STAFF REPORT
6/24/2026

TO: Honorable Mayor and City Council Members

FROM: Gustavo Romo, City Manager

PREPARED BY: Lincoln Bogard, Finance Director

SUBJECT: Consideration of Cannabis Business Tax Rate Adjustment – Prospective Reduction of Cultivation Tax Rate from Three Percent (3%) of Gross Receipts to Ten Dollars ($10) per Square Foot of Cultivation Space, Effective July 1, 2026

STAFF RECOMMENDATION:

That the City Council receive and file this staff report, provide direction to staff regarding the cannabis business tax rate, and take the following actions:

1. Approve a prospective change to the cannabis business tax rate for cultivation from three percent (3%) to ten dollars ($10) per square foot, effective July 1, 2026, to better fit the existing ordinance and regional jurisdictions.
2. Direct staff to return to the City Council at the July 8, 2026 Regular Meeting with an appropriate resolution implementing any Council-approved rate change.

EXECUTIVE SUMMARY:

Resolution No. 2022-22, adopted by the City Council on February 23, 2022, established a declining cannabis business tax rate schedule for cultivation operations: four percent (4%) of gross receipts in 2022, three percent (3%) in 2023, and two percent (2%) beginning in 2024 – provided that overall cultivation tax collections had not decreased from 2021 tax year levels. Because cultivation tax collections declined below 2021 levels, the conditional reduction to 2% did not take effect in 2024, and the 3% rate has remained in effect pursuant to the terms of the resolution.

BACKGROUND:

The City of Coachella levies a cannabis business tax on licensed cannabis operators conducting business within the City limits, pursuant to Chapter 4.31 of the Coachella Municipal Code ("Municipal Code"). Chapter 4.31 was added to the Municipal Code through the Cannabis Tax Measure, which was placed on the November 8, 2016 General Municipal Election ballot by Resolution No. 2016-36 and approved by a majority vote of the People. Chapter 4.31 authorizes the City Council to set cultivation tax rates by resolution at a maximum of fifteen dollars ($15) per square foot, and retail/wholesale rates at a maximum of six cents ($0.06) per dollar of gross receipts.

On February 23, 2022, the City Council adopted Resolution No. 2022-22, setting cannabis business tax rates for cultivation, retail, manufacturing, distribution, and testing operations. For cultivation (indoor and outdoor), Resolution No. 2022-22 established the following schedule of gross receipts-based tax rates (in lieu of a square-footage-based rate):

1. $0.04 per dollar of gross receipts for reporting periods beginning January 1, 2022 (Q1 2022);
2. $0.03 per dollar of gross receipts for reporting periods beginning January 1, 2023 (Q1 2023); and
3. $0.02 per dollar of gross receipts for reporting periods beginning January 1, 2024 (Q1 2024), provided that overall cultivation tax collections have not decreased from 2021 tax year levels. If this condition was not met in 2024, the resolution provided that the $0.02 rate would go into effect in the first tax year where the preceding tax year's cultivation tax collections meet or exceed the 2021 collection amount.

Because overall cultivation tax collections declined below 2021 tax year levels, the conditional reduction to $0.02 (2%) did not take effect beginning January 1, 2024. The $0.03 (3%) rate has therefore remained in effect and continues to apply to all cannabis cultivation operators in the City.

DISCUSSION/ANALYSIS:

Prospective Rate Reduction – Staff Recommendation. Staff recommends that the City Council approve a prospective reduction of the cannabis business cultivation tax rate from three percent (3%) to ten dollars ($10) per square foot of canopy space, effective July 1, 2026. This action is consistent with the City Municipal Code Chapter 4.31 and reflects the practical reality of the regional jurisdictions.

Regional Context – Coachella Valley Cultivation Tax Comparison. Staff reviewed available cannabis cultivation tax rates for Coachella Valley jurisdictions. Findings are presented in the table below. Importantly, the City of Coachella's cultivation tax is structured as a percentage of gross receipts, while most neighboring jurisdictions impose a per-square-foot tax on cultivation space. These are fundamentally different tax bases and are not directly comparable; however, the comparison provides useful context regarding the regional regulatory environment.

Jurisdiction	Tax Basis	Current Rate	Notes
City of Coachella	**% of Gross Receipts**	**3% (current)**	**Proposed: 2% eff. 7/1/2026; per Res. 2022-22**
Cathedral City	Per Square Foot	$10.00/sq ft	Reduced from $15/sq ft (2023)
Palm Desert	Per Square Foot	$10.00/sq ft	Reduced from $13/sq ft (2023)
Desert Hot Springs	Per Square Foot	$5.75/sq ft	Reduced from $10.20/sq ft (2024)
Palm Springs	Per Square Foot	Up to $10.00/sq ft	Cannabis Overlay Zone: $5/sq ft; rate set by resolution

City of Indio	N/A	N/A	Cultivation not permitted; retail dispensaries only
La Quinta	N/A	N/A	Cannabis businesses not permitted
Rancho Mirage	N/A	N/A	Cannabis businesses not permitted
Indian Wells	N/A	N/A	Cannabis businesses not permitted

The table above illustrates that the City of Coachella's gross receipts-based approach to cultivation taxation is unique among Coachella Valley cities that permit cultivation. Neighboring cities have generally trended toward lower per-square-foot rates in recent years in response to industry pressures. The proposed reduction from 3% of gross receipts to $10 per square foot aligns with that broader regional trend and with the City's own original long-term rate target established in 2022.

Next Steps. Should the City Council provide direction to reduce the cannabis business tax rate, staff will return to the City Council at the July 8, 2026 Regular Meeting with an appropriate resolution implementing the approved rate change.

ALTERNATIVES:

1. Alternative 1 (Staff Recommended): Approve a prospective reduction of the cannabis business cultivation tax rate from three percent (3%) gross receipts to ten dollars ($10) per square foot of canopy space, effective July 1, 2026, consistent with the long-term policy intent of Municipal Code Chapter 4.31. Direct staff to return with an appropriate implementing resolution at the July 8, 2026 Regular Meeting.
2. Alternative 2: Maintain the cannabis business cultivation tax rate at three percent (3%) pending satisfaction of the revenue-based condition established in Resolution No. 2022-22.
3. Alternative 3: Reduce the cannabis business cultivation tax rate to two percent (2%) with understanding that the revenue-based condition established in Resolution No. 2022-22 occurred during a peak year.
4. Alternative 3: Direct staff to return to the City Council at a future meeting with a quantified fiscal impact analysis of a rate reduction prior to taking final action.

FISCAL IMPACT:

A prospective reduction of the cannabis business cultivation tax rate from three percent (3%) to two percent (2%) of gross receipts or ten dollars ($10) per square foot of canopy space, effective July 1, 2026, would reduce annual cannabis tax revenues to the City's General Fund by an amount equal to one percentage point (1%) applied to the total gross receipts of cannabis cultivators subject to the tax, or to a rate consistent with Municipal Code and regional jurisdictions. The precise annual fiscal impact will depend on the volume and gross revenue of taxable cannabis cultivation activity in subsequent fiscal years and cannot be definitively quantified at this time. Staff will present an estimated revenue impact analysis alongside any implementing resolution to be considered at the July 8, 2026 Regular Meeting.

RECOMMENDED ALTERNATIVE(S):

Staff recommends Alternative 1: Approve a prospective reduction of the cannabis business cultivation tax rate from three percent (3%) gross receipts to ten dollars ($10) per square foot of canopy space, effective July 1, 2026, consistent with the long-term policy intent of Municipal Code Chapter 4.31. Direct staff to return with an appropriate implementing resolution at the July 8, 2026 Regular Meeting.