



April 23, 2025

By Electronic Mail

The Honorable Mike A. Gipson
Chair, Assembly Revenue and Taxation
1021 O Street, Suite 6210
Sacramento, CA 95814

RE: AB 8 (Aguiar-Curry) – Cannabis: cannabinoids: industrial hemp.- OPPOSE Unless amended

Dear Chairman Gipson,

On behalf of *Getting it Right from the Start* I write to share our position of **Oppose unless amended** to AB 8 (Aguiar-Curry), as well opposition to AB 564 or any budget bill which would go back on the deal made in AB 195 (2022) to adjust the cannabis excise tax starting this year, to make up for the elimination of the cultivation tax. As federal funding for substance abuse prevention and for the environment is slashed, this is not the time or place for cutting the limited resources for youth substance abuse prevention, childcare and environmental remediation.

Getting it Right from the Start is a project of the Public Health Institute's (PHI) Prevention Policy Group. It has worked across California and nationally since 2017 to advance cannabis policies that better protect youth, public health, and social equity where sale has been legalized. We develop model local laws, analyze the laws, taxes, and retail presence of cannabis in all California cities and counties annually, carry out NIH- and state-funded research on cannabis policy issues, and work with over 100 local jurisdictions on their approaches as well as many states. I served 2018-2024 on the DHCS Proposition 64 Stakeholder Advisory Group that advises on use of cannabis tax revenue funds and co-chaired the California High Potency Cannabis Scientific Committee convened by the California Department of Public Health. PHI is an Oakland, California-based 501c3 nonprofit organization with almost 60 years of experience working in the State of California, nationally, and across the globe to advance health equity, well-being, and quality of life for all people.

Tax provisions

We call upon the committee and the author to **delete the language amending SEC. 27. Section 34011.2 of the Revenue and Taxation Code “2) Effective on or after January 1, 2028, a cannabis excise tax shall be imposed upon purchasers of cannabis or cannabis products sold in this state at 15 percent of the gross receipts of any retail sale by a cannabis retailer”** and maintain the adjusted tax required under AB 195.

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When voters approved Proposition 64, they were explicitly promised that hundreds of millions of dollars annually of Cannabis Excise Tax and Cultivation Tax revenues would be permanently dedicated for the Tier 3 programs, to protect children, youth and the environment. This revenue is a significant funding source for childcare for low-income families, youth substance use prevention programs, environmental remediation including restoration of watersheds damaged by cannabis cultivation, and law enforcement programs.

Many of our organizations refrained from opposing the 2022 cultivation tax only because an agreement was reached, and it was clearly required in law under AB 195, that a compensatory adjustment of the excise tax of up to 19% to maintain revenue neutrality would be implemented this year. Even with that adjustment it is unclear if it will fully compensate the loss of the cultivation tax. That is current law and will go into effect unless AB 564, AB 8 or other repeal efforts are passed.

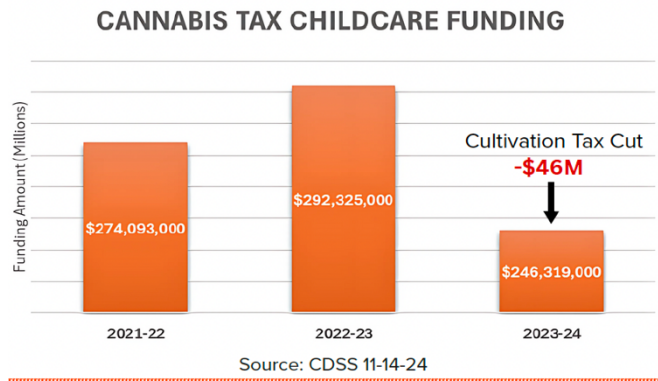
Adverse Consequences

If the legislature fails to uphold the promise made in AB 195, in our estimate, between \$145-182 million dollars annually for Tier 3 childcare, youth, environmental and law enforcement programs or other needed investments could be lost. Even if the cut to 15% is only effective in 2028 it will reduce the total pie of cannabis tax revenue and create further pressure to reduce Tier 3 allocations and or other needed investments in Tiers 1 and 2. For example, the report of the High Potency Task Force Scientific Committee convened by CDPH¹ called for increasing investment in public education on cannabis, maintaining the \$10 million annual policy research investment, funding DCC staff for pre-market product review for compliance including of attractiveness to children, and for enhanced surveillance of health impacts.

