



# HUMBOLDT COUNTY GROWERS ALLIANCE

Date: October 31, 2022

Dear Supervisors and Staff,

On behalf of Humboldt County Growers Alliance, we are writing today to request that your Board respond to continued crisis conditions for Humboldt's cannabis farmers through the elimination or long-term suspension of the Measure S tax.

On September 27, HCGA [submitted a letter](#) to the Board and staff outlining in greater detail the rationale for the elimination of Measure S. In particular, that letter identified data, based on over 100 responses to an HCGA survey, that substantiates the severe market and regulatory challenges that continue to face Humboldt cultivators. Specifically:

- 89% of survey respondents reported a further decline in market conditions since the Board's original decision to reduce the Measure S tax by 85% in February.
- 65% of survey respondents reported selling below costs of production, with an additional 19% reported selling at approximately costs of production.
- 84% of survey respondents reported that they are currently owed significant money by other operators in the supply chain, such as distributors or retailers.

Collectively, we believe that these survey results suggest a need to re-evaluate the premise of a tax on cannabis cultivation itself - a tax which is not currently applied to any other agricultural product in Humboldt County or the state of California, and which can no longer be sustained under current market conditions.

HCGA's survey findings are further substantiated by data in the staff report, which suggest that a large proportion of cultivators continue to be unable to pay outstanding Measure S taxes owed to the county. Given this reality, a continuation of Measure S would only serve to push cultivators further into debt to the county.

As stated in our September 26 letter, we understand that tax relief, in itself, will not immediately change the fortunes of legal Humboldt cannabis operators. Over the immediate term, we do not believe it is likely we will see any significant recovery in market conditions. Over the longer term, however, we still believe the outlook for Humboldt cannabis is strong.

From a market development perspective, Humboldt operators are continuing to work together to push forward efforts for collective marketing, cooperatives, and appellations, all of which seek to differentiate Humboldt's world-renowned cannabis and address existing power imbalances within the supply chain.

From a policy perspective, efforts for interstate commerce and direct-to-consumer shipping and sales, such as Assemblymember Wood's AB 2691 and Rep. Huffman's SHIP Act, offer significant potential for small farmers to mirror successful business models employed by California's world-renowned artisanal wine producers. Working in partnership with Origins



Council and the recently-established [National Craft Cannabis Coalition](#), HCGA is committed to pushing these efforts forward.

And from a licensing perspective, the county's substantial efforts to transition cultivators to annual state licensure puts Humboldt cultivators in a strong position to maintain their licenses over the long-term as provisional licenses progressively sunset under state law.

With support from the county to bridge current market conditions and build a sustainable future for the cannabis industry, we believe there continues to be opportunity for Humboldt operators to succeed over the long term. In addition to the elimination of Measure S, we believe the county can aid in these efforts in several ways, including support for fallowing at the state level, prioritization of state-level equity funding, and support for direct-to-consumer sales at the state and federal levels.

In addition to those issues discussed in our September 26 letter, we would like to further address two other issues which have been raised over the past month in connection with Measure S: the potential for a Measure S-based tax incentives program, and the potential for the re-establishment of a Measure-S funded Project Trellis program.

### **Tax Incentives for Environmentally Sustainable Cultivation Should be Pursued at the State Level, Not Through Measure S**

Discussions on Measure S have frequently involved proposals to establish tax incentives based on the use of environmentally sustainable cultivation practices. While HCGA continues to support incentives programs designed to encourage environmentally sustainable cultivation, we do not believe that it is appropriate for these incentives to be tied to the Measure S tax specifically.

For background, we believe it is critical to consider the history of this issue's consideration by the Board of Supervisors. In November of 2019, the Board of Supervisors [voted to direct staff](#) to develop Measure S tax incentives for cannabis farms based on their size or environmental improvements such as roads and renewable energy. HCGA supported this proposal. Despite this direction, no tax incentive program was subsequently brought forward by staff for consideration. In July of 2021, HCGA [again requested](#) that the county develop a Measure S tax incentive program to encourage adoption of water storage by permitted farms. The Board of Supervisors agreed and once again [directed staff to develop a tax incentive program](#). Once again, no subsequent proposal was brought forward by staff.

Historically, our understanding is that the reason no incentive program has been brought forward by staff is that - despite the strong policy rationale for environmentally-targeted incentives - such a program would be very difficult and resource-intensive to administer from a practical standpoint. Additionally, as discussed above, since July of 2021, market conditions



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have collapsed at such a fundamental level that we no longer believe there is a viable Measure S tax base against which to leverage a tax incentive program.

