

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: August 14, 2017

CAO File No. 0220-05294-0001

Council District: All

Council File No. 14-0366-S5

To: The Mayor
The Council

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

Reference: Council File No. 14-0366-S5

Subject: **CANNABIS BUSINESS FEES AND INTERIM POSITION AUTHORITY TO IMPLEMENT CANNABIS REGULATIONS WITHIN THE CITY**

RECOMMENDATIONS

That the Council, subject to the approval of the Mayor:

1. Authorize by resolution the following four positions within the Office of Finance for a term of September 1, 2017 to June 30, 2018 to support the coordination of tax audits and other functions related to regulating cannabis businesses within the City of Los Angeles (City), subject to position allocation by the Board of Civil Service Commissioners (CSC) and pay grade determination by the Office of the City Administrative Officer (CAO), Employee Relations Division (ERD):

| <u>No.</u> | <u>Class Code</u> | <u>Class Title</u> |
|------------|-------------------|--------------------|
| 4 | 1514-2 | Tax Auditor II |

2. Authorize by resolution the following position within the Information Technology Agency (ITA) for a term of September 1, 2017 to June 30, 2018 to support the administration and implementation of technology solutions related to the application, licensing, renewal, revocation processes for cannabis businesses and other functions related to regulating cannabis businesses within the City, subject to position allocation by the CSC and pay grade determination by the CAO, ERD:

| <u>No.</u> | <u>Class Code</u> | <u>Class Title</u> |
|------------|-------------------|------------------------|
| 1 | 1431-3 | Programmer Analyst III |

3. Authorize by resolution the following six positions within the Office of the City Attorney (City Attorney) for a term of September 1, 2017 to June 30, 2018 to support: 1) the establishment of rules and regulations to implement local and State law pertaining to cannabis use; 2) the administration of the application, licensing, renewal, and revocation processes for cannabis businesses; and, 3) the coordination of inspections, audits, and other functions related to regulating cannabis businesses within the City, subject to position allocation by the CSC and pay grade determination by the CAO, ERD:

| <u>No.</u> | <u>Class Code</u> | <u>Class Title</u> |
|------------|-------------------|--------------------------|
| 1 | 0598 | Assistant City Attorney |
| 1 | 0596 | Deputy City Attorney III |
| 2 | 0595 | Deputy City Attorney II |
| 1 | 0580 | Legal Secretary |
| 1 | 0577 | Paralegal II |

4. Authorize by resolution the following 66 positions within the Police Department for a term of September 1, 2017 to June 30, 2018 to support: 1) the establishment of rules and regulations to implement local and State law pertaining to cannabis use; 2) the administration of the application, licensing, renewal, and revocation processes for cannabis businesses; and, 3) the coordination of inspections, audits, and other functions related to regulating cannabis businesses within the City, subject to position allocation by the CSC and pay grade determination by the CAO, ERD:

| <u>No.</u> | <u>Class Code</u> | <u>Class Title</u> |
|------------|-------------------|-----------------------------------|
| 1 | 2232-2 | Lieutenant II |
| 8 | 2223-3 | Detective III |
| 5 | 2223-2 | Detective II |
| 13 | 2223-1 | Detective I |
| 1 | 2227-2 | Sergeant II |
| 36 | 2214-3 | Police Officer III |
| 1 | 2236-2 | Crime and Intelligence Analyst II |
| 1 | 1368-0 | Senior Administrative Clerk |

5. Authorize by resolution the following 13 positions within the Fire Department for a term of September 1, 2017 to June 30, 2018 to support: 1) the establishment of rules and regulations to implement local and State law pertaining to cannabis use; 2) the administration of the application, licensing, renewal, and revocation processes for cannabis businesses; and, 3) the coordination of inspections, audits, and other functions related to regulating cannabis businesses within the City, subject to position allocation by the CSC and pay grade determination by the CAO, ERD:

| <u>No.</u> | <u>Class Code</u> | <u>Class Title</u> |
|------------|-------------------|----------------------|
| 8 | 2128-1 | Fire Inspector I |
| 1 | 2128-2 | Fire Inspector II |
| 1 | 2142-1 | Fire Captain I |
| 1 | 1358-0 | Administrative Clerk |
| 1 | 9184-0 | Management Analyst |
| 1 | 2330-0 | Industrial Hygienist |

