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State should protect legal pot market

By Richard P. Ormond
CONTRIBUTOR

California voters legalized adult-use cannabis in 2016 with the goals of bringing the industry out of the shadows, generating much-needed tax revenue and a desire to begin repairing the damage that decades of prohibition had inflicted on communities of color.

Nearly a decade later, the illegal market still controls an estimated 60% to 80% of cannabis sales in California. Licensed and lawful retailers are failing because they can't compete with unlicensed growers who continue to operate outside the system. Illegal storefronts operate openly on our cities' boulevards while the legal cannabis industry — the one Sacramento created, licensed and taxed — is dying. California's legal weed market contracted for the third consecutive year in 2025, with retail sales dropping from \$4.2 billion in 2024 to \$3.9 billion in 2025. This was driven by competition from an enormous illicit market, severe pricing compression and a state excise tax hike.

This is not a federal problem. It is a Sacramento problem.

California's cannabis excise tax has been raised, cut and raised and cut again. The rate started at 15% under Proposition 64, before jumping to 19% in 2025, a move that crashed legal sales almost immediately. Gov. Gavin Newsom then signed legislation lowering the rate back to 15%, but that will only extend through June 30, 2028, when an automatic adjustment mechanism will kick in again, raising the tax back to 19%.

This is no way to govern. The Legislature should fix the excise tax for recreational cannabis at 10%, permanently, with any subsequent increases requiring a supermajority vote. Combined with local taxes and sales tax, the effective rate on a legal transaction would still exceed those for tobacco or alcohol — but at 10% would still be low enough to close the price gap with the unlicensed market.

The math on cannabis revenue is counterintuitive but sound. Every customer buying from an unlicensed operator generates zero tax revenue. A lower rate that captures even a fraction of the illegal market's volume generates more total revenue than a higher rate applied to a shrinking legal one. The Legislature understood this logic when it eliminated the cultivation tax in 2022 and projected a 123% increase in revenues through volume effects. The Legislature now needs to apply that same logic to the excise tax, fix the rate and give the industry what it has never had: a stable planning horizon.



Paul Chinn/S.F. Chronicle

Despite marijuana legalization, the illegal market still controls most weed sales in California.

Under California's framework, a cannabis retailer needs a state license and a separate local city or county license. That local license is not a formality — it is a full independent gatekeeping function with its own application, fees, timeline and discretionary approval process. A hostile city council can block a fully qualified operator indefinitely. More than half of California's jurisdictions have banned cannabis retail entirely.

The result: geographic monopolies in permissive jurisdictions and cannabis deserts everywhere else — deserts the illegal market fills without facing any local opposition. And don't forget each city adds additional licensing fees, taxes and permit requirements on top of the state requirements. This is excessive.

New Jersey solved this problem. The state cannabis commission issues a business license; municipalities may regulate locations through zoning but cannot run a parallel licensing or taxing process. California should adopt the same model. The Department of Cannabis Control should become the sole licensing authority, while local governments can continue to hold onto the zoning power over where a business operates — not whether it operates at all.

This is not a novel idea. The Alcoholic Beverage Commission issues state liquor

licenses without a local licensing counterpart. There is no principled reason cannabis should be different, and a decade of evidence confirms the cost of pretending otherwise. According to the Cato Institute, local municipal taxes severely crippled California's legal cannabis industry over the past decade, driving operators out of business and bolstering a thriving illicit market. Because more than 86% of local cannabis tax measures have been approved since 2009, operators face compounding local fees that cause effective tax rates to exceed 40% above their federal tax burden.

Since 2022, six years after voters legalized weed, the Unified Cannabis Enforcement Task Force has seized over \$1.2 billion in illicit cannabis products — and that represents just a fraction of an illegal market that accounts for an estimated 60% of statewide sales. The problem is not that enforcement has failed. It is that enforcement is not scaled to the problem.

The Legislature should dedicate at least 33% of its collected cannabis excise tax revenues to unlicensed market enforcement, with a statutory firewall against budget-season raiding. One-third of the dollars the state collects should then be locked in for law enforcement and civil enforcement of already existing state laws to curb illegal markets. Fur-

ther, the state needs to be swift in its enforcement, and it should take advantage of civil enforcement processes, not just criminal processes. Enforcement needs California to also seek civil injunctions. A criminal case takes years, while a civil injunction against an unlicensed storefront can be obtained in weeks.

The California cannabis industry is not asking for charity. It is asking Sacramento to honor the deal it made in 2016: a fair regulatory framework where licensed businesses can actually compete and generate revenue.

That deal has been breached by California lawmakers. The tax structure has been punishing and unstable. The licensing regime has handed gatekeeping authority to hundreds of local governments that have used it inconsistently and often destructively. Enforcement has been chronically underfunded.

The green rush is over. What remains is the question of whether Sacramento has the will to fix its broken cannabis market.

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LETTERS TO THE EDITOR Submit your letter at SFChronicle.com/submit-your-opinion

Gas appliance ban is a noble but flawed idea

Regarding "Mad about the Bay Area gas water heater ban? Here's what you need to know" (Open Forum, SFChronicle.com, June 27): The Bay Area Air District's plan to prohibit gas water heaters and furnaces needs to be scrapped.

