

## **Los Angeles Greenlights Major Fee Hikes for Cannabis Firms**

### **Los Angeles Approves Steep Cannabis Fee Increases Amid Industry Struggles**

Los Angeles cannabis businesses are now facing significant new financial burdens after the City Council approved major fee hikes for license renewals, compliance inspections, and other regulatory requirements. The decision, passed on Tuesday, adds pressure to an already fragile legal marijuana market that has been struggling with declining revenues, increasing competition, and regulatory complexity.

### **The Financial Toll: New Fees Could Cost Businesses Tens of Thousands Annually**

The fee increases, which apply across all segments of the cannabis supply chain—retailers, delivery services, cultivators, manufacturers, and testing labs—are projected to generate \$6 million in annual revenue for the Department of Cannabis Regulation (DCR). However, for cannabis entrepreneurs and small business owners, the new costs are expected to range from tens of thousands to potentially hundreds of thousands of dollars per year.

According to legal analysis by Manzuri Law, an L.A.-based firm specializing in cannabis regulation, the city had already imposed “new and very expensive compliance requirements” over the past year. The new fee hikes, layered on top of these existing obligations, will significantly elevate the cost of doing business in the city.

### **City Justifies Fee Hikes as Necessary to Support Cannabis Oversight**

City officials, including members of the City Council and the DCR, have defended the increases by citing the need to maintain adequate oversight and operations. The DCR has a fiscal year budget of \$8.6 million, and its mandate requires it to fund itself through fees paid by licensees. With cannabis tax revenue falling—from over \$100 million in past years to approximately \$90 million in 2024—officials argue that the city cannot afford to subsidize cannabis regulation through the general fund.

The new fee structure aims to ensure that the regulatory body remains functional and self-sustaining without diverting resources from other essential city services. However, critics argue that the city is placing too much financial strain on legal businesses that are already facing overwhelming challenges from taxation, regulatory hurdles, and competition from the unlicensed market.

# **Cannabis Businesses Caught in Financial Squeeze as Sales Decline**

For Los Angeles cannabis businesses, the timing of the fee hikes could not be worse. Over the past two years, legal marijuana sales have seen a noticeable decline across California due to a combination of market saturation, illicit competition, and consumer price sensitivity. Many retailers and cultivators have reported stagnant or falling revenues, forcing some to downsize operations or close entirely.

In addition to the new fees, businesses are already burdened with numerous taxes, including California's state excise tax, state sales tax, and Los Angeles's local gross receipts tax. The local tax rate is especially steep for retailers and delivery services, at 10%, while other sectors such as distributors and testing labs face lower rates ranging from 1% to 5%.

These compounding financial obligations are eroding profitability and discouraging new entrants from joining the legal market, which further stifles growth and innovation in the sector.

## **New Compliance Requirements Compound Burdens on Legal Operators**

Alongside the fee hikes, L.A. cannabis operators are also dealing with increasingly complex compliance requirements. The DCR has implemented rigorous new inspection protocols, inventory tracking mandates, and customer verification systems. While these rules are designed to enhance public safety and prevent diversion to the illicit market, they also carry steep implementation and administrative costs for license holders.

Critics of the new regulations point out that many of the services the city now charges for are already conducted by California's state cannabis regulators, including facility inspections, product testing, and license verification. As a result, business owners argue they are paying twice for regulatory oversight—once at the state level and again at the local level.

This duplication of services and costs is a point of contention for many entrepreneurs who believe the city should streamline operations, rather than expanding its regulatory footprint at the expense of licensed operators.

## **Smaller Operators and Equity Businesses Disproportionately Affected**

The fee hikes are expected to hit small operators and social equity businesses the hardest. Many of these businesses operate on razor-thin margins and rely on limited capital to sustain operations. Increased licensing and compliance fees could be the breaking point for businesses already struggling to stay afloat.

While Los Angeles has implemented an equity program aimed at promoting diversity and inclusion in the cannabis industry, critics argue that the program has fallen short in offering meaningful support. Increased fees, they say, could undermine the city's own equity goals by making it harder for marginalized entrepreneurs to succeed in the industry.

Without expanded grant programs, loan assistance, or reduced fees for qualified equity applicants, the new cost structure may accelerate consolidation in the industry—favoring larger, well-capitalized players at the expense of community-based operators.

# Industry Advocates Call for Comprehensive Reform and Tax Relief

Industry advocates and trade associations are calling on Los Angeles leaders to revisit the city's cannabis taxation and regulatory framework. They argue that the cumulative impact of excessive taxes and rising fees is driving legal operators out of business and sending consumers back to the unlicensed market, where products are cheaper but unregulated.

Proposals include reducing the local gross receipts tax rate, consolidating regulatory oversight with the state to eliminate redundancy, and providing financial relief or subsidies for compliance fees during periods of economic downturn.

Some industry stakeholders are also calling for a complete overhaul of the fee system to make it more scalable and tied to business size or revenue, rather than flat-rate charges that disproportionately impact smaller firms.

## A Tipping Point for Los Angeles Cannabis?

With cannabis legalization originally pitched as a way to support local economies, generate tax revenue, and dismantle illicit markets, many in the industry now fear that over-regulation and unsustainable costs are threatening the future of the legal market in Los Angeles.

While the fee hikes may balance the DCR's budget in the short term, the long-term impact on the industry remains uncertain. If more businesses close, or if operators exit the legal market in favor of unlicensed operations, the city could face a further decline in cannabis revenue creating a cycle of financial instability and regulatory overreach.

As Los Angeles looks to maintain its position as a leader in the cannabis industry, the decisions made today about fees, regulation, and business support could define the market's trajectory for years to come.

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