

MOTION

The cannabis sector across California —and here in Los Angeles—is experiencing a marked contraction. In the first quarter of 2025, legal cannabis sales in California dropped to \$1.088 billion, an 11% year-on-year decline, and the lowest quarterly total in five years. Here in the City of LA, legal cannabis sales have dropped to \$19 million in the first quarter of 2025, down 20% from the first quarter of 2024. Licensed cannabis sales now account for just 38% of California's total cannabis consumption, which is reflected locally where retailers have reported operating on razor thin margins, with a number of them going out of business. Rising rent costs, construction delays, loss of capital, and the persistence of an unlicensed cannabis market are all factors that have driven operators to the brink.

These challenges are compounded by the recent increase in the State cannabis excise tax from 15% to 19%, effective July 1. Analysts estimate this hike in excise tax alone could reduce pre-tax legal cannabis sales by 6%, placing additional financial strain on already struggling cannabis businesses. As a result, many operators are facing insurmountable financial burdens, with some owing hundreds of thousands, and others millions of dollars in back-owed State and City taxes. According to Los Angeles Municipal Code (LAMC) section 104.12(c), if a licensed operator is delinquent on any City tax, fee, fine or fee payments, they are not "in good standing." Applicants and Licensees that are not in "good standing" may not renew any cannabis license, application or record. Currently, "good standing" does not differentiate between a business that owes \$1 million, \$10 thousand, or \$100 dollars.

LAMC Section 21.18 provides an exemption for Applicants or Licensees who establish a payment plan, not exceeding 12 months, with the Office of Finance for all outstanding City business taxes. As the City of Los Angeles generates multiple millions of dollars in revenue from cannabis sales, and given the significant financial burdens faced by operators, extending the Office of Finance's existing 12-month payment plan would offer significant financial benefits to the City's legal operators and result in more revenue for the City long term.


To address the compounding effects of the current economic climate of legal cannabis, the City should explore a tax exemption program similar to San Francisco's suspension of Cannabis Business Tax (CBT), which would provide temporary local tax relief to small businesses. This initiative would help licensees become current on their taxes for a minimum of two years, enabling continuous operations. Supporting the local legal market will in turn ensure that Angelenos have access to legal and safe cannabis as well as increase City revenues. A thriving legal market will also have the benefit of undermining the pervasive illicit cannabis market.

I THEREFORE MOVE that the City Council instruct the Department of Cannabis Regulation to report back on how to revise its "good standing" provision in relation to back-owed taxes.

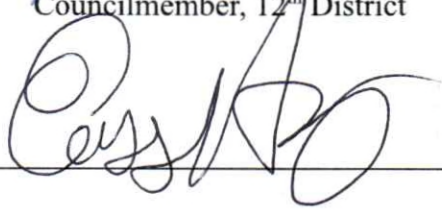
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I **FURTHER MOVE** that the City Council instruct the Office of Finance, with the assistance of the Department of Cannabis Regulation, the City Administrative Officer, and the City Attorney, to report back within 30 days with recommendations for establishing a Cannabis Business Tax (CBT) Relief Program modeled in part by the City of San Francisco but with options for 3 months, 6 months, 9 months and 12 months.

PRESENTED BY


JOHN S. LEE
Councilmember, 12th District

SECONDED BY



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