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CANNABIS REGULATION

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September 14, 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

CANNABIS REGULATION – RESPONSE TO PROPOSED FURLOUGHS FY 20-21 (C.F. No. 20-0948)

Dear Honorable Members:

The Department of Cannabis Regulation (DCR) appreciates the funding and resources included in the Fiscal Year (FY) 20-21 Adopted Budget. Due to the current fiscal emergency, the City is considering cost saving measures such as a hiring freeze, furloughs, layoffs, and expenditure reductions. Regarding DCR's budget, implementing these measures will not generate General Fund savings, but these measures will result in reduced General Fund revenue (business and sales taxes) generated by commercial cannabis businesses. DCR's FY 20-21 Adopted Budget of $4.5 million is fully funded by the Cannabis Regulation Special Revenue Trust Fund (Fund No. 60E). Currently, DCR is projecting a $250,000 surplus in its operating accounts. The surplus is in addition to the budgeted managed hiring/hiring freeze reduction, furlough reduction, and all other reductions included in the FY 20-21 Adopted Budget. Since July 1, 2020, DCR has collected $2.3 million in license and permit revenue. Additionally, DCR received $7.8 million in state grant funding for the Social Equity Program in July.

DCR's personnel are fully special funded. Furloughing DCR personnel for 18 days will generate $236,610 in special fund salary savings. These furloughs will negatively impact DCR's day-to-day operations and consequently lead to licensing and payment processing delays that will negatively impact General Fund business and sales tax revenue collection. <u>Approximately $8.5 million in budgeted General Fund tax revenue will not be realized if DCR personnel are furloughed.</u>

Through its licensing and regulatory programs, DCR continues to expand the number of businesses authorized to engage in commercial cannabis activity within the City of Los Angeles. By June 30, 2021, DCR anticipates that a minimum of 825 businesses will have local authorization and Temporary Approval to engage in commercial cannabis activity within the City. Furloughing DCR personnel may reduce the projected number of authorized commercial cannabis businesses by, up to, 100 businesses and will reduce anticipated FY 2020-21 General Fund tax revenue by $8.5 million.

Simply put, generating $236,610 in Special Fund savings through the furlough program will result in an $8.5 million reduction in unrestricted General Fund revenue. With this in mind, DCR requests an exemption from the proposed furloughs for all positions funded by the Cannabis Regulation Special Revenue Trust Fund (Fund No. 60E).

Overview of FY 2020-21 Commercial Cannabis Fees and Tax Receipts

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 DCR's Cannabis Regulation Special Revenue Trust Fund to offset the DCR'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 and sales tax revenue has increased significantly.

Inclusive of deferred FY 2019-20 receivables, the licensed commercial cannabis industry is projected to remit $99 million in business taxes, $30 million in related sales tax receipts, and $17 million from cannabis license fees and fines this fiscal year. Commercial cannabis businesses are essential businesses within the City that continue to operate during the COVID-19 Pandemic.

Furloughing DCR personnel will create a four week application processing delay. This delay will reduce budgeted General Fund tax revenue by $8.5 million.

Conclusion

DCR 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. The imposition of furlough days will negatively impact DCR's overall day-to-day operations which will lead to processing delays that negatively impact business tax and sales tax revenue collection. To generate $236,610 in special fund savings, the City would sacrifice $8.5 million in unrestricted General Fund revenue.

With this in mind, DCR requests the Budget and Finance Committee's support to exempt all positions funded by the Cannabis Regulation Special Revenue Trust Fund (Fund No. 60E) from the adopted furlough program.

Thank you for this opportunity to address your Committee. If you have any questions or need further information, please contact Jason Killeen at (213) 978-0738.

Sincerely,

Cat Packer

CAT PACKER
Executive Director
Department of Cannabis Regulation