

BOARD of SUPERVISORS



City Hall
1 Dr. Carlton B. Goodlett Place, Room 244
San Francisco, CA 94102-4689
Tel. No. (415) 554-5184
Fax No. (415) 554-5163
TDD/TTY No. (415) 554-5227

February 25, 2022

The Honorable Gavin Newsom
Governor of the State of California
1303-10th Street, Suite 1173
Sacramento, CA 95814

Re: Board of Supervisors Resolution No. 32-22

Dear Governor Newsom:

On February 1, 2022, the Board of Supervisors of the City and County of San Francisco adopted Resolution No. 32-22 (Urging California to Reform the State's Cannabis Cultivation Tax), which was enacted on February 11, 2022.

The Board of Supervisors directs the Clerk of the Board to forward the following document to your attention:

- One copy of Resolution No. 32-22 (File No. 220097)

If you have any questions or require additional information, please contact the Office of the Clerk of the Board at (415) 554-5184, or by e-mail: board.of.supervisors@sfgov.org.

Sincerely,

A handwritten signature in blue ink that reads "Angela Calvillo".

Angela Calvillo
Clerk of the Board

jw:ll:ams

- c. Members of the Board of Supervisors, Supervisors Rafael Mandelman, Matt Haney, Dean Preston, Ahsha Safai
Tom Paulino, Mayor's Liaison to the Board of Supervisors
Eddie McCaffrey, Mayor's Manager of State and Federal Legislative Affairs
Andres Power, Mayor's Policy Director
Susanna Conine-Nakano, Mayor's Office
Paul Yoder, Karen Lange, Erica Smith, City Lobbyists - Shaw/Yoder/Antwih Inc.

1 [Urging California to Reform the State's Cannabis Cultivation Tax]

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3 **Resolution urging the State of California to reform its Cannabis Cultivation Tax.**

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

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

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

1 WHEREAS, In 2018, and again in 2019, the California Legislature considered, but did
2 not approve, bills to temporarily eliminate the cultivation tax; and

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

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

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

20 WHEREAS, The licensed cannabis market in California is currently experiencing a
21 price collapse and the average wholesale price for dried cannabis flower has fallen to
22 approximately five hundred dollars (\$500) a pound, and the average wholesale price for dry
23 leaves and trim has fallen to thirty dollars (\$30) a pound making the current tax rate for dry
24 flower equivalent to fifty-one percent (51%) of gross receipts and the current tax rate for dry
25 leaves and trim equivalent to one hundred fifty-three percent (153%) of gross receipts; and

1 WHEREAS, The San Francisco Board of Supervisors unanimously approved the
2 suspension of San Francisco's local Cannabis Business Tax for the 2021 and 2022 tax years,
3 forgoing millions of dollars in local tax revenue, in part due to the tax burden that the State's
4 Cannabis Cultivation Tax is having on San Francisco cannabis businesses and concern that
5 an additional local tax would further undermine legal operators and perpetuate the illicit
6 market; now, therefore, be it

7 RESOLVED, That the San Francisco Board of Supervisors strongly urges Governor
8 Newsom and the California Legislature to suspend the state cultivation tax and to establish a
9 regulated environment for commercial cannabis activities that does not impose such barriers
10 as to perpetuate, rather than reduce and eliminate, the illicit market for cannabis in California;
11 and, be it

12 FURTHER RESOLVED, The San Francisco Board of Supervisors requests the Clerk of
13 the Board to submit a copy of this Resolution to the local state legislative representatives and
14 Governor Newsom.



City and County of San Francisco
Tails
Resolution

City Hall
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102-4689

File Number: 220097

Date Passed: February 01, 2022

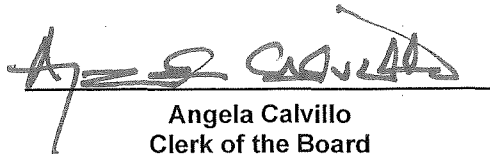
Resolution urging the State of California to reform its Cannabis Cultivation Tax.

February 01, 2022 Board of Supervisors - ADOPTED

Ayes: 11 - Chan, Haney, Mandelman, Mar, Melgar, Peskin, Preston, Ronen, Safai, Stefani and Walton

File No. 220097

I hereby certify that the foregoing Resolution was ADOPTED on 2/1/2022 by the Board of Supervisors of the City and County of San Francisco.


Angela Calvillo
Clerk of the Board

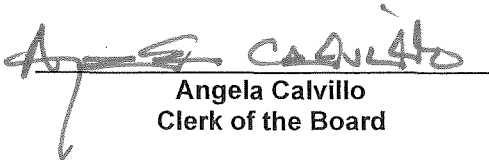
Unsigned

London N. Breed
Mayor

02/11/2022

Date Approved

I hereby certify that the foregoing resolution, not being signed by the Mayor within the time limit as set forth in Section 3.103 of the Charter, or time waived pursuant to Board Rule 2.14.2, became effective without her approval in accordance with the provision of said Section 3.103 of the Charter or Board Rule 2.14.2.


Angela Calvillo
Clerk of the Board

02/11/2022

Date

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February 25, 2022

The Honorable Scott Wiener
California State Senator
California State Capitol
1021 O Street, Suite 6630
Sacramento, CA 95814-4900

Re: Board of Supervisors Resolution No. 32-22

Dear Senator Wiener:

On February 1, 2022, the Board of Supervisors of the City and County of San Francisco adopted Resolution No. 32-22 (Urging California to Reform the State's Cannabis Cultivation Tax), which was enacted on February 11, 2022.

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Sincerely,

A handwritten signature in blue ink that reads "Angela Calvillo".

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Clerk of the Board

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Tom Paulino, Mayor's Liaison to the Board of Supervisors
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8 tax on all harvested cannabis that enters the commercial market at a rate of nine dollars and
9 twenty-five cents (\$9.25) for dry-weight flower per ounce, and two dollars and seventy-five
10 cents (\$2.75) per dry-weight leaves/trim per ounce; and

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

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

1 WHEREAS, In 2018, and again in 2019, the California Legislature considered, but did
2 not approve, bills to temporarily eliminate the cultivation tax; and

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

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16 in California fell by more than eleven percent (11.4%) to \$293.1 million when compared to last
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18 cannabis flower sales fell twenty-three percent (23%), while concentrates, the second-largest
19 product category, declined eight percent (8%); and

20 WHEREAS, The licensed cannabis market in California is currently experiencing a
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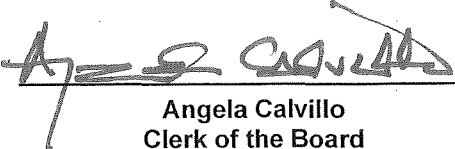
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February 01, 2022 Board of Supervisors - ADOPTED

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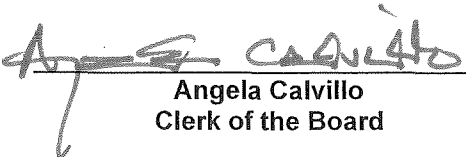
Unsigned

London N. Breed
Mayor

02/11/2022

Date Approved

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February 25, 2022

The Honorable Phil Ting
California State Assembly Member
California State Capitol, Suite 8230
P.O. Box 942849
Sacramento, CA 94249-0019

Re: Board of Supervisors Resolution No. 32-22

Dear Assembly Member Ting:

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jw:ll:ams

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Jessica Duong, Assembly Member Ting Chief of Staff
Tom Paulino, Mayor's Liaison to the Board of Supervisors
Eddie McCaffrey, Mayor's Manager of State and Federal Legislative Affairs
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