For these reasons, HCGA no longer supports an environmentally-based incentives program tied specifically to the Measure S tax. However, we believe there are alternative incentives opportunities which the Board can work towards. Specifically, we request that the county work in collaboration with allies at the state level to establish a state-level property tax incentive for the installation of water storage on rural properties. Currently, water storage installation on any property - whether connected with cannabis cultivation or not - triggers a property tax reassessment and an increased tax rate. Addressing these skewed incentives through policy change at the state level would have the added benefit of incentivizing sustainable water practices by all rural landholders in the county, not just cannabis cultivators.

### **Project Trellis Should Focus Its Activities on the Equity Program, not Measure S-Funded Grants**

HCGA continues to strongly support the county's cannabis equity program, which has enabled the county to successfully obtain millions in state grant funding based on a nominal investment of funds at the county level. As discussed in HCGA previous letters, including one submitted to your Board on [March 8](#), the county's return on investment for prioritizing these equity funds - which directly benefit operators who have been disproportionately impacted by the War on Drugs - has historically amounted to 30x or more.

In addition to the equity program, the staff report proposes to establish additional programs under Project Trellis to provide grant support for cannabis projects. Although not stated explicitly in the staff report, staff's proposal appears to amount to re-establishing the Project Trellis microgrant and/or marketing programs which your Board voted to suspend earlier this year.

We do not support the re-establishment of these programs for a number of reasons. Historically, the Project Trellis microgrant and marketing programs were funded through a 10% reinvestment of the Measure S tax back into these programs: in other words, every dollar paid by cultivators in Measure S taxes resulted in ten cents of funding for Project Trellis. As stated above, we do not believe the Measure S tax itself continues to be a viable source of revenue, and therefore oppose the use of Measure S as a funding mechanism for Project Trellis.

In addition to returning funds to the industry at a rate of only ten cents on the dollar, Measure S-funded Project Trellis grant disbursements are subject to a number of inefficiencies, including significant administrative costs and time delays, frequently incurring tax liability on the part of the grant recipient, and the potential to be eliminated based on changing political directives from the county. For example, \$800,000 in county Project Trellis funds set aside for cannabis marketing were reabsorbed by the County this year rather than being reallocated to cultivators



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following the elimination of the marketing program, and funds theoretically set aside for Trellis were also reabsorbed by the County during the COVID crisis.

For these reasons, we believe the county's existing equity program, which is funded primarily through the state and not through Measure S taxes, provides a preferable mechanism to distribute grant funds. Equity funds can be utilized by cultivators to support projects such as appellations and cooperatives that support the development of a craft, differentiated industry, as discussed in the staff report.

Additionally, we believe the county can better utilize existing resources to support cannabis tourism and other cannabis-specific economic development opportunities in the county. As we suggested at last week's Board of Supervisors hearing on tourism, the cannabis industry has historically been largely excluded from broader tourism marketing efforts within the county. Additionally, the county's tourism marketing infrastructure in general remains underfunded compared with comparable counties.

Rather than further segmenting out a "cannabis-specific" tourism program, we recommend that the county pursue a countywide tourism marketing assessment to inform how existing tourism assets can better function collectively to support the county as a whole, including through adequate allocation of resources and the incorporation of cannabis-related tourism assets.

In addition to the potential to fund Project Trellis grants through Measure S, the staff report also alludes to potential other unspecified funding sources:

*"Therefore, when considering changes to Measure S, or other cannabis related funding streams, the Board may wish to consider how Project Trellis, and other initiatives, can and should be changed to support emerging cannabis industry-related activities, consider which of these activities to support and how and to identify what revenue sources will be utilized to aid the industry in bringing those efforts to fruition."*

To the extent that staff's recommendations concern potential Project Trellis funding streams which are not tied to Measure S or existing equity grants, we request that this discussion be brought forward as a separate item at a later date to facilitate a holistic discussion regarding what alternative funding sources might be available, and what activities might be funded under such a program.

### **The County Should Develop a Payment Plan for Outstanding Measure S Taxes Owed**

The staff report reflects a large proportion of operators who are delinquent on their existing Measure S taxes. To address this issue, and to facilitate revenue collection by the county, we



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recommend that the county develop a payment plan option for outstanding Measure S taxes owed.

Thank you for your consideration on these important issues.

Sincerely,

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Humboldt County Growers Alliance

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Humboldt County Growers Alliance