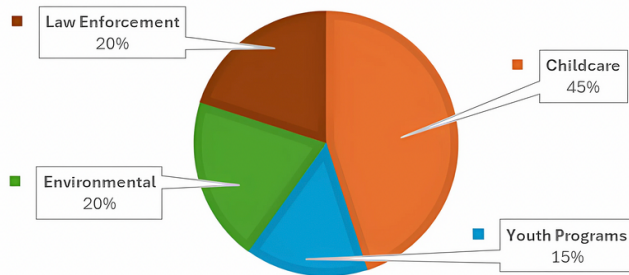
While we do not feel the integration of hemp into the cannabis industry is necessary or beneficial to society, and fear that it may further undermine legal cannabis cultivators, **we strongly support the application of the excise tax to any hemp flowing into the cannabis industry if that integration is allowed**, but suggest **amending so that it begins as soon as any hemp is allowed to flow into the cannabis industry, rather than being delayed to 2028**. Nevertheless, it is unclear to what extent, if any, that will increase total tax revenue as opposed to simply replacing cannabis-based sourcing of CBD or terpenes, or even of THC. Indeed, as a potentially cheaper source of these substances it might lower the cannabis tax base and further harm cannabis cultivators. **It cannot be relied upon to backfill repeal of the AB195 adjustment and maintain revenue neutrality.**

¹ <https://www.gettingitrightfromthestart.org/wp-content/uploads/2024/10/California-High-Potency-Cannabis-Think-Tank-Report-10-30-24.pdf>

Repeal may deny childcare to thousands of our most vulnerable children. Childcare funding for foster children, emergency care, and our state’s lowest income children fell after the cut by **\$46 million in 2023-24** according to data presented to the Stakeholder Advisory Group. **We estimate losses from AB8 to childcare could be as high as \$65 to \$82 million annually, covering thousands of slots if Tier 3 is not respected. Only 14% of 2.1 million California children eligible for subsidized childcare, overwhelmingly children of color, are currently enrolled.**



PROFITS OVER KIDS ~ \$150M IN LOST TIER 3 REVENUE IF 2022 AGREEMENT IS BROKEN



Elevate Youth California grantmaking supports vulnerable youth and prevents substance abuse in **all legislative districts** through 275 awards to community-based organizations and providers. It has provided significant funding to some of our state’s most vulnerable youth in rural and urban areas, tribal lands, and LGBTQ youth with high substance abuse risks. If Tier 3 is not adjusted as promised, we estimate **losses to these youth programs would be about \$22 - \$27 million a year.**

Repeal could **reduce funding for cleanup of damaged watershed lands by about \$30 million a year** and limit enforcement against illegal grows and intoxicated driving.

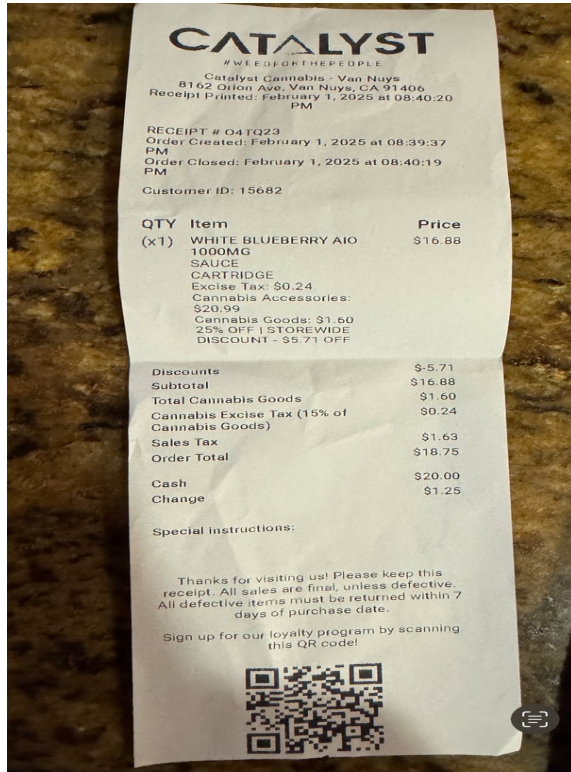
Repeal of the Tax Adjustment Does not Solve Fundamental Problems

The repeal will not solve the fundamental problems of the cannabis market of overproduction and a competing illicit market. Massive overproduction and export to meet out-of-state demand, not taxes, power the CA illicit market. This problem is thorny, and it may take years for supply and demand to stabilize, but repealing the tax adjustment at the expense of children will not fix it.

California’s 15% cannabis excise tax is not too high. Most licensees pay as required. Nor would the adjusted 19% tax be too high when compared to excise taxes in WA (37%), CO (17%), VA (21%), MT (20%), IL, NJ and CT taxes on high THC, or to CA excise taxes on e-cigarettes of 53% & 12.5% (total 65.5%). Local retail taxes are modest, averaging 5-6% in 2023 and in 2024 were only levied by 33% of California jurisdictions.²

² California Local Cannabis Laws Database, Getting it Right from the Start. 2023 and 2024.

