

**DEPARTMENT OF  
CANNABIS REGULATION**

CANNABIS REGULATION  
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April 24, 2020

The Honorable Members of the Budget and Finance Committee  
c/o Office of the City Clerk  
City Hall, Room 395  
Los Angeles, California 90012

Attention: Mandy Morales, Legislative Assistant

**DEPARTMENT OF CANNABIS REGULATION 2020-21 PROPOSED BUDGET**

Dear Honorable Members:

The Department of Cannabis Regulation (Department) appreciates the funding and resources included in the Mayor's Fiscal Year (FY) 2020-21 Proposed Budget. The Department would like to thank the Mayor and his Budget Team for their support during the budget process and for continuing key resources that support the Department's licensing, social equity, public education, outreach, and compliance programs.

The Department recognizes the impact that the COVID-19 Pandemic continues to have on the City and the fiscal emergency that has ensued. As we contemplate the budgetary constraints the City faces in FY 2020-21, we acknowledge that the City has to make difficult decisions such as temporarily eliminating the General Fund appropriation for Business, Licensing, and Compliance Technical Assistance. However, the Department's personnel are fully special funded and furloughs for Department personnel will not generate any General Fund savings that can be repurposed to support other core City services. The imposition of furlough days will negatively impact the Department's overall day-to-day operations and will consequently lead to processing delays that will negatively impact business tax and sales tax revenue collection. With this in mind, the Department requests an exemption from the proposed furloughs for all positions funded by the Cannabis Regulation Special Revenue Trust Fund (Fund No. 60E).

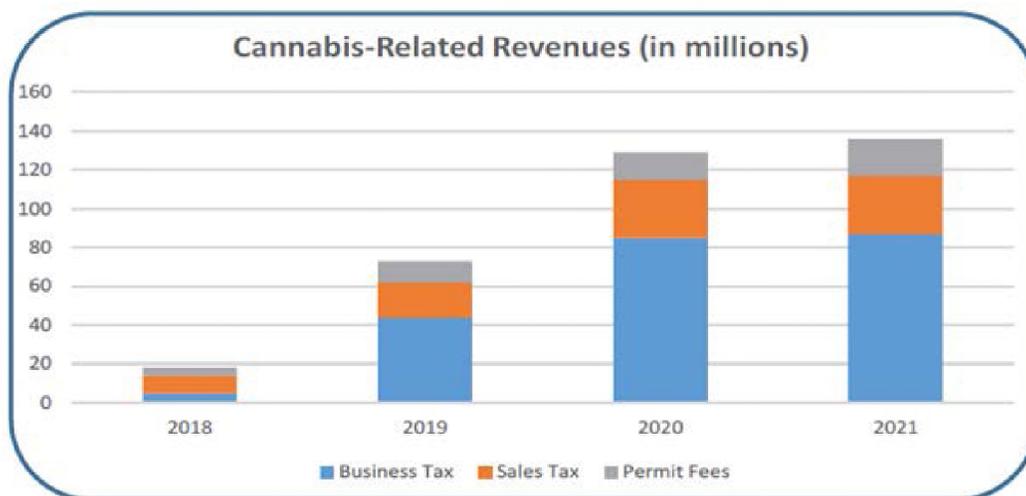
Additionally, the Department requests the Budget and Finance Committee's support to convert four existing Management Assistant positions to four Management Analyst positions, to convert two existing Administrative Clerk positions to two Senior Administrative positions, and to add resolution authority for two Special Investigator II positions to support the Department's investigatory and code compliance programs. The Department will completely absorb the cost of the six position conversions and two Special Investigator II positions within its existing budget appropriation. The new Special Investigator II positions are critical to ensuring oversight within the City's expanding licensing and regulatory programs and as such will be responsible for examining allegations of code violations, such as sales to minors, after-hours sales, failure to adhere to the Department's Rules and Regulations, collusion between licensees and non-licensees (diversion), and will act as liaisons for Department staff, outside agencies, and citizens making complaints against, or sharing regulatory compliance information regarding, licensed businesses.

**Overview of Commercial Cannabis Fees and Tax Receipts**

The Department of Cannabis Regulation continues to administer its licensing and regulatory programming expanding the number of businesses lawfully authorized to engage in commercial cannabis activity within the City of Los Angeles. In addition to processing annual license applications for approximately 400 *existing* commercial cannabis businesses with Temporary Approval and processing approximately 400 additional applications for *existing* businesses that have yet to receive Temporary Approval during FY 2020-21, the Department will continue to expand its responsibilities by accepting and processing additional applications for *new* businesses. By June 30, 2021, the Department anticipates that a minimum of 825 businesses will have local authorization and Temporary Approval to engage in commercial cannabis activity within the City.

