



# COUNTY OF HUMBOLDT

For the meeting of: 6/16/2020

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File #: 20-614

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**To:** Board of Supervisors  
**From:** County Administrative Office

**Agenda Section:** Departmental

**SUBJECT:**  
Consumer Price Index Increases on Cannabis Excise Tax Bills

**RECOMMENDATION(S):**

That the Board of Supervisors:

1. Receive the staff report on the consumer price index increases on cannabis excise tax bills, and direct staff accordingly; and
2. Take other action as appropriate.

**SOURCE OF FUNDING:**

General Fund

**DISCUSSION:**

On March 3, 2020, your Board had a discussion concerning the county's legal cannabis industry and the concerns raised by cannabis business owners and farmers that the burden of local taxes imposed on their industry disincentivizes compliance and encourages continued illegal cultivation. Your Board considered a stay of the consumer price index (CPI) increase for the 2020 tax bills, because a stay on collection of the CPI increase would provide tax relief and planning capabilities to those who are struggling to establish a sustainable business model. Your Board directed staff to bring back general information concerning the county's use of CPI, and the impact of CPI on budgetary practices, and options to provide relief to cultivators as it relates to CPI increases.

The CPI represents changes in prices of all goods and services purchased for consumption by urban households, such as food, housing, transportation, medical care, and education. User fees (such as water and sewer service) and sales and excise taxes paid by the consumer are also included. CPI is the most widely used measure of inflation and is commonly used to ensure that revenues keep pace with cost increases. The Bureau of Labor Statistics (BLS) publishes Consumer Price Indexes for the United States and various geographic areas. The County of Humboldt includes a CPI factor in calculating revenues such as fees and charges, tax assessments, property taxes and cannabis excise taxes, among others.

Effective January 1, 2017, Chapter 9, Section 719-4 of the Humboldt County Code imposed an annual

base tax of \$1 per square foot of outdoor cultivation area, \$2 per square foot of mixed-light cultivation area or \$3 per square foot of indoor cultivation area. Section 719-5, Chapter 9 of the Humboldt County Code requires an annual adjustment to the cannabis excise tax rate on July 1, based on the CPI published by the BLS in April. The regional area of San Francisco-Oakland-Hayward was utilized to calculate the 2019 Cannabis Excise Tax bills, as this is the closest reporting area in proximity to Humboldt County. Cultivators have expressed the opinion that utilizing the CPI for the Bay Area was not an appropriate comparison. Your Board could direct staff to utilize the West Region or Nationwide CPI moving forward. These regions are historically less than those reflected in the San Francisco-Oakland-Hayward. The below chart compares the CPI for 2019 and what those impacts would have been on the 2019 calendar year cannabis excise tax assessments.

CPI region:	Permit Type:		
	Outdoor	Mixed Light	Indoor
SF-Oakland-Hayward CPI (4%)	\$1.073	\$2.146	\$3.22
Nationwide CPI (2.1%)	\$1.054	\$2.107	\$3.165
West Region CPI (2.9%)	\$1.062	\$2.124	\$3.19

Prior CPI adjustments are follows:

Fiscal Year	Permit Type		
	Outdoor	Mixed Light	Indoor
2017 (base year)	\$1.00	\$2.00	\$3.00
2018	\$1.032	\$2.064	\$3.10
2019	\$1.073	\$2.146	\$3.22

As costs such as salaries and benefits, consumables and contract services increase in response to economic fluctuations, revenue growth is imperative to ensure service levels continue addressing the needs of Humboldt County citizens. Without revenue growth, current service levels may not be maintained over the long-term.

The four options presented to your Board to provide relief to cultivators are:

- 1. Take no action.** Taking no action has no financial impact and allows staff to move forward with the fiscal year 2020-2021 budget process without the need to reduce additional expenditures. This option provides no relief to cultivators.
- 2. Place a stay on the 2020 CPI due in 2021.** If the CPI increase were stayed for 2020, the estimated reduction in revenues is approximately \$781,000. This estimate is based on the current CPI rate of 4%. The rate anticipated for 2020 is currently unknown. Such a reduction would reduce policy level contributions to the Project Trellis Equity Program and the contribution to the General Reserve in fiscal year 2020-2021 as both are calculated as 10% of Cannabis Excise Tax

revenue, equaling a reduction of \$78,000 for each contribution. The remaining revenue reduction of \$625,000 would be absorbed through the use of fund balance or possible service reductions. Due to the impacts of COVID-19, all available one-time expenditures such as contributions to Americans with Disability Act (ADA) barrier removal, Public Agency Retirement Services (PARS), General Reserve or Contingency Reserve will likely be significantly reduced pending direction from your Board. In addition, a stay on the CPI will reduce future years' revenues by an estimated \$781,000 annually. This option provides an ongoing reduction of approximately 4, 8 or 12 cents per square foot of cultivation area, depending on permit type (outdoor, mixed light or indoor respectively).

**3. Place a stay on the 2020 CPI and incorporate a credit for the 2019 CPI paid.** Similar to a stay on the 2020 CPI, if the CPI increase were to be stayed for 2020 plus incorporating a credit for the 2019 CPI, the estimated reduction in revenues is approximately \$1,511,000. This reduction would reduce policy level contributions to the Project Trellis Equity Program and to the General Reserve at \$151,000 each. The remaining revenue reduction of \$1,209,000 would likely be absorbed through the use of fund balance or possible service reductions. In addition, a stay on the CPI will impact future years' revenues by an estimated \$781,000 annually. This option provides an ongoing reduction of approximately 4, 8 or 12 cents per square foot of cultivation area, depending on permit type (outdoor, mixed light or indoor respectively), with a one-time reduction of approximately \$730,000.

**4. Refunding 2019 CPI while still applying CPI moving forward.** Refunding the 2019 CPI would reduce revenues by an estimated \$730,000, however this would only impact the revenues projected for fiscal year 2020-2021 and fiscal year 2021-2022 as future years would not experience a reduction in the overall CPI accumulation. This option provides a one-time reduction of 4, 8 or 12 cents per square foot of cultivation area, depending on permit type (outdoor, mixed light or indoor respectively).

**FINANCIAL IMPACT:**

As detailed in the above options, depending on the direction of your Board, the financial impact could range from no impact to \$1.51 million in reduced revenue over fiscal years 2020-2021 and 2021-2022, with an ongoing reduction of approximately \$781,000 annually. It should be noted that these estimates are based on the current 2019 CPI rate of 4%. Given the current economic conditions of the state and nation, which will be severely impacted by the COVID 19 pandemic, it is plausible that the 2020 CPI rate will be less than the rate experienced in 2019, reducing the impacts discussed above.

**STRATEGIC FRAMEWORK:**

This action supports your Board's Strategic Framework by engaging in discussions of our regional economic future.

**OTHER AGENCY INVOLVEMENT:**

None

**ALTERNATIVES TO STAFF RECOMMENDATIONS:**

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Board discretion

ATTACHMENTS:

None

PREVIOUS ACTION/REFERRAL:

Board Order No: G-3

Meeting of: March 3, 2020

File No.: N/A