Everyone is in favor of cleaner air, but how we get there needs thoughtful. Arguing that incentives for property owners and future higher costs for gas will ease the pain of conversion isn't going to cut it.

Converting from gas to electricity is not a simple process. One can't just unplug the old unit and plug in the new. Designing the new systems, obtaining the appropriate permits, and coordinating with PG&E, if an upgraded electrical panel is needed, will take time.

Modifying the building to accept the new water heater and furnace takes money, budgeting and careful planning, especially if people are living in the building.

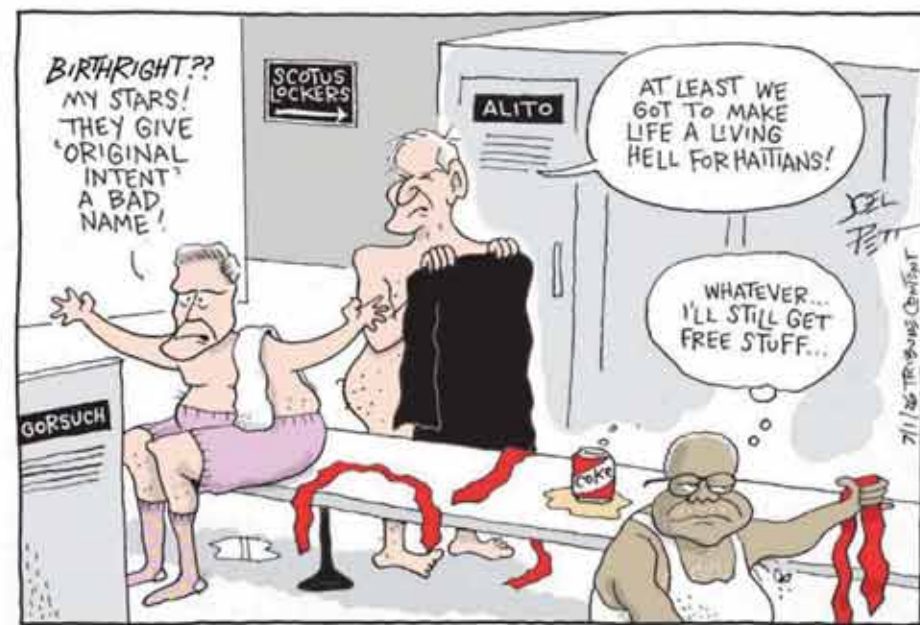
Hardly anyone replaces a water heater or furnace before it breaks. When one does need to be replaced, the situation is tantamount to an emergency because the home becomes uninhabitable without hot water or heat. Mandating the replacement of the gas units with electric add to the cost and complexity.

This flat-out ban on gas water heaters and furnaces will bring nightmares to many.

Frank Lee, San Francisco

Arch a bad symbol

President Donald Trump has proposed the construction of a giant arch near the Lincoln Memorial in Washing-



Joel Pett/Tribune Content Agency

ton, D.C. Besides the fact that we may detest the person who is pushing for it, why does it feel so hideously wrong?

Who in history built monuments to leave a mark? Stalin, Hitler, Mussolini, Nero, Ferdinand Marcos, the Kims of North Korea, Mobutu Sese Seko of Congo — all horrible authoritarian dictators. That's what's wrong.

The arch would be a symbol of extreme ego, of control, of personal power and wealth, exactly what should not exist in a leader of a democracy.

The people are the locus of power in a functional democracy.

If built, the arch would serve as a monument to how far we have fallen from the ideals of our founding fathers.

Richard Park, Oakland

Police are for the people

Regarding "Funding priorities wrong" (Letters to the Editor, SFChronicle.com, July 1): The letter writer complained that the San Francisco city budget is not a "people's budget."

I would suspect that many San Francisco residents, maybe even a majority, support increased funding and a budget approaching \$1 billion for the police department that the letter lamented.

Car break-ins and other crimes that were out of control in San Francisco are down in large part because more officers are walking a beat.

The letter said a city's budget is a moral document.

I agree.

The budget says that keeping residents safe and not allowing them to be victimized by crime is a moral imperative.

I suggest to the letter writer that a "people's budget" depends on the people he's talking about.

Frank Sullivan, San Francisco

Don't sugarcoat ICE

One of my favorite signs I saw from the second No Kings March was "ICE — because they can't spell Gestapo."

The sign reminded me that we need the media to start calling things what they are, not some friendlier term like "detention center."

It almost sounds like where you would send kids after school to punish them.

In reality, these "centers" are concentration camps, much like the ones they had in Nazi Germany.

I have read a myriad of articles regarding these centers: no visitors, politicians and inspectors not being allowed in.

According to the detainees and the occasional official, these centers are dirty and overcrowded.

The food is generally inedible, and what there is of it is restricted.

We never imagined that we would have Immigration and Customs Enforcement agents roaming around and arresting mostly innocent people and sending them to "detention centers."

It couldn't happen here.

How wrong we were.

We're well on the way to an aristocracy and fascism.

We need to stop it now.

Deborah Sobr, San Francisco