

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: December 08, 2017

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Council File No. 14-0366-S14

Council District: All

To: Budget and Finance Committee

From:  Richard H. Llewellyn, Jr., Interim City Administrative Officer 

Subject: **REPORT BACK ON STAFFING FOR THE DEPARTMENT OF CANNABIS REGULATION**

RECOMMENDATION

Note and file.

SUMMARY

During its consideration of the City Administrative Officer's report dated December 1, 2017 on Cannabis Business Fees (CAO Report), your Committee requested that this Office report back on the staffing plan for the Department of Cannabis Regulation (DCR). In addition, this Office was asked to report back on the necessary resources needed at the DCR for 2018-19, other departments involved in cannabis activity, options for full cost recovery and the feasibility of the Los Angeles Police Commission Investigative Division (CID) to conduct safety and security plan review for cannabis establishment operators.

Staffing

The 2017-18 Adopted Budget includes five positions in the Department of Cannabis Regulation (DCR), and one position in the City Clerk for administrative assistance, to develop rules and regulations to implement and administer local and State law pertaining to cannabis use. A General Fund appropriation, backed by anticipated revenue from application fees, was provided for the five positions in the DCR and the position in the City Clerk. In addition, two resolution authority positions, without funding, were authorized for the DCR (C.F. 14-0366-S4 and C.F. 14-0366-S14) to assist with the administration of the application process for Proposition D cannabis businesses. There are sufficient salary savings within the DCR budget to fund the two resolution authority positions in the DCR.

The Executive Director of the DCR has filled one position and is in the process of filling the remaining positions. However, this process is not anticipated to be completed in time for DCR to conduct pre-inspections of applicant and compliance investigations and inspections for licensed businesses. Furthermore, the DCR does not have the subject matter experts to handle the security pre-licensing responsibilities. It has been suggested that Commission Investigation

Division (CID) of the Los Angeles Police Department perform this work in the interim. The CID is the regulatory arm of the Police Commission with respect to the processing, issuance, investigation, enforcement and discipline of Police Commission permits, such as permits for massage therapists, tow unit operators and pool rooms. The CID could take responsibility for the pre-licensing activities until such time as the DCR has the resources necessary to handle this function. The fees charged for these inspections would offset any resources required at the CID. At this time, we do not have sufficient information to be able to provide an analysis related to the other options for inspections by Building and Safety. Without a mechanism for the pre-licensing for the second phase of applicants after the Proposition D group, it is unlikely that any additional licenses would be issued in 2017-18.

Revenue

The DCR will be able to meet the revenue target for 2017-18 based on processing a minimum of 150 cannabis applications. The revenue projection for 2017-18 did not include processing any applications outside of the Proposition D eligible group, as policy decisions had not been made as to when the applicant periods would begin or how eligibility to apply would be determined. Were the application windows for additional phases open in 2017-18, the additional revenue generated by the fees would be available to offset the cost of positions directly involved in the processing applications.

The 2017-18 Adopted Budget includes \$16 million in cannabis-related revenue for City services. This Office does not have revenue projections for 2018-19 at this time. The amount of revenue is dependent on the number of businesses that are licensed by the City. The City is unlikely to receive \$50 million in cannabis-related revenue in 2018-19 based on the current plan to phase in additional licensed businesses.

Appeal Fee

This Office recommended a Cannabis Appeal Fee (\$4,687) that would apply in the event an applicant or any other person grieved by the decision makes a timely appeal within the period established in the rules and regulations. The appeal fee was based on a fee study conducted by this Office and may be updated once an analysis of the appeal process is completed. At that time, the length of the fee process would be a consideration in the revised appeal fee. The Council included an amendment to the CAO Report that would reduce the appeal fee to \$100 for a non-applicant, which would add a \$4,587 General Fund obligation for every appeal submitted to the DCR. For the first application group, assuming the City receives 150 applications and an appeal is made on each of the sites, the impact to the General Fund would be \$688,050. This amount could be significantly higher for subsequent application phases. As this subsidy would not be able to be charged to cannabis-applicants, it would impact the amount of tax revenue available for City services.

As previously reported, this Office has received a number of cannabis-related budget requests as part of the fiscal year 2018-19 budget process. These requests will be reviewed as part of the annual budget process. This Office has been directed to report back in January, with the

assistance of the DCR, Los Angeles Fire and Police Departments, on the resources necessary for pre-licensing inspections and enforcement against unlicensed commercial activity. This office will continue to work with DCR and the various City Departments to identify the resources required to implement cannabis regulations and to regulate commercial cannabis activity.

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