



CITY OF PERRIS

12.A.

CITY COUNCIL AGENDA SUBMITTAL

MEETING DATE: February 25, 2025

SUBJECT: Discussion to consider lowering the Cannabis Retail Tax Rate

REQUESTED ACTION: The City Council considers, discusses, and provides direction on the potential to reduce the cannabis retail tax rate.

CONTACT: Kenneth Phung, Director of Development Services

BACKGROUND/DISCUSSION:

Last year, representatives of the cannabis dispensary community requested at a Council meeting that the Council should consider lowering the cannabis retail tax rate due to concerns about maintaining viability to stay in operation as more cannabis operators come online in neighboring communities with lower tax rates and competition from illegal operators.

Due to those concerns, at the September 26, 2024, Ways and Means Committee meeting, the Committee was presented the cannabis retail tax rate of the neighboring communities and the possibility of limiting cannabis advertisements on freeway billboards along the I-215 Freeway, as there has been an increasing concern regarding the number of cannabis-related advertisements on these billboards.

After being presented with the existing Billboards along the I-215 Freeway with cannabis advertisements and the idea of lowering the tax rate, the Ways and Means Committee directed staff to bring forth the item to the Council after staff had an opportunity to forecast potential budget impact associated with the upcoming 2025-2026 budget, and evaluate how and if the City could prohibit cannabis advertisement on freeway billboards.

The Committee directed staff to move forward with a discussion item to review the tax rate for cannabis retail, including possibly prohibiting cannabis advertisement on billboards for these uses within the City limits.

ANALYSIS:

Since the Ways and Means Subcommittee meeting, staff has 1) updated the survey of the billboard advertisement of cannabis along the I-215 Freeway, which borders both the City of Perris and the County of Riverside, 2) updated the cannabis retail tax rate with any adjustment in tax rates, and 3) provided the financial implications with lowering the tax rate.

Survey of Billboard Advertisement

Currently, there are 29 freeway billboards along the I-215 Freeway along the Perris city limits, which has a shared boundary with the County of Riverside (see Attachment 2). Of the 29 freeway billboards, 11 are in the County of Riverside limits, with 4 of the 11 billboards advertising cannabis retail businesses, and 18 are in the City of Perris limits, with 4 of the 18 billboards advertising cannabis retail businesses. In summary, 8 of the 29 billboards advertise cannabis businesses.

A recent court ruling has affirmed that, in accordance with Business & Professions Code §26152, cannabis advertisements on freeway billboards are not permitted. Additionally, this grants the City the authority to enforce this prohibition through civil litigation. Therefore, staff will take the appropriate steps to address and resolve the issue of cannabis advertisements in line with this determination.

Tax Rate Survey

The table below provides the tax rate of cities that allow cannabis in nearby jurisdictions and beyond. Of the 17 cities surveyed, Perris is above the median at 10% of gross receipt, but after factoring in allowable deductions permitted under Resolution 5448 adopted by the City in 2019, the rate would effectively equate to 7.75%. Most of the cities surveyed have not changed their rate from 2024 to 2025, except for the City of Long Beach, which reduced their tax rate for retail cannabis from 8% to 7%, and the City of Palm Springs, which reduced their rate from 10% to 5%. It should be noted that the County of Riverside and Lake Elsinore have recently permitted cannabis dispensaries in the last few years and have the lowest rates as it's based on the facility's square footage and not a percentage of gross receipt. Under this formula, it could be less than collecting 1% of gross receipts.

	Jurisdiction	2024 Tax Rate	2025 Tax Rate
1	County of Riverside	Development Agreement plus \$16 per SF up to 2,500 SF; \$18 per SF for 2,501 SF to 6,000 SF \$20 per SF > 6,001 SF	Development Agreement plus \$16 per SF up to 2,500 SF; \$18 per SF for 2,501 SF to 6,000 SF \$20 per SF > 6,001 SF
2	Lake Elsinore	Community Benefits Agreement plus \$18.72 per SF and 4% annual increase	Community Benefit Fund (CBF) at \$18 per SF and 4% annual increase
3	San Bernardino	4% gross receipt	4% gross receipt
4	Hesperia	4% gross receipt	4% gross receipt
5	Cathedral City	5% gross receipt (10% in 2022 survey)	5% gross receipt
6	Palm Desert	5% gross receipt (10% in 2022 survey)	5% gross receipt
7	Palm Springs	10% gross receipt	5% gross receipt
8	Coachella	6% maximum	6% maximum
9	Long Beach	6% gross receipt (Med.) 8% gross receipt (Retail)	6% gross receipt (Med.) 7% gross receipt (Retail)
10	Corona	7% gross receipt	7% gross receipt
11	Hemet	8% gross receipt	8% gross receipt
12	Moreno Valley	8% gross receipt	8% gross receipt
13	San Diego	8% gross receipt	8% gross receipt
14	Perris	10% gross receipt (7.75% Effective Gross w/ deductions for state & excise tax per Reso 5448 Feb 2019)	10% gross receipt (7.75% Effective Gross w/ deductions for state & excise tax per Reso 5448 Feb 2019)
15	Banning	10% gross receipt	10% gross receipt
16	Desert Hot Springs	10% gross receipt	10% gross receipt
17	San Jacinto	15% gross receipt	15% gross receipt

