



PRECISION
ADVOCACY

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CALIFORNIA
CANNABIS
INDUSTRY
ASSOCIATION

May 13, 2022

To: Members, California Cannabis Industry Association
Cc: Lindsay Robinson, Executive Director
From: Amy Jenkins, Legislative Advocate
RE: **Summary of the Governor's May Revise re: Cannabis**

Governor Gavin Newsom submitted his [May Revision](#) of his 2022-23 State Budget proposal to the Legislature May 13.

The governor revises his \$46 billion revenue surplus, as assumed in his January Budget proposal, reporting a whopping \$97.5 billion operating surplus, with a discretionary surplus of \$49.2 billion.

He proposes to invest approximately 94 percent of the remaining surplus in one-time expenditures to address some of the State's most challenging issues, including addressing income inequality and putting more money back into the pockets of California residents, bolstering infrastructure and housing construction, tackling homelessness, expanding mental health services for children, transforming public education, better aligning higher education systems to achieve state goals, investing in small businesses, providing healthcare for all, building climate and wildfire resiliency, reducing crime, and fighting COVID with science.

The May Revision reflects \$37.1 billion in budgetary reserves and proposes to prepay billions of dollars in state debts and make supplemental deposits into the Rainy Day Fund.

With respect to cannabis, the governor reaffirms his goals to "greatly simplify the tax structure, remove unnecessary administrative burdens and costs, temporarily reduce the tax rate to support shifting consumers to the legal market, and stabilize the cannabis market with policies that are more transparent and can better adjust to market changes."

Precision staff will update this memo as new information is available. In the meantime, please don't hesitate to contact me with any questions or if you would like additional information.

Cannabis Tax Reduction / Reform

The governor's May Revise expands on his goal to reform the current cannabis tax framework, which he characterizes as "overly complex and burdensome for licensees and consumers." The governor further notes that the current framework disproportionately burdens cannabis farmers, creates additional administrative costs and instability throughout the supply chain, and lacks sufficient transparency for the state, businesses, and consumers.

To address these, the May Revise proposes the following statutory changes to reform cannabis taxes. Precision staff notes that elements of the plan are consistent with what we reported in April, as follows.

- Zeros out the cultivation tax indefinitely beginning July 1, 2022.¹
- Shifts the collection and remittance of the excise tax from distribution to retail, beginning January 1, 2023, and maintains the 15 percent excise rate.
- Establishes a baseline of \$670 million annually for existing cannabis tax allocations to environmental groups, local governments, and youth advocacy groups for the first three years, until July 1, 2025. (*Note: Referred to hereafter as the Allocation 3 baseline.*)
- Allocates a one-time state General Fund (GF) commitment of \$150 million, which will be used, as needed, through FY 2025-26 to backfill Allocation 3 funding.
- Beginning in FY 2023-24 through FY 2024-25, holds any unspent GF backfill in abeyance for use to address any shortfalls to the Tier 3 baseline.
- Authorizes an excise tax increase, beginning in FY 2023-24 through FY 2024-25 if the GF backfill and cannabis tax revenue falls below the Allocation 3 baseline.
- Implements new tax enforcement policies to increase tax compliance and collection and “reduce unfair competition.”

Governor’s Comments to the Press on Cannabis Tax Reduction

During today’s press conference on the May Revise, Laura Mahoney of Bloomberg asked the governor to comment on his cannabis tax proposal. In his response, the governor expressed support for the team leading the effort and “others” who have been longtime champions of cannabis tax reform, including Senator Steve Bradford (D-Gardenia) in his work to address social equity.

The governor suggested his May Revise aims to address persistent issues, including addressing the “black market” and “illegal growers and illegal operators.”

The governor indicated his intent to “level set” and address “cost pressures” related to the current tax structure. He also characterized his conversations with legislative leaders as “ongoing” and cautioned that his goal is to “not to disrupt that progress.”

The governor reaffirmed his commitment to ensure that Allocation 3 beneficiaries are kept whole and referenced his proposed \$150 million GF backfill to meet that objective.

Lastly, the governor suggested that “flexibility” is needed to meet “changing criteria and conditions to address intended and unintended consequences” and further indicated that this is “the beginning of a process” and that addressing the illicit market will be a “multiyear process.”

