

HUMBOLDT COUNTY

GROWERS ALLIANCE

Date: December 23, 2021

Dear Humboldt County Supervisors,

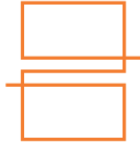
On behalf of Humboldt County Growers Alliance (HCGA), representing 275 licensed cannabis businesses in Humboldt County, we write to you today to request that your Board agendaize an item at the earliest possible opportunity to discuss 1) a short-term, two-year suspension of the Measure S cannabis cultivation tax, and 2) a longer-term discussion on a reduction and restructuring of the tax.

On October 5, your Board considered potential actions in response to plummeting wholesale prices for cannabis that have resulted from a structural oversupply problem within the California cannabis market. With wholesale prices falling by more than two-thirds in 2021, HCGA survey results have indicated that nearly 60% of farmers consider their businesses to be “very unstable” if market or policy conditions do not change. Additionally, over 60% of farmers surveyed indicated they would not have the capacity to make their Measure S tax payments due semi-annually in October 2021.

Consequently, on October 5, your Board chose to allow cultivators to defer their October 2021 Measure S cannabis tax payment until May 31, 2022. At the same time, however, both supervisors and staff expressed concern that a simple deferral of Measure S tax payments would risk pushing farmers further into debt, putting farmers’ licenses and homes at risk if market conditions remain the same. For this reason, your Board also directed staff to return prior to the due date of the next Measure S tax payment, due March 15, 2022, to consider whether additional tax relief would be necessary.

With the March 15 date now approaching, it is clear that market conditions have not changed. Further, it has become increasingly clear that the structure of the Measure S tax itself - passed in 2016, prior to the implementation of Proposition 64, and under much different market conditions - is no longer sustainable in light of the statewide oversupply crisis. Because the Measure S tax is levied on square footage of the farm, rather than actual sales or production, it remains the same (and in fact increases annually with inflation) regardless of the price of cannabis, or even whether distributors are able to sell a farmer’s cannabis at all.

Cannabis farmers are currently required to pay a wide range of special taxes and fees, most of which are not applicable to other agriculture or other businesses in general. These include fees for county planning staff time, state cannabis licensing fees, state cannabis cultivation taxes, the cost of meeting required permit conditions of approval, and punitive federal taxes under IRS



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Section 280E. In addition to these cannabis-specific fees, cannabis businesses also pay the income, property, and sales taxes applicable to all other businesses and individuals, while simultaneously being denied equitable access to banking services, loans, and financing due to federal prohibition.

On top of each of these fees and taxes, the county has required farmers to pay the additional Measure S cannabis cultivation tax since 2016. This tax has been paid by over 1,000 independent farmers and has raised over \$47 million in revenue for the county in that time. With the wholesale cannabis market in collapse, and as hundreds of farmers find their homes and livelihoods at risk, a “business as normal” tax approach from the county risks a collapse of the Humboldt cannabis industry and rippling outward effects on the Humboldt community as a whole.

A two-year suspension of the Measure S tax, followed by a renewed conversation about what level of taxation is sustainable in light of market realities, is a necessary step forward to retain a thriving community of small, independent, and local businesses that have chosen to step forward into our regulated cannabis framework.

Thank you for your consideration,

Natalynne DeLapp
Executive Director
Humboldt County Growers Alliance

Ross Gordon
Policy Director
Humboldt County Growers Alliance