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CANNABIS REGULATION**

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July 18, 2025

Council Files: 25-0720 and 14-0366-S36

The Honorable City Council
City of Los Angeles
200 N. Spring Street,
City Hall, Room 395
Los Angeles, California 90012

Mayor Karen Bass
Los Angeles City Hall
200 N. Spring Street, Room 303
Los Angeles, CA 90012

**Re: Cannabis Regulation Commission's Urgent Policy Recommendations to Prevent
the Imminent Collapse of the Licensed Cannabis Market in the City of Los Angeles**

Dear Honorable Members and Mayor Bass:

In June 2017, the City Council established the Los Angeles Cannabis Regulation Commission (Commission), in part, to act as an advisory body to the Mayor and City Council regarding the adoption of laws and regulations pertaining to cannabis-related activity in the City of Los Angeles (City). Since then, the Commission has been working with the Department of Cannabis Regulation (DCR) to realize the City's goal of developing a successful and well-regulated, licensed commercial cannabis market.

To further this goal, on July 2, 2025, the Commission held a special meeting wherein it received presentations from the DCR's applicants and licensees, and cannabis trade associations. The presentations raised the following issues: taxation and financial strains on commercial cannabis licensees, including the impact of unlicensed commercial cannabis market on the licensed market, and the use of cannabis business taxes collected by the City.

The presentations made it clear that licensed cannabis businesses are struggling to gain a foothold in the City due to two primary factors: the disproportionate burden of high taxes on licensed businesses, and insufficient law enforcement resources dedicated to curtailing the illegal market.

Effective July 1, 2025, the State's cannabis excise tax rate for licensed businesses increased from 15 percent to 19 percent of gross receipts. No other consumable product is taxed at such a high rate. Moreover, illegal locations do not pay city and state taxes or licensing fees, and are not subject to regulatory or other operational requirements that often necessitate significant financial investment into the business or its commercial property. Because of these financial advantages, illegal operators compete at a lower consumer price point than legal businesses. Yet, illegal operators face few threats from law enforcement. The State Department of Cannabis Control estimates that legal sales still comprise less than 40% of cannabis consumption statewide.

The City of Los Angeles is the largest municipal cannabis market in the United States and a global example of what local cannabis regulation can look like. It will not, however, remain that way if current trends continue. **Without immediate action to adjust the City's cannabis policies—particularly those related to taxation and illegal enforcement—the licensed cannabis market will collapse.** The continued proliferation of unlicensed operators, coupled with the disproportionate financial burden placed on compliant businesses, undermines the legal market and threatens the City's regulatory, public health, and economic goals. For these reasons, we respectfully urge that these concerns and recommendations be considered expeditiously by the City Council and relevant Committees.

Based on the input received by the Commission on July 2, 2025, and deliberations thereafter, the Commission makes the following recommendations:

1. Reduce the existing high burdens on the licensed market and curtail the advantages currently possessed by the illegal market. To do so, the City should:

A. **For a period of two years, adopt a new tiered cannabis tax structure based on annual gross revenue with rates ranging from a minimum of 0.25% to a maximum of 6%.** Public testimony made it clear that the City's cannabis tax rate is among the highest in California. Lowering the City's maximum rate to more closely match the rates in neighboring jurisdictions will make the City's licensees more competitive in the Southern California market.

Additionally, the City should adopt a tiered tax structure for a two year period, after which rates can be re-evaluated. A tiered model supports under-capitalized licensees as they grow their businesses, and advances the City's goals of equity and economic development. Therefore, we recommend:

- For the licensed businesses with the highest revenue, implement the maximum 6% rate of gross receipts for adult use cannabis sales, and a 3% rate for gross receipts of medical cannabis sales.
- For small businesses earning less than \$500,000 in gross annual revenue, reduce the tax rate to 0.5% of gross receipts for adult use cannabis sales, and 0.25% for medical cannabis sales.

City Council may establish additional revenue-based thresholds as appropriate, provided no business is taxed above the 6% cap.

B. Implement a tax forgiveness program for Phase 3 Social Equity Applicants to (i) forgive previously owed backtaxes; and (ii) waive all interest and penalties for backtaxes, as follows:

(i) Tax forgiveness should be provided on a tiered basis to Social Equity Applicants with the most latitude afforded to earlier applicants who faced the highest systemic barriers before the City's Social Equity Program was fully funded and operational. Therefore, we propose that the City forgive up to 40% of the principal owed by Phase 3 Retail Round 1 Applicants, and up to 20% of the principal owed by Phase 3 Retail Round 2 Applicants. Forgiveness would not apply to businesses that have already paid taxes; the City should not provide refunds.

(ii) We also recommend that the penalties and interest assessed to Phase 3 Social Equity Applicants for overdue taxes be forgiven, to the extent legally permissible.