Lowering Tax Rate Assessment

The table below provides a summary of the cannabis retail tax revenue highlighted in GRAY from 2019 to 2024. Based on the historical data, cannabis revenue activity has grown steadily from 2019 to 2021 from \$781,383 to \$5,661,923 per year, with a decline starting in 2022 to 2024 from \$5,44,396 to \$3,223,895.

Cannabis Tax Revenues Budget vs. Actuals / % of General Fund Budget						
	2019	2020	2021	2022	2023	2024
Revised Budget	1,000,000	1,916,529	2,500,000	5,000,000	5,000,000	5,200,000
Retail Received	781,383	2,911,809	5,661,923	5,440,396	3,448,693	3,223,895
Other Received	-	33,550	106,722	154,575	305,719	302,049
Total Received	781,383	2,945,359	5,768,645	5,594,971	3,754,412	3,525,944
Total General Fund Revenue Budget	42,605,788	49,650,419	50,024,657	54,816,260	54,507,640	62,092,188
% of Total General Fund Budget	1.83%	5.93%	11.53%	10.21%	6.89%	5.68%

The table below projects the impact on cannabis tax revenue if the City reduces the tax rate from 10% to 7.5% or 5%, which would effectively equate to a gross receipt rate of 5.85% for 7.5%, and 3.9% for 5% after deductions of sales and excise tax permitted under Resolution 5488. In summary, with the assumption that cannabis retail revenue remains stable at \$3,336,294 per year for the next two years, a reduction in retail tax from 10% to 7.5% would mean a loss of revenue of \$633,896 per year and a reduction in retail tax from 10% to 5% would mean a loss of revenue of \$1,284,473 per year.

Cannabis Tax Future Projections with Options				
		2025	2026	Two Year Totals
Projected Cannabis Sales		33,362,940	33,362,940	
Projected City Cannabis Tax Receipts				
10% Gross Receipt After Deductions =	7.75%	2,585,628	2,585,628	
Lost Revenue		-	-	
7.5% Gross Receipt After Deductions =	5.85%	1,951,732	1,951,732	
Lost Revenue		633,896	633,896	1,267,792
5% Gross Receipt After Deductions =	3.90%	1,301,155	1,301,155	
Lost Revenue		1,284,473	1,284,473	2,568,946

RECOMMENDATION:

A presentation on this topic will be provided at the scheduled Council meeting. Upon hearing the information presented, the City Council is asked to consider, discuss, and provide direction on the potential reduction of the cannabis retail tax rates.

BUDGET (or FISCAL) IMPACT: Staff time for the preparation of the staff report is budgeted in the General Fund. A reduction in cannabis retail taxes or an alternative option would create a reduction in revenues of the upcoming 2025-2026 City budget.

Prepared by: Rafael Garcia, Principal Planner
Review by: Patricia Brenes, Planning Manager

REVIEWED BY:

Assistant City Manager: WB
Assistant City Manager: _____
Director of Finance: _____

Attachments:

1. Billboard Location Exhibit with Cannabis Advertisement and Without
2. Cannabis Retail Tax Rate Survey
3. Cannabis Tax Revenue and Projections

