


REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: December 1, 2017
To: The Council
From: Richard H. Llewellyn, Jr., Interim City Administrative Officer
Subject: **SUPPLEMENTAL REPORT ON CANNABIS BUSINESS FEES TO IMPLEMENT CANNABIS REGULATIONS WITHIN THE CITY**

CAO File No. 0220-05258-0009
Council File No. 14-0366-S14
Council District: All



RECOMMENDATIONS

That the Council,

1. Request the City Attorney, with the assistance of the CAO, to prepare and present the necessary ordinances to effectuate the following fees:
 - a. Cannabis LAFD Inspection Fee (4-hour minimum): \$918*
*The LAFD Inspector rate is \$216 per hour for inspections exceeding 4 hours.
 - b. Cannabis Appeal Fee: \$4,687
 - c. Cannabis License Modification Fee: \$1,700

2. Request the City Attorney, with the assistance of the CAO, to prepare and present the necessary ordinances to effectuate the following fines:
 - a. Cannabis License Violation Fine - Minor Violation: Amount Equal to 50% of the Cannabis License Fee
 - b. Cannabis License Violation Fine - Moderate Violation: Amount Equal to 150% of the Cannabis License Fee
 - c. Cannabis License Violation Fine - Major Violation: Amount Equal to 300% of the Cannabis License Fee

3. Instruct the City Administrative Officer, with the assistance of the Department of Cannabis Regulation, Los Angeles Fire Department and Los Angeles Police Department, to report back on the resources necessary for pre-licensing inspections and enforcement against unlicensed commercial activity.

SUMMARY

During its consideration of the City Administrative Officer's report dated September 25, 2017 referenced above (CAO Report), the Council requested that this Office report back on a number of items related to the implementation of cannabis regulations within the City, including a report back on fees associated with the regulation of cannabis business, a staffing plan to conduct pre-

inspections of applicants and compliance investigations for licensed businesses and a staffing plan for a surge of enforcement against unlicensed commercial cannabis activity.

Fees

With the adoption of the CAO Report, the Council approved a cannabis business application fee, a cannabis business tax audit fee, and a cannabis business review plan fee to recover the cost associated with providing special services to Proposition D cannabis businesses. The proposed fees reflected the rules and regulations pending before Council at the time the CAO report was considered. This report seeks to clarify these fees based on the revised rules and regulations, and to recommend additional fees necessary to recover the costs associated with providing services to Proposition D cannabis businesses seeking licensure. The fees proposed within this report are based on the fee study conducted for the CAO Report.

The Cannabis LAMC Section 104.07 Retail License Fee (\$9,360), previously referred to as the Cannabis Business Application Fee, applies to a Proposition D cannabis business seeking a retail license. If a Proposition D business seeks to apply for additional licenses types, the applicant would apply for each subsequent license using the Cannabis License Fee (\$8,059), previously referred to as the Business Plan Review Fee.

The fees as originally proposed were anticipated to be the fees required of Proposition D businesses seeking licensure. However, as the rules and regulations have evolved, the fees have been modified to reflect these changes. An applicant seeking a Non-Retail Commercial Cannabis License will be subject to the Cannabis LAMC Section 104.08 License Fee (\$11,806), which includes the Cannabis License Fee (\$8,059) and the Cannabis Business Review Fee (\$3,747), previously the Cannabis Business Tax Audit Fee. The duties previously anticipated to be performed by the Office of Finance will now be performed by the DCR, and thus the fee will be repurposed to reflect the change.

This Office was also asked to report back with a fee for appeals and other fees associated with the regulation of cannabis businesses not previously identified. Applicants seeking licensure would be subject to a Cannabis LAFD Inspection Fee (\$918, based on a four-hour minimum; inspections that exceed four hours would be charged an additional \$216 per hour). This fee was derived using the Fire Department Section 118, Plan-Check and Inspection Fees, effective July 1, 2017. The fee will ensure that the Fire Department is able to recover the costs associated with pre-licensing inspections and annual inspections on an on-going basis. This Office will report back on the allocation of resources necessary to implement the pre-licensing inspections in January 2018.

The Cannabis Appeal Fee (\$4,687) 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 Cannabis License Modification Fee (\$1,700) will enable applicants to modify or makes changes to their organization or business. This Office will report back on any additional fees required to renew a license and other fees, as necessary. The chart below outlines the fees related to cannabis implementation and regulation:

	Fees
Cannabis LAMC Section 104.07 EMMD Retail License Fee	\$9,360
Cannabis LAMC Section 104.08 License Fee	\$11,806
Cannabis License Fee	\$8,059
Cannabis LAFD Inspection Fee	\$918*
Cannabis Appeal Fee	\$4,687
Cannabis Modification Fee	\$1,700
Cannabis License Violation Fine – Minor Violation	Amount equal to 50% of the Cannabis License Fee
Cannabis License Violation Fine – Moderate Violation	Amount equal to 150% of the Cannabis License Fee
Cannabis License Violation Fine – Major Violation	Amount equal to 300% of the Cannabis License Fee

*LAFD Inspector rate is an additional \$216 per hour for inspections exceeding 4 hours.

Staffing Resources

Implementation of cannabis regulations within the City will require the coordinated efforts of various departments. The 2017-18 Adopted Budget included 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. In addition, resolution authority positions were authorized for the Departments of Finance (C.F. 17-0600-S31), City Attorney and DCR (CAO Report) to assist with the administration of the application process for Proposition D cannabis businesses. The CAO reported dated August 14, 2017, Cannabis Business Fees and Interim Position Authority to Implement Cannabis Regulations within the City, recommended a number of positions for the Los Angeles Fire Department (Fire) and Los Angeles Police Department (Police); however the request for those authorities was subsequently withdrawn while the rules and regulations were developed. This Office was directed to report back, with the assistance of the affected departments, with a staffing plan and resources necessary to 1) conduct pre-inspections of applicants and compliance investigations and inspections for licensed business and 2) a staffing plan for a surge of enforcement against unlicensed commercial cannabis activity to begin on April 1, 2018. As the final rules and regulations have not been adopted and key policy decisions remain, this Office is not prepared to make recommendations regarding the resources required to regulate the cannabis market. The final determination of criteria for eligible businesses that will

receive priority processing will assist in identifying and determining the appropriate deployment of resources.

As part of the fiscal year 2018-19 budget process, this Office has received a number of cannabis-related budget requests, including requests to continue position authority and provide funding for the interim positions received in 2017-18 and requests for additional resources. These requests will be reviewed as part of the annual budget process. However, it is recommend that this Office 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.

FISCAL IMPACT STATEMENT

There is no anticipated General Fund impact from the recommendations contained within this 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.

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