

Sheila de la Guerra **Public Comment-Group 2** #7

LATE
DIST

From: Jared Ficker <Jared@axiomadvisors.com>
Sent: Tuesday, June 18, 2024 6:57 AM
To: sbcob
Cc: Steve Lavagnino; Joan Hartmann; Supervisor Das Williams; Laura Capps; Supervisor Nelson; Katy Hall; Graham Farrar
Subject: Item #7 Glass House Brands Comments
Attachments: 06-18-24-BOS-Cannabis Tax-Glasshouse Letter.pdf

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Please see the attached and same comments in the email body below:



June 17, 2024

Board of Supervisors
Clerk of the Board of Supervisors
105 E. Anapamu Street, Suite 407
Santa Barbara, CA 93101
sbcob@countyofsb.org

Subject: Board of Supervisors Meeting 06/18/24: Item 7 – Considering recommendations regarding amendments to the Tax on Cannabis Operations Ordinance in Santa Barbara County

Dear Chair Lavagnino and Honorable Supervisors,

Glass House Brands is one of the founding members of CARP Growers and supports their comments and specific recommendations to the Board provided in a separate letter. Glass House Brands President, Graham Farrar, has served as past President and Vice President of CARP Growers.

Thank you for directing the County Executive Office and the Treasury Tax Collector to explore possible options regarding the Tax on Cannabis Operations. However, after reviewing the Staff Report, we must voice our opposition to the proposed tax changes in the suggested hybrid tax model.

Our primary opposition is based on the fact that both of the options presented provide the authority for a future Board with a 4/5th vote to substantially increase cannabis tax. For greenhouse operators this could result in a tax that is up to 250% higher than what is initially proposed. This would essentially compel any cannabis operator to cease further capital investment in Santa Barbara County because the future is too uncertain.

While the staff have worked on a number of creative solutions to seek a balance of tax fairness and tax certainty for the County, this clearly needs more work. The cannabis industry continues to struggle and while we are seeing a minor increase in wholesale price in the market, retail sales are trending downward and even here in this County our retail stores are not performing as anticipated due to the trend in consumers returning to the value of the illicit market. Increasing taxes will further drive consumers from the licensed market and back to the illicit market, which of course pays no taxes at all.

Santa Barbara County's current cultivation tax of 4% gross receipts is higher than many markets, but this is something we as a business have planned for and something we can sustain for now. Changing the tax structure is not the best approach to generate more consistent cannabis revenue in Santa Barbara County. The reduction of tax revenue has been largely due to the permitting and licensing projects of operations. Every operation should be able to process cannabis locally, but many of us have had, or been encouraged to, abandon processing plans because the costs to implement are too prohibitive or too time consuming to complete. Due to appeals and the lengthy ministerial building permit processing ahead, a cannabis project in Cat Canyon recently before the Board was forced to abandon its plans for processing on site to move forward.

In conclusion, the proposed Options 1 and 2 for Tax on Cannabis Operations are creative ideas, but neither effectively address the structural need, that the County needs more processing capability to generate increased cannabis revenue. While we understand there is a rush to get something approved for the fall ballot, we discourage rushing to change the ordinance without further deliberation. It's better to get it right, than right now.

Thank you for your time and consideration,

/s/Katy Hall
Director of Compliance
Glass House Brands



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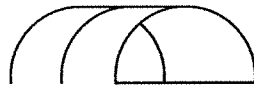
/s/Katy Hall
Director of Compliance
Glass House Brands

Sheila de la Guerra

From: Jared Ficker <Jared@axiomadvisors.com>
Sent: Tuesday, June 18, 2024 7:08 AM
To: sbcob
Cc: Steve Lavagnino; Joan Hartmann; Supervisor Das Williams; Laura Capps; Supervisor Nelson; Andriana Villalpando
Subject: Item #7 CCA Comments
Attachments: CCA Cannabis Tax Letter.pdf

Caution: This email originated from a source outside of the County of Santa Barbara. Do not click links or open attachments unless you verify the sender and know the content is safe.

See comments from CCA on Item #7 below and attached.