C. Amend the Los Angeles Municipal Code to allow all Licensees to enter into multi-year payment plans for the repayment of backtaxes. Specifically, we recommend an amendment to extend the possible payment plan period for all cannabis licensees to a maximum of five years, at the discretion of the Office of Finance. Currently, the Los Angeles Municipal Code limits payments plans to a maximum of 12 months. This is often insufficient time based on the thin margins of a licensed operator and/or the amount of taxes, interest, and penalties owed. The City may increase its opportunity to capture tax revenue and provide some breathing room to licensed operators by expanding this one-year limitation.

2. Dramatically and Urgently Mobilize the City's Enforcement Efforts Against Unlicensed Operators. Enforcement in the illegal market not only serves as a deterrent to potential bad actors, but it improves consumer safety and public welfare. Illegal cannabis businesses may locate next door to a school, sell cannabis products laced with pesticides, or improperly store hazardous materials onsite.

A. Immediately prioritize Citywide cannabis enforcement and shut down as many unlicensed operators as possible within the next six months. To do so, we strongly urge the following strategies:

i. **Prioritize illegal enforcement efforts on unlicensed businesses by their proximity to licensed retail businesses.** This will maximize the impact of City's efforts by ensuring that customers are driven to the nearest licensed retail location.

ii. **On a long term basis, permanently consolidate enforcement powers into a single agency, possibly DCR or the Mayor's Office.** The Mayor's Illegal Cannabis Enforcement Task Force, which includes the Los Angeles Police Department (LAPD), Department of Building and Safety, Department of Water and Power, Los Angeles Fire Department, and the City Attorney's Office, is currently involved in Citywide illegal cannabis enforcement. We recommend replacing the task

force model with a single, designated agency to prioritize and execute illegal enforcement efforts Citywide, and providing that agency with the necessary authority, funding, and resources, including the assignment of qualified personnel from other City departments, under that entity's direct control.

iii. **Request assistance from the California Department of Tax and Fee Administration (CDTFA) and the Los Angeles County District Attorney's Office to shut down illegal operators.** These agencies have enforcement authority and tools, including the ability to pursue tax evasion that may add to the City's portfolio of enforcement options. The City should coordinate all enforcement efforts with CDTFA and the District Attorney to the extent it is feasible to do so.

B. **Earmark a portion of cannabis tax revenue for illegal cannabis enforcement.** Although it will require City resources, the return on investment for illegal enforcement will pay future dividends for the City in the form of tax revenue in a stable, healthy licensed market. The closure of illegal locations boosts public safety and directs consumers to licensed businesses to ensure a robust regulated market for years to come.

C. **Use proven best practices to dramatically increase the number of successful prosecutions against landlords who lease to unlicensed cannabis operators, and file liens against properties involved in illegal cannabis activity.** The landlords are often easier to identify than the owners or operators of an illegal business. Prosecuting landlords, as permitted under Los Angeles Municipal Code section 104.15, for example, will mean fewer locations are available for illegal activity. Section 104.15 contains a potential civil penalty of up to \$20,000 per day for each violation; a concerted effort to pursue these judgments could generate revenue for the City and for additional enforcement efforts, and will deter unlicensed activity.

D. **Secondary to the immediate efforts to shut down illegal operators, conduct a study on: (i) the scope and size of the illegal cannabis market; (ii) cost-benefit analysis on illegal enforcement; and (iii) the effective strategies implemented in other municipal enforcement programs.** This study will demonstrate how much additional revenue may be generated by legal operators, and how much additional tax revenue may be collected by the City, if the illegal market was eradicated or severely hampered. It is imperative that the City understand and pursue successful strategies employed by other cities, such as the City of Pasadena. It has been reported to this Commission that the City of Pasadena closes illegal operators at the cost of only \$8,000 per operator.

Immediate and drastic action must be taken to avoid the collapse of the legal cannabis market in the City of Los Angeles. If the City's policies and practices do not change, licensed business owners will lose their significant investments, and the City will lose much-needed tax revenue.

Although we recognize that the City is facing a challenging fiscal year, the licensed commercial cannabis market and its tax revenue potentially in excess of \$100 million per year,

which once helped sustain the City during the COVID-19 pandemic, will disappear if we do not take action now. The Commission's recommendations reflect its commitment to ensuring that Los Angeles maintains its position as a responsible, just, and equitable leader in the global cannabis market and an effective model for cannabis regulation. We thank you for your time and attention to the licensed cannabis market and appreciate your service to the City of Los Angeles.

The action was taken by the following vote:

Mover: Mason
Seconded: Farmby
Ayes: Bierman, Nash

Vote: 4 – 0

Sincerely,



Thryeris Mason, Commission President
Cannabis Regulation Commission

CC: Hydee Feldstein Soto, Los Angeles City Attorney
Jim McDonnell, Chief of the Los Angeles Police Department
Diana Mangioglu, Director of Office of Finance