Commercial cannabis business activity provides three direct sources of revenue to the City: license fees and fines, business taxes, and sales taxes. License fees and fines are deposited into the Department’s Cannabis Regulation Special Revenue Trust Fund to offset the Department’s direct and indirect operational costs, while business and sales tax receipts are deposited into the General Fund as unrestricted revenue. Since the beginning of the City’s medical and adult-use commercial cannabis licensing and regulatory program on January 1, 2018, commercial cannabis business tax and sales tax revenue has increased significantly.

The cannabis industry is projected to remit \$84 million in business taxes to the City next year, in addition to over \$30 million in related sales tax receipts and \$14 million from cannabis license fees and fines. These amounts will continue to expand provided the Department is allowed to move forward in its efforts to license new cannabis businesses. The City anticipates a steady expansion of cannabis-related revenue despite the COVID-19 Pandemic. Commercial cannabis businesses are essential businesses within the City that continue to operate during the Safer at Home Executive Order. The Mayor’s Proposed Budget assumes higher projections for business tax receipts and license fees due to deferred revenue collection attributed to the COVID-19 Pandemic. The Department anticipates that the City will begin to collect this deferred revenue when City Hall’s public counters reopen to the public and businesses are again able to remit outstanding renewal fees, application fees, and business taxes. The graph below shows the progression of actual City revenues relating to licensed commercial cannabis business activity for fiscal years 2018 and 2019, along with the Controller’s projected receipts for 2020 and 2021.

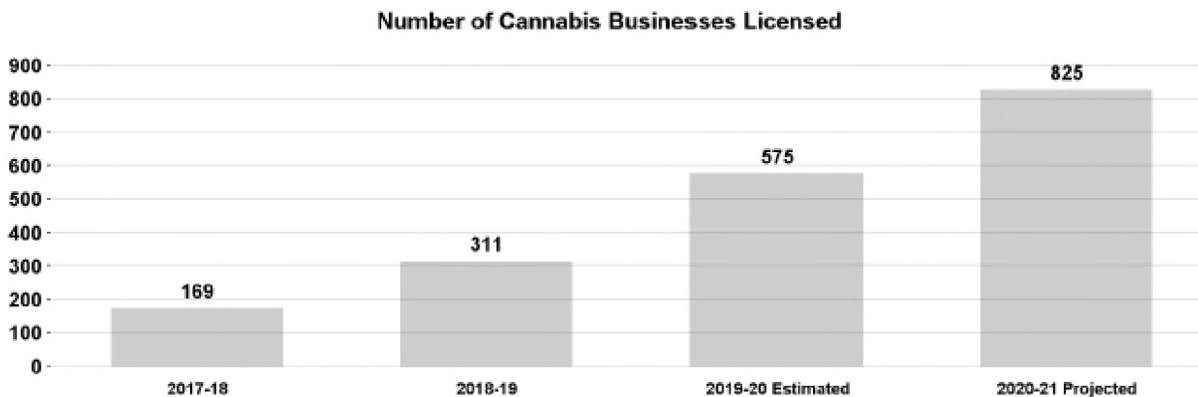


**Overview of the Department’s Requested Personnel Changes**

Approximately half of the Department’s personnel are new civil servants and/or serve in an entry-level civil service position. Six of the Department’s 29 filled positions are occupied by employees hired through the City’s Targeted Local Hire Program. Existing staff have demonstrated a good working knowledge of the Department’s functions and are beginning to exercise independent judgment in reviewing application documents, writing staff reports, and making recommendations to management. As the number of authorized businesses increases and the Department shifts away from team based application review to independent application review, it is important to adjust the job classifications to reflect this shift in workload. Adjusting the Department’s position authorities to reflect more independent licensing assignments will also allow the Department to retain its most competent and well-qualified staff.

