



HUMBOLDT COUNTY GROWERS ALLIANCE

September 30, 2021

Humboldt County
825 5th Street
Eureka, CA 95501

Dear County Supervisors and Staff,

We write to you today on behalf of Humboldt County Growers Alliance (HCGA), with over 275 licensed cannabis business members in Humboldt County, to request that you act at your October 5 Board meeting in support of the licensed cannabis industry.

Over the past several months, plummeting wholesale prices for cannabis due to statewide overproduction, in conjunction with the ongoing impacts of drought and wildfire, have resulted in severe strain on Humboldt farmers. In addition to prices which have in many cases fallen below costs of production, many farmers have had cannabis from the 2020 growing season returned by distributors who have been unable to complete sales.

Under normal market conditions, Humboldt cannabis businesses have faithfully paid a tremendous amount of state and local taxes and fees, including paying \$47.5 million in county Measure S taxes since 2017. As wholesale prices plummet, however, nearly all of these regulatory and tax costs remain fixed. Local Measure S taxes, state cultivation taxes, state permitting fees, county staff time fees, and the cost of meeting required conditions of approval do not change with market conditions. With the exception of state cultivation taxes, each of these taxes and fees remain identical even if no cannabis is sold from a permitted farm in a given year.

As severe as these current challenges are, we believe the medium-to-long term outlook for small and independent Humboldt cannabis businesses is strong. The current cannabis market is immature and still largely driven by commodity logic, and in many cases, does not yet effectively differentiate and value craft sun-grown cannabis flower. We are confident that this will change over time and in response to the opening of interstate and international markets, particularly if county and state policymakers continue to show support for policies like appellations, on-farm trimming, and a countywide marketing and branding program for Humboldt cannabis, all of which seek to support and differentiate craft Humboldt-grown products.



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In the short-term, however, and until market conditions stabilize, Humboldt farmers urgently need relief. In September, HCGA conducted a survey of licensed cannabis operators, and received 74 responses. The survey found that 42% of operators are “very unlikely” to be able to make October 2021 Measure S tax payment, and 61% say their business will be “very unstable” if current market conditions continue, and state and local policies do not change.

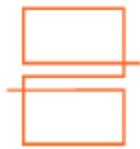
Now is the critical time to build a bridge between today’s critical market conditions, and tomorrow’s interstate and international markets where craft cannabis is valued at a fair market price by buyers and consumers. To build this bridge, we request that the Board of Supervisors consider the following policies for immediate relief:

- **Provide immediate tax relief** - Measure S is one of several costs which remain fixed regardless of farmers’ revenue, market conditions, or even whether a farmer was able to make a sale at all. We ask that the Board consider the following possibilities to provide immediate tax relief:
 - Provide a waiver, reduction, or deferral of October Measure S taxes.
 - Provide tax waivers for proof of failure to bring product to market.
 - Establish tax incentives for water storage and efficient energy usage, as already recommended by your Board in discussions on the drought this summer, and in tax discussions in previous years.
 - Open a public discussion on a ballot measure to restructure the Measure S tax in 2022.
- **Expand access to on-farm trimming** - the ability to trim on-farm is an essential value-added step for small and independent farms who are working to establish independent or appellation-based brands for craft cannabis. Expanded access to on-farm trimming for the 2021 growing season would provide immediate relief for farmers and increase the quality of Humboldt-grown flower.
- **Adjust timelines for compliance agreements** - cannabis farmers have already invested, and will continue to invest, major resources into infrastructure improvements pursuant to their compliance agreements with the county. As wholesale prices plummet, these projects - especially major infrastructure upgrades - are becoming more difficult to finance. Extended timelines for compliance agreements would enable farmers to have adequate time and resources to complete these projects.



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- **Allow equity funds to be used for licensing fees and county staff time** - while significant cannabis equity funds are available from the state, these funds are not always available for the bills that are most urgently due. Allowable uses for equity funds should be expanded to allow a greater number of equity businesses to effectively utilize these programs.
- **Update the County’s platform for state and federal cannabis policy engagement** - HCGA operates a robust government affairs program in Sacramento and advocates on a wide range of legislative and regulatory issues each year. Support from the county would help to accomplish a range of policy priorities, with mutual benefit for small and independent cannabis farmers and the county as a whole. Based on our assessment of the legal and political context in Sacramento and at the federal level, we believe the county’s support would be particularly critical on the following issues:
 - **State cultivation tax elimination** - the state cultivation tax is fundamentally inequitable, taxing flower at \$154 per pound regardless of the market price of cannabis. While the politics surrounding state cannabis taxation are complex, we believe the elimination of the state cultivation tax is achievable in the 2022 legislative session and would benefit from County support.
 - **Farmer direct sales** - there are many models for direct farmer-consumer interactions, including on-farm sales, farmer’s market sales, and eventual direct shipping in interstate commerce modeled on the existing system for wine. However, none of these models are currently available to farmers, and would require state legislative or regulatory changes to accomplish.
 - **Property tax exemption for water storage** - all water users, including cannabis farmers, are currently reassessed on property taxes as a result of installing water storage. In a drought, it is essential that tax policy not discourage the adoption of sustainable water practices. We ask that the county support a statewide property tax exemption for water storage improvements for all water users, including cannabis farmers.
 - **Allow inactivity (“fallowing”) of cultivation licenses** - HCGA has urgently requested that the state Department of Cannabis Control (DCC) provide a mechanism for farmers to render one or more cultivation licenses inactive (“fallowing”) before the 2022 growing season. This policy is already enacted at



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the county level, but not at the state level; currently, farmers must either renew their state licenses annually and pay a full state licensing fee, or permanently forfeit their license and be required to reapply at a later time. In HCGA's survey of 74 operators, 49% said they would strongly consider following in 2022, and 34% said they may consider it. The timeline for achieving this regulatory change before 2022 is tight, and county support would be critical.

- Support federal cannabis legalization, including specific policies to constrain corporate consolidation and support small farmers** - in July, the U.S. Senate released a discussion draft of the Cannabis Administration and Opportunity Act (CAOA), an extremely detailed proposal to legalize, tax, and regulate cannabis at the federal level. While the proposal contains positive elements, there are three high-priority issues that HCGA has identified with critical impacts on the future of the Humboldt cannabis industry: 1) the CAO A does not treat cannabis cultivation as agriculture, instead regulating it under the FDA; 2) the CAO A does not protect designations of origin, including county of origin and appellations; 3) the CAO A's tax structure is excessive and unworkable for small businesses. We ask for the county's support in advocating with our federal representatives to ensure federal legalization includes a path to viability for small businesses.

- **Prioritize efforts to differentiate craft Humboldt cannabis** - while farmers urgently need short-term relief, it is also essential not to lose sight of the longer term view. Over the medium-to-long term Humboldt County cannot compete in a commodity cannabis market, and must prioritize efforts to establish a differentiated market for craft, Humboldt-grown products. Appellations, on-farm trimming, the details of federal legalization and interstate commerce, and producer direct sales, along with a well-resourced countywide marketing and branding program, are the essential tools that will enable this market to be built over the coming years.

Thank you for your consideration,

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