6. Request the City Attorney, with the assistance of the CAO, to prepare and present the necessary ordinances to effectuate the following fees:
- a. Cannabis Business Tax Audit Fee - \$3,502
 - b. Cannabis Business Application Fee - \$8,748
 - c. Cannabis Business Annual Renewal Fee for Compliant Businesses - \$1,500
 - d. Cannabis Business Plan Review Fee - \$7,532
 - e. Cannabis Business Field Verification and Security Inspection Fee - \$19,755
 - f. Cannabis Business Hazardous Materials and Fire Inspection Fee - \$7,530
 - g. Cannabis Business Code Violation Inspection Fee - \$21,138
7. Request the City Attorney, with the assistance of the CAO, to prepare and present an ordinance establishing a seven percent Cannabis Systems Development Surcharge that shall be applied to all Cannabis Business fees to defray the systems development and technology costs associated with purchasing, implementing, and maintaining systems that support the regulation of cannabis businesses within the City;
8. Request the City Attorney, with the assistance of the CAO, to prepare and present an ordinance establishing the Cannabis Regulation Special Revenue Fund for the receipt, retention, and disbursement of fees relating to the regulation of cannabis businesses within the City;

9. Authorize the Executive Director of the Cannabis Department, with the assistance of the City Attorney and the CAO, to negotiate and execute a contract with Accela, Inc. (Accela) for the provision of professional services related to the implementation of the Accela Civic Platform, post-implementation user training and support, and associated subscription fees to support the regulation of cannabis businesses within the City for a total contract amount not to exceed \$2.5 million, and for a term of three years with two one-year renewal options, subject to the review and approval of the City Attorney as to form and compliance with the City's contracting requirements, satisfactory contractor performance, and ongoing need; and,
10. Instruct the ITA, with the assistance of the Cannabis Department and the CAO, to create a Cannabis Department website and update existing City websites to: 1) make cannabis business applications available to the public in one easy to find location; 2) provide information and links to direct applicants to the Accela platform; 3) provide a place to post Public Hearing dates for specific applications; 4) provide up to date information to the public; 5) make all cannabis related business in the City transparent; and 6) direct cannabis related inquiries to the new Department's website.

SUMMARY

On March 7, 2017, voters approved Proposition (Prop) M, which affirmed the Council and Mayor's authority to regulate all aspects of commercial cannabis activity in the City and established gross receipt tax rates for commercial cannabis activity. The 2017-18 Adopted Budget established the Cannabis Department to develop rules and regulations to implement local and State law pertaining to cannabis use, administer the application, licensing, renewal, and revocation processes for cannabis businesses, and coordinate with other City departments to ensure timely completion of inspections, audits, and other functions related to regulating cannabis businesses within the City.

The recommendations included in this report will: 1) establish interim position authority for City departments involved in the administration of application, licensing, renewal, or revocation processes for cannabis businesses; 2) establish fees for special services tied to the regulation and licensing of cannabis related businesses; 3) establish code violation fees for illegal operators and unlicensed cannabis related businesses; 4) establish a systems development surcharge to defray the systems development and technology costs associated with the regulation of cannabis businesses; 5) establish a special revenue fund for the receipt, retention, and disbursement of fees relating to the regulation of cannabis businesses; 6) authorize a professional services agreement to implement the Accela Civic Platform to support the regulation of cannabis businesses; and 7) create a Cannabis Department website.

FISCAL IMPACT STATEMENT

There is no anticipated General Fund impact. Adoption of the fees and surcharges included in this report will support the recommended positions on an on-going basis. Our Office anticipates that the timing of fee collection will coincide with resource deployment. If necessary, gap funding will be addressed in the Mid-Year Financial Status Report. The recommendations included in this report are consistent with the City's Financial Policies as on-going expenditures will be fully supported by on-going revenues.

ADDITIONAL RESOURCES FOR CITY DEPARTMENTS

Implementation of cannabis regulations within the City will require the coordinated efforts of various departments. As such, additional resources are recommended for departments that will be involved in the administration of the application, licensing, renewal, and revocation processes for cannabis businesses.

Building and Safety

At this time, the Department of Building and Safety (DBS) does not require additional resources. However, if the DBS engages in the proactive cannabis regulation monitoring and inspection processes in the future, then the DBS will require additional resources to be allocated to the DBS Code Enforcement Bureau to support enforcement efforts.

City Attorney

The Office of the City Attorney (City Attorney) will provide legal advice and analysis regarding cannabis related matters. To address the anticipated workload, the City Attorney requires one Assistant City Attorney, one Deputy City Attorney III, two Deputy City Attorney IIs, one Legal Secretary, and one Paralegal II to support cannabis regulation within the City.

Finance

The Office of Finance (Finance) will conduct pre-application tax audits on existing cannabis businesses with a valid Business Tax Registration Certificate (BTRC) to ensure that each business receiving priority status under Proposition M is current on their taxes. The recommended four Tax Auditors will process approximately 288 audits per year and will complete the necessary pre-application tax audits on existing cannabis businesses. As the City transitions to the Proposition M tax structure, it is important to prevent the underpayment or evasion of taxes due to the City from new cannabis businesses. Therefore, Finance will conduct audits on all cannabis businesses every two years. It is anticipated that Finance will need additional resources in future years to maintain a two-year audit cycle.