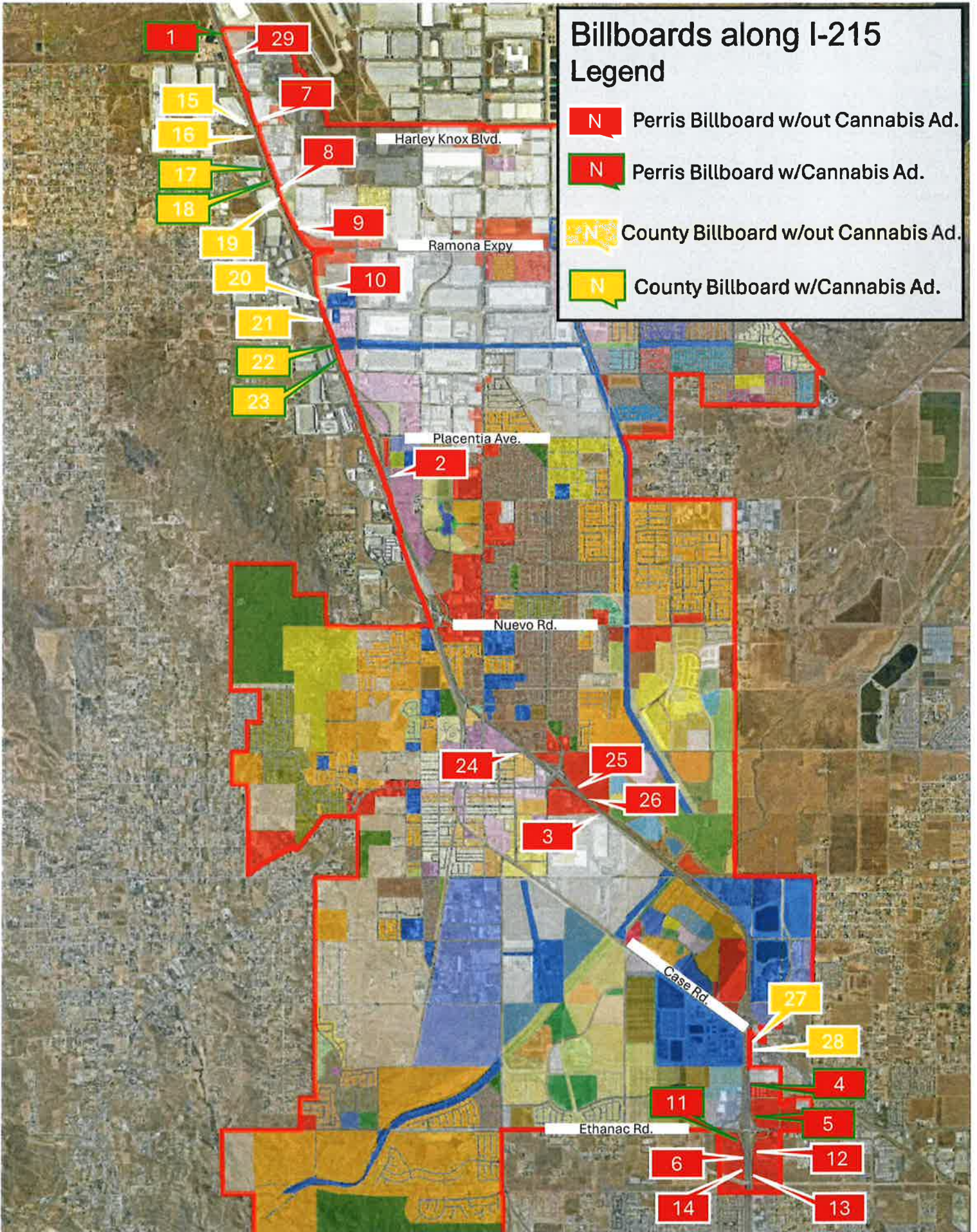
Consent:
Public Hearing:
Business Item: X
Presentation:
Other:

ATTACHMENT 1

**Billboard Location Exhibit with Cannabis
Advertisement and Without**

Billboards along I-215

- ## Legend
- Perris Billboard w/out Cannabis Ad.
 - Perris Billboard w/Cannabis Ad.
 - County Billboard w/out Cannabis Ad.
 - County Billboard w/Cannabis Ad.



ATTACHMENT 2

Cannabis Retail Tax Rate Survey

2024 and 2025 Cannabis Tax Rate

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ATTACHMENT 3

Cannabis Tax Revenue and Projections

Cannabis Tax Revenues Budget vs. Actuals / % of General Fund Budget

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5% Gross Receipt After Deductions =	3.90%	1,301,155	1,301,155
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*Attorney Fees Average \$80,000 / year for audit enforcement