Legal Access Expansion: Local Jurisdiction Retail Access Grant Program (\$20.5 million)

¹ The effective date assumes passage of the budget trailer bill on or before July 1, 2022.

The governor's January budget proposal expressed intent to further develop a grant program as part of the May Revise, to incentivize local governments to develop cannabis ordinances that, at a minimum, expand retail access. The May Revise expands on this concept by providing a one-time state General Fund allocation of \$20.5 million to establish a cannabis local jurisdiction retail access grant program.

The May Revise outlines the goals of this new grant program, which are to "aid local jurisdictions, with the development and implementation of local retail licensing programs and to support consumers in gaining access to regulated and tested products through an expansion of California's legal marketplace."

This grant program in concept will do the following:

- Award funding to eligible local jurisdictions proportionally based on the population size served to support the development and implementation of a local jurisdiction retail program.
- Award funding to eligible local jurisdictions based on the number of permits issued pursuant to the local jurisdiction retail licensing program.
- Award additional funding to eligible local jurisdictions that issue permits to equity applicants pursuant to the local jurisdiction retail licensing program.

Cannabis Tax Fund Allocations (Updated)

Proposition 64 specifies the allocation of resources in the Cannabis Tax Fund, which are continuously appropriated into three tiers, and are further described below. The governor's May Revise maintains the current structure of these allocations, as follows:

Allocation 1: Prioritizes the regulatory and administrative workload necessary to implement, administer, and enforce the Cannabis Act. While that cost estimate is not disclosed in the May Revise summary, Precision staff assumes \$180.4 million, as budgeted in the governor's January Budget proposal.

Allocation 2: Funds research and activities related to the legalization of cannabis and the past effects of its criminalization (\$25 million):

- \$10 million to public universities to evaluate the implementation and effect of Proposition 64.
- \$3 million to the California Highway Patrol to adopt metrics and best practices to evaluate DUI impairment associated with cannabis use.
- \$10 million to the Governor's Office of Business & Economic Development.
- \$2 million to the University of California, San Diego Center of Medicinal Cannabis Research.

Allocation 3: Once Allocation 1 and 2 priorities have been met, remaining funds are allocated as part of Allocation 3, which the May Revise estimates will be \$670 million:

- **Youth education, prevention, early intervention and treatment (60%)** - \$401.8 million (*up from \$356.9 million in January*);
- **Clean-up, remediation, and enforcement of environmental impacts created by illegal cannabis (20%)** - \$133.9 million (*up from \$119 million in January*); and
- **Public safety-related activities (20%)** - \$133.9 million (*up from \$119 million in January*).

The May Revise notes that these figures reflect a total increase of \$74.7 million compared to the governor's January Budget estimate. These estimates also reflect his proposed statutory changes to restructure the cannabis tax framework and maintain a baseline level of funding for Allocation 3 beneficiaries.

Cannabis Tax Revenue Assumptions

The May Revise adjusts prior excise tax revenue assumptions, as outlined in the January Budget proposal, from \$711 million to \$809 million in FY 2021-22.

Agency Consolidation

The May Revise maintains the Administration's commitment to appropriate \$13.7 million from the Cannabis Tax Fund to fund three new initiatives, which would be administered by the Department of Cannabis Control (DCC):

1. **Unified Licensing System (\$5.5 million)** - Proposes a multi-year process to consolidate the existing legacy licensing systems and establish a single licensing system for all license types.
2. **Data Warehouse (\$2 million)** - Proposes the development of a data warehouse to store and query Department data, appropriate processes, and procedures to maintain data integrity, and data displays and visualizations for the DCC's website. According to the governor's budget summary, this initiative will enable the DCC to "analyze and share licensing and compliance data with state partners and public stakeholders, help inform the development of policies related to the state's regulatory framework, and support external decision making by stakeholders such as licensees and local governments."
3. **Consumer Awareness Campaign (\$6.1 million)** - Proposes the launch of a multi-year consumer education and awareness campaign to inform cannabis consumers on how to identify licensed cannabis businesses and products and the benefits of consuming legal products.