflation; and

WHEREAS, on November 17, 2021, the California Department of Tax and Fee Administration announced that effective January 1, 2022, the cultivation tax would increase from nine dollars and sixty-five cents ($9.65) to ten dollars and eight cents ($10.08) for flower per dry-weight ounce; from two dollars and eighty-seven cents ($2.87) to three dollars ($3.00) for leaves/trim per dry-weight ounce; and, from one dollar and thirty-five cents ($1.35) to one dollar and forty-one cents ($1.41) for fresh cannabis plant per ounce; and

WHEREAS, a November 2021 sales report from BDS Analytics shows that legal sales in California fell by more than eleven percent (11.4%) to $293.1 million when compared to last year and are down nearly eight percent (7.7%) from August 2021, additionally showing that cannabis flower sales fell twenty-three percent (23%), while concentrates, the second-largest product category, declined eight percent (8%); and

WHEREAS, the legal cannabis market is currently experiencing a price collapse. The average wholesale price for dried cannabis flower has fallen to approximately four hundred dollars ($400) a pound. In addition, the average wholesale price for dry leaves and trim has fallen to thirty dollars ($30) a pound. As such, the ***current*** tax rate of $9.25 an ounce or a $148.00 a pound for dry flower is 37% of gross receipts. The current tax rate of $2.75 an ounce or $44.00 a pound for dry leaves and trim is 147% of gross receipts; and

WHEREAS, the ongoing consequences of high state taxes combined with over-regulation has continued to economically challenge legal cannabis businesses and disincentivize the permitting and licensing of new cannabis businesses by local jurisdictions, including the City of Rio Dell; and

WHEREAS, due in large part to the State's current cannabis cultivation taxes, the City of Rio Dell, has experienced increased challenges collecting cultivation taxes; and

WHEREAS, on November 8, 2016, Proposition 64 was enacted by a vote of the People to, "...accomplish [...] taxation on the growth and sale of cannabis in a way that drives out the illicit market for marijuana and discourages use by minors, and abuse by adults."

NOW, THEREFORE BE IT RESOLVED, the Rio Dell City Council strongly urges Governor Newsom and the California Legislature to immediately eliminate or significantly reduce the current cultivation taxes.

I HEREBY CERTIFY that the forgoing Resolution was PASSED, APPROVED and ADOPTED at a SPECIAL MEETING of the City Council of the City of Rio Dell on December 14, 2021 by the following vote:

AYES:	Mayor Garnes, Carter, Johnson, Wilson, Woodall
NOES:	None
ABSENT:	None
ABSTAIN:	None

Debra Garnes

Mayor Debra Garnes

ATTEST:

I, Karen Dunham, City Clerk for the City of Rio Dell, State of California, hereby certify the above and foregoing to be a full, true and correct copy of Resolution No. 1517-2021 adopted by the City Council of the City of Rio Dell on December 14, 2021.

Karen Dunham

Karen Dunham, City Clerk, City of Rio Dell