CENTRAL COAST AGRICULTURE

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105 E. Anapamu Street, Suite 407
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Subject: Item 7 – Considering recommendations regarding amendments to the Tax on Cannabis Operations Ordinance in Santa Barbara County

Honorable Chair and Supervisors,

Thank you for all the time and attention that has been paid to this important issue in Santa Barbara County. While we appreciate some of the creative suggestions contained in the Board letter, we are strongly opposed to the proposed cannabis tax changes suggested at this late hour without more deliberation and discussion.

In listening to the Board discussions on this matter, the impetus of the concerns were over tax leakage and operators under-paying taxes under the current gross receipts model with a desire to explore a square-footage model. Today, we believe many of the operators that were reporting no tax and/or are transferring at rates that cannot be supported by either costs or market transactions are no longer operating in this County. This appears to be corroborated by staff and the Treasurer Tax Collectors office as well. Therefore, the effort to change tax policy appear to be addressing a concern with the market that has been largely resolved through attrition of operators due to a now multi-year decline in the legal cannabis market in CA and the work of County staff on tax compliance.

Recently and surprisingly, California was dethroned by Michigan in total legal cannabis products sold as published by SFGATE.com on June 5, 2024. In fact, the trend we are observing in most local jurisdictions throughout the State are more efforts to reduce tax at the local level in order to better allow legal operators to compete with the growing and thriving illicit market. Many estimate that the illicit market in California is 2-3 times the size the legal market and growing again as consumers in California wrestle with costs of legal cannabis products being 35-60% more expensive than the illicit market on a consistent basis. Even the State has recognized the issue of high taxes suppressing the legal market and passed legislation eliminating cultivation tax a couple of years ago. Still, today we

continue to see failures of legal cannabis operators primarily because of the market decline over the high-water mark in legal sales during COVID.

We could support changes to tax in Santa Barbara County, but only if it resulted in a reduction in tax paid so that we can more effectively compete with the thriving illicit market. The square footage, gross receipts, and hybrid models all have potential to achieve this and provide the County with more certainty for cannabis tax revenue. From our experience, the Treasure Tax Collector is doing an excellent job through its auditing to address tax compliance. Should the Board want to address tax leakage we suggest changes to planning policies or tools to expedite permitting requirements for cannabis operations AND reduce the requirements for basic processing facilities in the County to be more consistent with conventional agriculture. Currently, permitting processing and manufacturing facilities in the County takes too long, has too many requirements and in nearly every scenario leads to costly appeals by a very small group of stakeholders in the County.

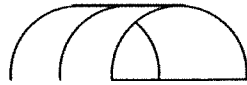
Finally, our most significant concern is that the proposed options provide the Board of Supervisors the authority to substantially raise taxes in the future with just a 4/5 vote. This is perhaps the biggest signal to existing operators to be wary of further investment in this market in Santa Barbara County.

To illustrate this for outdoor operators, the proposals before you under the hybrid model propose initial tax rates of 10 cents per square foot for Option 1 and 40 centers per square foot for Option 2. However, both options provide the Board an ability to raise this square footage tax to 75 cents per square foot. If we start with Option 1 that would be up to a 750% increase, for Option 2 it would be a 99% increase. We cannot support any tax change proposal that could so dramatically change our business modeling with a future 4/5 vote of the Board of Supervisors. While we appreciate the Board's desire to skip the procedures typically involved in changing tax with the requirement of voter approval, we cannot support approaches that would provide such substantial authority. For example, a future Board could raise tax 750% for an outdoor operator which would drive every operator out of Santa Barbara County immediately. Just "the potential" for this to occur would force us to reassess our future investment or ongoing operations.

To conclude, we appreciate the efforts to optimize cannabis tax in an effort to provide more certainty for the County and operators. While the current gross receipts tax is higher than many other local jurisdictions in the State, it is something we understand and have business-planned for and should not be changed at this time. These new tax proposals do not strike an appropriate balance and we recommend the Board table this discussion. The current legal market cannot bear more tax burden without losing more customers to the illicit market. The Treasurer Tax Collector is working closely to optimize cannabis tax through its audits and we believe that process, which is already underway, is working. Should the Board want to revisit this in the future, we would recommend a more deliberative process or workshop with operators and key stakeholders.

Thank you for considering our comments,

/s/ Andrianna Villalpando
Senior Project Manager



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