



HUMBOLDT COUNTY GROWERS ALLIANCE

Date: September 27, 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 by eliminating the Measure S tax applicable to cannabis cultivation in the county.

In February, your Board responded to a sharp decline in wholesale cannabis prices by voting to temporarily reduce the county's Measure S cultivation tax by 85%. At the time of the vote, the county also committed to reassessing the county's cultivation tax policy in October to determine how the tax should be structured going forward, with the hope that this decision could be informed by additional data on the evolving state of the cannabis market over time.

In preparation for the Board's deliberation in October, HCGA distributed a survey in August and September to assess changes in the cannabis marketplace since February. HCGA's survey was distributed via email to licensed cannabis operators countywide, including non-HCGA members, and was also distributed to non-cannabis businesses and community non-profits within Humboldt County. In total, the survey received 110 responses.

The results of the survey point to continued dire conditions for small cannabis farmers seeking to maintain their livelihoods amid statewide overproduction which has primarily been driven by industrial-scale farms outside the county. Specifically, the survey received the following responses from licensed businesses:

- 89% indicated that market conditions have declined further since February 2022.
- Operators reported an average revenue decline of 60% between 2021 and 2022.
- 65% reported selling cannabis at below costs of production. 19% reported breaking even, while 16% reported making a profit.
- 90% reported having at least some product they've been unable to sell at any price.
- 84% reported that they are currently owed significant money by other operators in the supply chain, such as distributors or retailers. Of these operators, a majority (53%) reported that they do not believe they will ever recover this debt.
- Elimination of the state cultivation tax on July 1 has provided uneven benefits but has not fundamentally changed market conditions, with 59% indicating no benefit as a result of this policy, 23% reporting non-financial benefits, and 11% reporting financial benefits.¹

¹ While counterintuitive, the limited impact of cultivation tax elimination on farmers likely reflects market imbalances within the cannabis supply chain that allow larger downstream businesses, such as distributors, to effectively capture the benefits of cultivation tax elimination, understanding that distributors have always been the party legally responsible for remitting state-level cultivation taxes to CDTFA. This dynamic is discussed further in the full survey results offered below.



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Collectively, we believe that these survey results require a re-evaluation of 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.

Fair taxation should be based on an ability to pay. In a period of severe market downturn, where market prices are frequently below costs of production, cannabis cultivators simply cannot pay a flat tax which remains the same regardless of revenue, margins, natural disasters such as fire, or outstanding debt owed by supply chain partners. During strong market conditions, cannabis cultivators have remitted millions in Measure S taxes to the county; during a market downturn, cultivators cannot pay a tax on a loss.

In advocating for the elimination of Measure S, 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 face an uncertain future 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** – the county has long taken leadership in adopting a local fallowing program that allows cultivators to voluntarily reduce or pause their cultivation in response to market or environmental conditions. However, the state has yet to establish a clear and reliable pathway to enable cultivators to temporarily



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pause cultivation without paying substantial state licensing fees. We request continued county support to establish a state following program ahead of the 2023 cultivation season.

- **Prioritization of state-level grant funding, including equity funding** – state-level grants funds, including equity funds distributed by Project Trellis, have played a major role in supporting cultivators through challenging conditions, as well as helping to build long-term structures for success through the development of collective efforts such as cooperatives and appellations. We ask that the county continue to prioritize these programs.
- **Support for direct-to-consumer sales at the state and federal level** – in the wine industry, direct-to-consumer sales have been the critical policy enabling small operators to compete on a level playing field with large, well-capitalized operators. We request that the county support efforts to legalize direct-to-consumer sales at both the state and federal level, such as Asm. Wood's AB 2691 and Rep. Huffman's SHIP Act.

Over the past seven years, many hundreds of Humboldt cannabis cultivators have voluntarily stepped forward into a legal cannabis framework which includes requirements for compliance, regulation, and taxation that have brought substantial benefits to the county as a whole. As farmers struggle with a statewide overproduction crisis, we ask for the county's support to realize a long-term vision for a localized, sustainable, craft cannabis industry in Humboldt County.

For additional background, we have attached the full results of HCGA's survey below.

Thank you for your consideration,

Natalynne DeLapp
Executive Director
Humboldt County Growers Alliance

Ross Gordon
Policy Director
Humboldt County Growers Alliance



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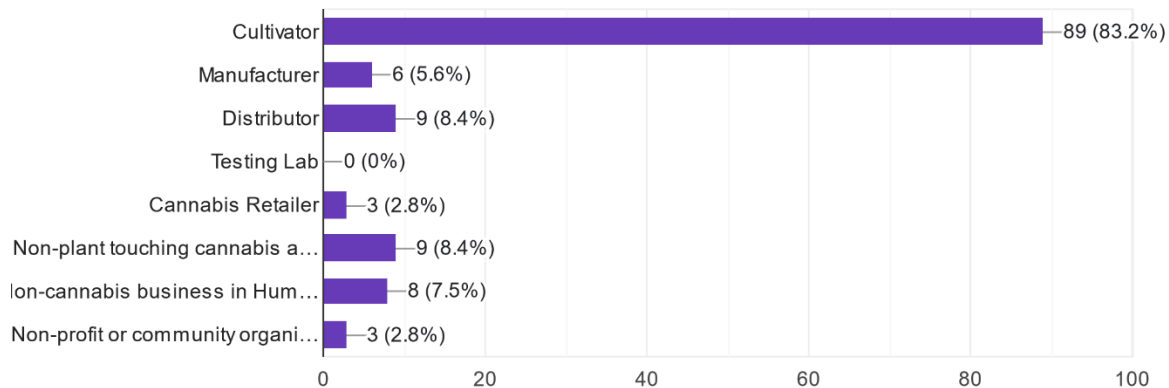
HCGA Measure S Community Impact Survey: Results and Analysis

Survey Demographics

In total, the survey received 110 responses. A significant majority (83%) of survey respondents were licensed cannabis cultivators, but survey responses also included the full cannabis supply chain as well as non-cannabis businesses and non-profits.

