



November 22, 2019

The Honorable Gavin Newsom
303 10th Street, Suite 1173
Sacramento, CA 95814

Re: CDTFA Cannabis Tax Increase and Cannabis Market Concerns

Governor Newsom:

I want to start by introducing ourselves – Perfect Union is one of the largest cannabis operators in the state, which began and is based in Sacramento. We are also one of the only cannabis companies that has been a union operator for the last 10 years. This provides high-paying jobs with healthcare, paid vacation time, and other benefits to hundreds of employees. We are deeply proud of this accomplishment, but today, we write you because we are afraid that it may not be feasible to continue under the current regulatory structure.

As you may have heard, the California Department of Tax and Fee Administration (CDTFA) announced recently that there will be an unexpected increase in taxes across the board for the cannabis industry starting January 1, 2020. Given the state of the industry we were astounded that this type of move would even be considered. Over the last several months there have been a series of news stories highlighting how California's regulated cannabis market is, for lack of a better term, on the brink of failure. Indeed, the illicit market is booming and expected to hit revenues of \$9 billion this year, nearly 70 percent of cities and counties still ban or don't allow licensing, and some of the largest companies have recently announced layoffs culminating in the loss of hundreds of jobs throughout the state.

We are at an impasse and change must happen quickly if the market is to survive.

The first and most obvious short-term solution the state could provide is to reverse CDTFA's decision to increase the tax rates. We believe this rate increase will in fact result in a *decrease* of tax revenue to the state. In addition to the current standard 15 percent state excise tax, a \$9.25 per dry weight per ounce cultivation tax, local cannabis specific taxes (ranging from 4 to 15 percent), as well as sales and use taxes, legal cannabis products are assessed a cumulative 40 percent or higher tax on products before a product is even sold at retail. When you factor in sales tax and the high cost of running a business that is 100 percent compliant with all state and local regulations, our dispensary prices are on average *3 times* more expensive than products consumers can obtain through the illicit market. At current tax rates, despite being one of the largest and best run operators in the state, we are barely able to break-even. We believe that the most effective way to increase tax

revenue is to decrease the current tax rates. By reducing the tax rates legitimate businesses would pass the cost savings on to consumers, creating more price competitive products that would steal share from the illicit market. Additionally, by steering consumers back towards the regulated market, the state would be able to ensure that the products being sold meet the safety and quality standards intended by legalization. We are convinced that a tax increase will simply grow the illicit market, reduce tax revenue and expose more consumers to products that do not meet the states safety standards.

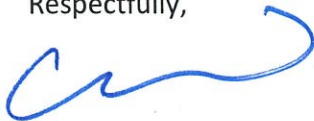
Aside from the short-term tax solutions, real change should come from comprehensive reform of the system. We must act decisively and holistically if we are going to make a real impact. The state and its partners should identify where there are barriers to the success of the regulated market and institute common-sense policies to remove these barriers. Importantly, we must make retail licenses more widely available so that all California residents have equal access to safe, regulated cannabis products. Today close to two-thirds of municipalities in California ban the sale of cannabis, making illicit, unregulated and untaxed products the only viable alternative for many Californians. Additionally, there should be a coordinated enforcement strategy to protect the interests of those who took the risk of coming into the light, paying taxes, and complying with the law. Our legal marketplace deserves protection.

And our industry is at a crossroads. We must work together to develop comprehensive, holistic solutions to the market woes that jeopardize the future of a legal, regulated cannabis industry. If we work together to make informed changes, everyone wins. The state will be able to increase revenues. Legal cannabis operators will be able to succeed. And all California residents will have access to a safe, regulated supply of cannabis products.

We are asking for your help to make the changes necessary to create a safe and successful cannabis industry that serves the needs of the California market. We would welcome the opportunity to provide you further perspective and guidance on the industry and work with you on creating a plan for the future, including the following requested changes:

- 1) cancel the CDTFA's proposed tax increases;**
- 2) reduce the excise and cultivation taxes in the short term;**
- 3) develop policies to incentivize more jurisdictions to license retail;**
- 4) develop a coordinated enforcement program for the illicit market.**

Respectfully,



Caity Maple
VP, Government Affairs & Compliance
Perfect Union