The Department requests the Budget and Finance Committee’s support to convert four existing Management Assistant positions to four Management Analyst positions (BB# 8) and convert two existing Administrative Clerk positions to two Senior Administrative Clerk positions (BB#8 and BB#10). The Department is not requesting additional funding for these position conversions and it will absorb the additional cost within its existing budget appropriation. Each Management Analyst is expected to manage a caseload of 100 active businesses and independently research, assemble, analyze, and interpret application data and monitor licensing activities. These staff members also prepare correspondence and reports with recommendations to management and the Cannabis Regulation Commission on a wide-variety of licensing, administrative, fiscal, grants, and legislative issues. Senior Administrative Clerks are expected to assist the public and other City employees in matters that require a good working knowledge of departmental activities, policies, and procedures. Existing staff use information retained in databases and are required to perform data entry, retrieval, and inquiry by adding, deleting, or changing data in these databases.

The Department also requests the Budget and Finance Committee’s support for two unfunded Special Investigator II positions to support the Department’s investigatory and code compliance programs for authorized commercial cannabis businesses. These positions will examine allegations of code violations (sales to minors, after-hours sales, failure to adhere to the Department’s Rules and Regulations, etc.), collusion between licensees and non-licensees (diversion), and act as liaisons for department staff, outside agencies, and citizens making appropriate referrals based on their investigative findings. As the number of authorized commercial cannabis businesses with Temporary Approval increases to 825 locations next year, it’s extremely important for the Department to have the capacity to address constituent complaints, conduct routine investigatory and code compliance inspections, and address allegations of noncompliance with requirements of law and/or the Department’s adopted Rules and Regulations. The chart below illustrates the anticipated change in commercial cannabis businesses with Temporary Approval from January 1, 2018 to June 30, 2021.



The Special Investigators will: 1) investigate allegations of noncompliance; 2) interview witnesses, complainants, vendors, and contractors; 3) secure facts and evidence to establish the extent and nature of the allegations being investigated; 4) obtain and reviews records from applicants and licensees authorized to conduct business within the City; 5) prepare oral and written reports with investigative findings; 6) appear in administrative proceedings as a witness; and, 7) act as liaisons for department staff, outside agencies, and citizens. The Special Investigators are anticipated to conduct, up to, 250 investigations per year. A breakdown of the anticipated number of cases, number of investigation hours, and type of investigation is provided below. The investigation hours assume time to write reports, as well as time participating/presenting written findings in administrative proceedings.

Investigations per Year	Average No. of Hours per Case	Total Hours per Fiscal Year	Type of Investigation
20	100	2,000	Complex investigations requiring "mystery shops", after hour surveillance, interviewing many parties, etc. - Investigations associated with suspected Major Violations.
80	20	1,600	May require "mystery shops", after hour surveillance, or interviewing some parties, etc. - Investigations associated with suspected Medium Violations.
150	4	600	May require "mystery shops" or interviewing a few parties - Investigations associated with suspected Minor Violations.

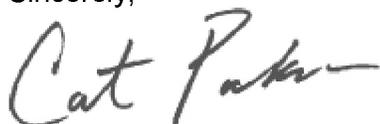
**Conclusion:**

The Department recognizes the budgetary constraints the City faces in FY 2020-21 and is prepared to contribute to the City’s overall fiscal health by ensuring licensed commercial cannabis business activities advance as projected and continue to provide an on-going revenue stream to the City. Inclusive of deferred FY 2019-20 receivables, the licensed commercial cannabis industry is projected to remit \$99 million in business taxes, in addition to over \$30 million in related sales tax receipts, and \$18 million from cannabis license fees and fines next year. Since the Department is fully special funded, furloughs will not generate any General Fund savings that can be repurposed to other core City services. The imposition of furlough days will negatively impact the Department's overall day-to-day operations creating processing delays that will negatively impact business tax and sales tax revenue collection.

With this in mind, the Department requests the Budget and Finance Committee’s support to: 1) exempt all positions funded by the Cannabis Regulation Special Revenue Trust Fund (Fund No. 60E) from the proposed furloughs; 2) convert six existing positions to four Management Analyst and two Senior Administrative Clerk positions; and, 3) add position authority for two Special Investigator II positions.

We appreciate your leadership, as well as your careful consideration of our request and look forward to discussing these important items with the Committee. Thank you for this opportunity to address your Committee. If you have any questions, please contact me at (213) 978-0738.

Sincerely,



CAT PACKER  
 Executive Director  
 Department of Cannabis Regulation

- c: Honorable Nury Martinez, City Council President
- Miguel Sangalang, Deputy Mayor for Budget and Innovation
- William Chun, Deputy Mayor for Economic Development
- Richard Llewellyn, City Administrative Officer
- Sharon Tso, Chief Legislative Analyst