



COUNTY OF HUMBOLDT

For the meeting of: 3/3/2020

File #: 20-233

To: Board of Supervisors

From: Supervisor Estelle Fennell

Agenda Section: Initiated by Board Member

SUBJECT:

The Impact of Consumer Price Index Related Increases on Cannabis Excise Tax Bills (Supervisor Estelle Fennell)

RECOMMENDATION(S):

That the Board of Supervisors:

1. Discuss the benefits of imposing a stay on collection of the annual increase on Cannabis Excise Taxes for the 2020 calendar year; and
2. Direct staff to bring back an agenda item with supporting documentation necessary to effectuate a stay on collection of the annual increase Cannabis Excise Taxes for the 2020 calendar year.

SOURCE OF FUNDING:

General Fund

DISCUSSION:

The Board of Supervisors is supportive of the county's fledgling cannabis industry and is responsive to the concerns raised by cannabis business owners and farmers that the burden of local taxes imposed on their industry disincentivizes compliance and encourages continued black-market cultivation.

In March 2019, to ease the burden of the costs associated with establishing cannabis businesses, the Board voted to modify the cannabis excise tax billing cycle so that the annual billing process takes place in arrears, meaning after the cultivation year instead of during the cultivation year. Accordingly, cannabis businesses budgeted for the expected payments linked to square footage of their permits.

The 2019 tax bills are now due, and farmers are receiving annual bills that include the annual increase linked to the Consumer Price Index (CPI), in addition to the square footage tax rate. Upon receipt of those bills with the extra charges, numerous fledgling cannabis businesses expressed concerns, requesting that the additional CPI charges be removed. In the words of one farmer "roll back the tax increase and allow our industry to get back on firmer footing before increasing taxes at the local level." Another farmer said, "The only real way to combat the black market is to make the legal market more appealing and raising any taxes is absolutely not the way to go."

The Treasurer-Tax Collector has advised against making a modification to the 2019 tax bills to remove the CPI increase. Excise bills for the 2019 calendar year were mailed to cultivators the last week of January 2020, many of which have already been paid. Modifying those tax bills already mailed and paid or being paid now would create many logistical and reconciliation complications because new bills would have to be adjusted, mailed, and then tracked relative to the previously sent and paid, or not paid, bills which may or may not require refunds depending on the circumstances for each individual permit. Modifying, and resending, the 2019 tax bills is strongly opposed by the Treasurer-Tax Collector.

Accordingly, contained in today's report is a recommendation for the Board to consider a stay of the CPI increase for the 2020 tax bills. As a stay on collection of the increase will provide tax relief and planning capabilities to those who are struggling to establish a sustainable business model.

FINANCIAL IMPACT:

Consideration of approving a stay in the CPI increase for the 2020 calendar year Cannabis Excise Tax billing has no financial impact. However, if the CPI increase were to be stayed for 2020, the estimated reduction in revenues is approximately \$760,000. This estimation is based on the current CPI rate. The rate anticipated for 2020 is currently unknown.

STRATEGIC FRAMEWORK:

This action supports your Board's Strategic Framework by supporting business, workforce development and creation of private-sector jobs .

OTHER AGENCY INVOLVEMENT:

None

ALTERNATIVES TO STAFF RECOMMENDATIONS:

Board discretion

ATTACHMENTS:

None

PREVIOUS ACTION/REFERRAL:

Board Order No.: N/A

Meeting of: N/A

File No.: N/A