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Furthermore, the proposed tax cuts benefit multi-state operators who increasingly dominate the retail sector. There were 1816 licensed retailers in the state as of 12/24, and only roughly one in ten is a social equity licensee. Some retailers like Catalyst, a founder of the California Cannabis Operators Association, appear to be openly challenging tax laws and levying excise tax on only a fraction of the product value (see receipt showing a tax of only \$0.24 charged for a \$16.88 cartridge by claiming only \$1.60 was “cannabis goods.”). This should not be rewarded with cuts.

AB 8 will increase the profits of these 1800 retailers, likely at the expense of many thousands of California children, youth and families and of our watersheds. It will not help small cultivators harmed by the production glut and may harm them if their products are replaced by cannabinoids from hemp.

The California cannabis industry is not collapsing. The volume of legal cannabis sold continued with steady growth each year 2020-2024.³ Our research finds that

most California adults reporting getting at least some of their cannabis from legal sources today.⁴ The number of retailers is 50% higher today than it was at the end of 2020. Cannabis has gotten cheaper, leading to a slight decline in dollars sold after a pandemic peak, mainly driven by supply glut. Contrary to industry claims in 2022, cutting taxes did not lead to higher sales or compensatory revenue, instead annual total tax revenue fell by \$202 million, directly hitting Tier 3 despite the partial general fund backfill.⁵

AB 8 provides other significant benefits to the cannabis industry, including enhanced protections from intoxicating hemp outside the cannabis market. They do not need a tax break in addition at the cost of kids.

³ Sales data was extracted by category and year from the Department of Cannabis Control Dashboard <https://cannabis.ca.gov/resources/data-dashboard/daily-sales-units-by-item-category-report/>

⁴ Padon A. A recent study that included 349 California adult cannabis users found that 78% reported acquiring their cannabis from a legal store or delivery service, 28% from a dealer and 17% grew their own (they could report more than one source) – Prevention Policy Group (Public Health Institute) preliminary data.

⁵ <https://www.cdtda.ca.gov/dataportal/dataset.htm?url=CannabisTaxRevenues> comparing Quarter 3 2021- Quarter 2 2022 to Quarter 3 2023-Quarter 2 2024.

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Proposition 64 – Voters were Guaranteed Tier 3 Revenues

When voters approved Proposition 64 in 2016, they expressed clear intent they wanted Tier 3 programs to receive significant funding:

“It is the intent of the People in enacting this Act to accomplish the following: “Generate hundreds of millions of dollars in new state revenue annually for restoring and repairing the environment, youth treatment and prevention, community investment, and law enforcement.” Prop. 64, § 3(t).

“The Adult Use of Marijuana Act will crack down on the illegal use of water and punish bad actors, while providing funds to restore lands that have been damaged by illegal marijuana grows.” Prop. 64, § 2.F.

Furthermore, voters expressly protected allocations to the Tier 3 programs in Proposition 64’s provisions:

“Prior to July 1, 2028, the Legislature may not change the allocations to programs specified in subdivisions (d) and (f) of this section.” [Subdivision (h) of Section 34019 of the Revenue and Taxation Code, as enacted under Proposition 64, referring to the Tier 3 funding allocations].

Critically, Proposition 64 requires that other amendments must be *“consistent with the purposes and intent of this Act...” (Section 10 of Proposition 64)*

Those statements reflect voters’ clear intent that Proposition 64 provides robust and protected funding for the environmental restoration and remediation programs and youth services at levels contemplated by the voters and those levels must be honored in any legislative alteration to the Act’s tax structure. Therefore, revenue neutrality is a necessary component to any amendment of the initiative. Any reduction of tax revenue for Tier 3 programs creates a risk that the legislation will be deemed invalid. Unless it results in revenue neutrality, the elimination of the Cannabis Cultivation Tax is legally vulnerable because:

1. It alters the allocation of funding to Tier 3 programs by eliminating one of the two key revenue streams that fund the Tier 3 allocations; and
2. It would be inconsistent with the voter’s intent expressly stated in Proposition 64’s text to provide significant funding to Tier 3 programs.

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We ask the Committee to ensure that the explicit intent of Proposition 64 is respected, and provisions of law and promises made to date are upheld. We respectfully request your rejection of section 34011.2 amendments in AB 8, and of AB 564 or any budget bill language that repeals or reduces the currently required increase in the cannabis excise tax.

Respectfully,,

A handwritten signature in black ink, appearing to read "Lynn D. Silver". The signature is written over a rectangular box, likely a placeholder for a printed name or a stamp.

Lynn D. Silver, MD, MPH, FAAP

Director, Getting it Right from the Start

www.gettingitrightfromthestart.org

Director, Prevention Policy Group

CC: Assemblymember Cecilia Aguiar-Curry

Mr. Harrison Bowlby, Consultant