

Testimony in Support of AB 564
Assembly Revenue & Taxation Committee
May 5, 2025

Good afternoon, Chair Gipson and Members of the Committee,

My name is Amy O’Gorman Jenkins and I’m here on behalf of the California Cannabis Operators Association, representing more than 200 licensed operators across the cannabis supply chain, to express strong support for AB 564, which halts a scheduled increase in the cannabis excise tax from 15% to 19% on July 1 — a 25% hike on an already overburdened and shrinking legal market.

Let me be very clear: the legal cannabis industry is not stable. It is in crisis. And the suggestion in the committee analysis that this crisis is overstated is, respectfully, wrong.

In March, Whitney Economics — one of the leading national cannabis market analysts — slashed its five-year U.S. cannabis retail forecast by \$21 billion. Why? Because states like California are losing market share due to high taxes, weak enforcement, and the spread of untaxed, intoxicating hemp products.

Whitney’s California-specific findings are sobering:

- Consumer participation in the regulated market is declining.
- States like Michigan, with lower taxes and broader access, are now outselling California on a per unit basis — despite having a fraction of our population.

The ERA Economics Report, commissioned by the Department of Cannabis Control affirms what operators have been saying for years:

- California’s excise taxes and licensing fees are 124% and 162% higher, respectively, than Michigan’s.
- Altogether, cannabis taxes and fees in California amount to 77.5% of wholesale value — compared to just 8.4% for alcohol and 29.5% for tobacco.

That’s not a sustainable framework — it’s a roadmap to collapse.

And collapse is already underway:

- 12,600 cannabis jobs were lost in 2022, followed by another 5,000 in 2023.
- 7,100 cultivation licenses have vanished. 60% of manufacturing licenses are gone, taking over 1,000 heritage California brands with them.
- Last month, one of the state's oldest dispensary chains — pulling in over \$100 million in annual revenue — entered receivership.
- And as if that weren't evidence enough of systemic strain, the latest data from the California Department of Tax and Fee Administration shows that the cannabis industry now owes over \$980 million in outstanding taxes, penalties, and interest. That's not tax evasion — that's a collapse in the ability to comply under an unworkable system.

This is not market consolidation. This is market failure.

Perhaps most importantly, raising taxes now would be both economically reckless and fiscally irresponsible. Even a modest 10% drop in legal sales would result in more than \$13 million in lost state revenue (which includes sales as well as excise taxes) — undoing the very gains the tax hike aims to achieve.

Let's also be clear about what the voters intended. Proposition 64 references — no fewer than five times — that taxes must be structured to ensure the legal market outcompetes the illicit market. Yet we are seeing the opposite:

- An estimated 11.4 million pounds of illicit cannabis are produced annually — dwarfing the 1.4 million sold legally.
- Hemp-derived THC products continue to flood the market — unregulated, untaxed, and accessible to minors.

Licensed operators are not only competing against illicit and synthetic products — they're funding the entire regulatory system through their fees. No General Fund dollars support this framework. That's not sustainable.

AB 564 is not a tax break. It's economic triage. It's a policy correction to prevent mass closures, protect public health, and stabilize the marketplace voters supported in Prop. 64.

If we want a legal market that works, we must make it competitive.

I respectfully urge your AYE vote on AB 564.