Fire

The Fire Department (LAFD) is requesting eight Fire Inspector Is, one Fire Inspector II, one Fire Captain I, one Administrative Clerk, one Management Analyst, and one Industrial Hygienist dedicated to cannabis inspections. This unit will be housed within the LAFD Fire Prevention Bureau (FPB) Certified Unified Program Agency (CUPA) and will be responsible for the regulation of hazardous materials, hazardous waste and the Fire Code.

Information Technology Agency

The Information Technology Agency (ITA) will project manage the implementation of the Accela Civic Platform system on behalf of the Cannabis Department. On an on-going basis, a Programmer Analyst III will support the administration of application, licensing, renewal, revocation processes within the system, maintain the Cannabis Department website, and other technology functions related to regulating cannabis businesses within the City.

Police

The Police Department (LAPD) cannabis application, inspection, and enforcement model is structured around a centralized unit in the Gang and Narcotics Division (GND) and their bureau divisions. This model provides the LAPD with the most flexibility to customize and adjust their inspection and enforcement efforts as needed to accommodate the unique geographic aspects of each bureau.

Cannabis Business Administrative Team (CBAT) – Seven positions

The CBAT will be housed within the GND. Their responsibilities include training, oversight monitoring, and acting as a liaison with other teams, Boards, and Commissions throughout the City and State. Furthermore, they shall create and conduct Standard Training of Cannabis Retailers (STOCR) classes. The CBAT team will be comprised of seven total positions, five sworn and two civilians, consisting of one Lieutenant II, four Deputy IIIs, one Senior Administrative Clerk, and one Analyst.

Cannabis Business Inspection Team (CBIT) – Five positions

The CBIT will be responsible for enforcement compliance, conducting criminal background checks using Live Scan results, and function as liaisons with city departments related to pre-inspections of Cannabis Businesses. The CBIT is comprised of five sworn individuals consisting of one Sergeant II and four Police Officer IIIs. Additionally, CBIT would review and approve the cannabis business applicants' Security Plan, inspect security camera system(s), and request and maintain copies of security videos.

Cannabis Business Enforcement Team (CBET) – 54 positions

Each LAPD Bureau will have a CBET team consisting of one Detective II, one Detective II, three Detective Is, and seven Police Officer III or IIs. In addition the standard CBET team, the Valley Bureau will have six additional positions consisting of one Detective II, one Detective III, and four additional Police Officer IIIs or IIs given the geographic size of this Bureau. The CBET will conduct compliance checks, inspections, and investigations of criminal activities related to cannabis businesses at the direction of the Cannabis Department, State Cannabis Board, City Attorney, and other community or agency complaints. The teams will assist other departments with inspections, as needed, and act as a liaison with departments regarding follow-up and inspections.

SOCIAL EQUITY

The Council instructed the Office of the Chief Legislative Analyst (CLA) to solicit a social equity analysis of cannabis regulations aimed at promoting equitable ownership and employment opportunities in the cannabis industry in order to decrease disparities in life outcomes for marginalized communities and to address disproportionate impacts of the wars on drugs in those communities. The CLA has hired a consultant to conduct such analysis which will be completed by the end of September 2017.

ACCELA CIVIC PLATFORM

Accela Inc. (Accela) developed a cannabis licensing system within their Civic Platform that is currently utilized by the State of Colorado and the City of Denver. In Denver, the system streamlined cross-agency data sharing, moved over 100 different record types to a single database, lowered Denver’s processing times from weeks to days, and saved the City an estimated \$3.5 million over five years. Our Office recommends the Cannabis Department utilize the Accela Civic Platform since the system supports cannabis licensing and regulation processes, has been successfully implemented in other cities and states, and the State of California selected Accela to implement and manage their cannabis licensing system. As envisioned, the City’s system will include a customer web portal, a workflow management platform, electronic application review capabilities, a supporting database, and integration or data sharing with several existing City, County, and State systems.

CANNABIS REGULATION SPECIAL REVENUE FUND

Our Office recommends establishing a Cannabis Regulation Special Revenue Fund (Fund) for the deposit of fees paid by cannabis business applicants. The Fund would be utilized for the receipt, retention, and disbursement of fees relating to the regulation of cannabis businesses within the City and would be administered by the City Clerk of behalf of the Cannabis Department. Creation of the Fund will ensure that all fees and expenditures related to the regulation of cannabis businesses within the City are transparent, self-contained, tracked, and maintained at full-cost recovery.

DRAFT APPLICATION AND LICENSING PROCESS