Which type of business (or businesses) are you?

107 responses

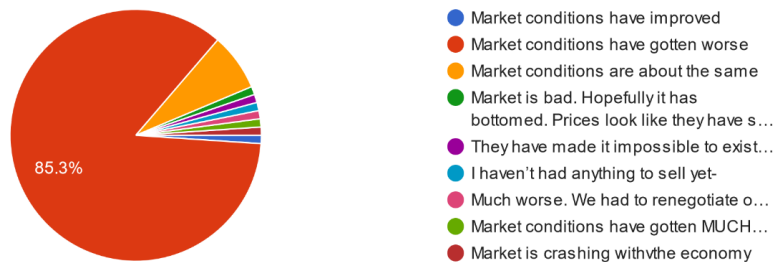


Question 1: “If you’re a licensed cannabis business, how have market conditions changed for your business since February 2022?”

In total, 89% of survey respondents indicated that market conditions have gotten worse over the past six months; 10% said market conditions are about the same; and 1% said that market conditions have improved.

If you're a licensed cannabis business, how have market conditions changed for your business since February 2022?

95 responses





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Question 2: “If you're a licensed cannabis business, how has the elimination of the \$161/pound STATE cultivation tax on July 1, 2022 affected your business?”

On June 30, 2022, Governor Newsom signed AB 195, which permanently eliminated the \$161/pound state cultivation tax as of July 1.

While it may be intuitive that the elimination of the state cultivation tax would provide financial benefits to cultivators, cultivators have anecdotally reported this not to be the case in many instances. Because the state cultivation tax was ultimately remitted by downstream distributors prior to July 1, and because distributors often possess significant market power over cultivators, many cultivators have reported distributors driving down market prices to cultivators to compensate for the elimination of state cultivation tax.

These anecdotal reports were reflected in survey responses, which indicated uneven benefits from cultivation tax elimination since July 1.

- 11% reported direct financial benefits from cultivation tax elimination. Among this 11%, 5% reported significant benefits, 2% reported moderate benefits, and 4% reported small benefits.
- 23% reported non-financial benefits from cultivation tax elimination (e.g. streamlined tax system, fewer compliance costs).
- 59% reported no benefit from cultivation tax elimination.
- 26% weren't sure what the impact of cultivation tax elimination would be, or felt it's still too early to tell (for example, because they haven't made a sale since July 1).

Question 3: “If you're a licensed cannabis business, what percentage change in revenue have you seen between 2021 and 2022?”

All operators who answered this survey question reported declines in revenue between 2021 and 2022, ranging from a low of 15% to a high of 95%. On average, operators reported an average revenue decline of 60% over the past year.

Question 4: “If you're a licensed cannabis business, how much money is owed to you by businesses which have purchased your cannabis? Do you expect to recover this debt?”

Most cannabis in California is sold on consignment, and cultivators have anecdotally reported substantial sums of money owed by distributors and retailers, some of whom have refused to pay or subsequently gone out of business.

84% of survey respondents to answer this question reported that they are currently owed money by a licensee who has purchased their cannabis. Specifically:

- 10% reported being owed \$10,000 or less.



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- 28% reported being owed between \$10,000 and \$50,000.
- 11% reported being owed between \$50,000 and \$100,000.
- 14% reported being owed between \$100,000 and \$200,000.
- 13% reported being owed more than \$200,000.
- 6% reported being owed money but didn't indicate how much.

Among survey respondents who were owed money, 53% indicated they didn't expect to recover most or all of what they were owed. 29% expected to recover some money, or were unsure what they might recover, and 17% indicated that they expected to recover the money that they are owed.

Question 5: "If you're a licensed cannabis business, do you have product you've been unable to sell? How much, and from when?"

90% of licensed operators reported being unable to sell at least some of their product. Specifically:

- 15% reported 0-50 unsold pounds.
- 14% reported 50-100 unsold pounds.
- 17% reported 100-300 unsold pounds.
- 13% reported 500+ unsold pounds.
- 32% reported an unspecified number of unsold pounds.

Question 6: "If you're a licensed cannabis business, how do your production costs compare to current market prices?"

Most licensed operators reported market prices at or below cost of production. Specifically:

- 65% of licensed operators reported market prices below cost of production.
- 19% reported roughly breaking even.
- 16% reported that market prices are above cost of production.

Question 7: "If you're a not a plant-touching cannabis business, how has the decline in cannabis market conditions affected your business or non-profit (e.g. effects on revenue)?"

In addition to licensed cannabis operators, 14 non-cannabis businesses provided survey responses. These responses included ancillary cannabis businesses, such as compliance consultants and staffing companies, as well as businesses and non-profits in the community which are not specifically cannabis-related.

Responses included businesses and non-profits involved in staffing, tourism, insurance, cannabis compliance, clothing stores, blood banks, and other community nonprofits. Of these respondents, 12 (86%) reported a significant decline in revenue as a result of the decline in the cannabis market, ranging from a revenue decline of 20% to over 80%.