




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Memorandum

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Date: November 23, 2022
To: Mayor and Council Members
From: Michael Rogers, City Manager ^{DS}
Via: Karin Schnaider, Assistant City Manager
CC: Sara Cowell, Finance Director
Subject: City Council Follow Up: Cannabis Tax

At the September 21, 2021 City Council meeting, Councilmember Bedolla requested support regarding the cannabis program and the creation of a tax rebate (item 457). This item was seconded by Mayor Young. The City Council received a memo from the City Attorney detailing the actions needed to proceed with a rebate or tax reduction for the Cannabis Tax.

At the April 5, 2022 City Council meeting, Councilmember Arriola requested support to study the viability of cannabis tax reduction (item 506). This item was seconded by Mayor Pro Tem Vargas. The City Council directed this discussion to Council's Fiscal Sustainability Ad-Hoc Committee for discussion. This discussion occurred on April 28, 2022.

At the time, the State of California had various Cannabis Tax reform draft bills, which included a reduction in State taxes. The Ad-Hoc's recommended postponing moving forward with a Cannabis Tax reduction in the City if the State was already considering the reduction. In addition, the Ad-Hoc did not want to move forward on a Cannabis Tax reduction until it had sufficient data from tax collections to measure the impacts of the reduction.

In July 2022, the Governor signed a cannabis budget trailer bill, AB 195, into law, which implements various changes to cannabis taxation and enforcement. With regard to cannabis taxation adjustments, the cannabis trailer bill eliminates the cultivation tax beginning January 1, 2023 and changes the excise tax to 15% of gross receipts to be collected by the retailer. Under the current system, final distributors are responsible for remitting both cultivation and excise tax to the Department of Tax and Fee Administration.

While AB 195 does not directly impact the City's Cannabis Tax, it did result in a tax decrease at the State level. Per the Ad-Hoc direction, they do not recommend moving forward with a discussion on Cannabis Tax reduction. This recommendation closes out City Council follow up items 457 and item 506.