



Legislation Text

File #: 22-346, Version: 1

Memorandum

Date: April 12, 2022

To: The Honorable Lake County Board of Supervisors

From: Carol J. Huchingson, County Administrative Officer

Subject: a) Discussion of Cannabis Tax Reform; and b) Consideration of Resolution Amending Cannabis Cultivation Tax Due Dates

Executive Summary:

On January 25, 2022 your Board considered multiple topics related to cannabis taxes. Your Board provided direction to suspend the pending annual cannabis tax rate increases that would be implemented pursuant to the Consumer Price Index.

Your Board provided further direction to postpone the cannabis tax payment due dates until May 15, 2022, and waive the applicable late payment penalties. A resolution implementing this direction was approved on February 1, 2022.

On March 8, 2022, your Board considered additional options regarding potential cannabis tax reforms. Your Board directed staff to begin the process of amending the cannabis tax ordinance to change the taxable area from "Cultivation Area" to "Canopy Area." This more narrowly defined area will result in an approximate 15% tax reduction, however this will vary dramatically depending upon each individual circumstance.

Today, staff proposes your Board consider, and as appropriate, take action on the following options:

1) Approve Resolution Extending Due Dates for Cultivation Tax

As noted above, your Board previously directed that staff return with a resolution authorizing a further postponement of the due date to October 31, 2022, for the 2nd installment of the 2021 cannabis cultivation tax. There was a discussion of setting new due dates going forward, with January 1st and May 1st being proposed. A resolution detailing the proposed tax due dates for implementation is attached for your consideration and approval.

2) Proposed Rate Reductions for Cultivation Tax in 2021 and 2022

Local stakeholders in the cannabis industry have alerted staff to some of the more pressing concerns that have arisen since your Board's March 8th meeting. Decisions will need to be made

soon by each operation on whether it is viable to begin cultivation this year. Since the cultivation tax is imposed once any related activity commences, the uncertainty regarding what relief may be potentially available is complicating the ability to make these operational decisions.

Staff recommends your Board consider offering relief for the last tax year, 2021, by considering a temporary 50% reduction in cultivation taxes. Your Board could then consider offering relief for cultivation activity in the 2022 tax year with a 50% reduction as well.

3) Direct Staff to Prepare a Resolution Authorizing a Temporary Change in Taxable Area from “Cultivation Area” to “Canopy Area”

Staff recommends your Board consider a resolution authorizing the use of canopy area, rather than cultivation area, for the 2022 tax year. This would satisfy the short-term need for certainty within the local cannabis industry, while permitting time for the ordinance to be amended allowing for permanent change.

The measures above can help provide time for proposed legislation at the State level to be implemented. The State’s cultivation tax can represent upwards of 80% of the cultivation tax burden impacting our local cultivators. One of the other primary concerns conveyed to staff has been the lack of retail outlets for cannabis products, which has already been recognized as a priority for action by the State and is expected to be addressed during this period.

Should your Board choose to implement these options there would be an impact on further cannabis related spending, as it would both delay and reduce the receipt of revenue. This proposal represents an effort to balance the need to provide short-term stabilization to the local cannabis industry while minimizing the impact any loss of tax revenue would have on existing funding obligations, as discussed in our March 8th presentation to your Board.

Based on the direction of your Board regarding items 2 & 3, staff will prepare the documents for your April 19, 2022 agenda enabling your Board to take action.

If not budgeted, fill in the blanks below only:

Estimated Cost: _____ Amount Budgeted: _____ Additional Requested: _____ Future Annual Cost: _____

Consistency with Vision 2028 (check all that apply):

Not applicable

- | | | |
|---|---|--|
| <input type="checkbox"/> Well-being of Residents | <input type="checkbox"/> Public Safety | <input type="checkbox"/> Disaster Prevention, Preparedness, Recovery |
| <input checked="" type="checkbox"/> Economic Development | <input type="checkbox"/> Infrastructure | <input type="checkbox"/> County Workforce |
| <input checked="" type="checkbox"/> Community Collaboration | <input checked="" type="checkbox"/> Business Process Efficiency | <input type="checkbox"/> Clear Lake |

Recommended Action: (a) Provide staff direction; (b) Adopt Resolution Postponing Cannabis Tax Payments and Suspending Late Payment Penalties During The Period Of Postponement