

From: Ian Thompson
Sent: Tuesday, March 26, 2019 5:20 PM
To: Honorable Nick Pacheco
Subject: Re: URGENT: \$40 million Revenue from Cannabis Fees & Taxes

Hi Mr. Pacheco:

Attached is the report from which the figure came. The \$40 million is projected business tax receipts only. In addition, the City is projecting \$12.6 million in permit fees and about \$1 million in sales tax receipts.

18/19: BTax: \$40M PFee: \$12.6 STax: \$1M = Total: \$53.6M* (3/1/19 report)

Next year, we're projecting only about \$41 million in business tax receipts, \$11 million in permit fees.

19/20: BTax: \$41M PFee: \$11M STax: N/R = Total: \$52M (3/26/19 email)

Remember, these are all projections and not certainties.

Best,
Ian

***appears to be \$23.6M surplus,
based on \$30M Proj Rev in
18 - 19 Budget**

Ian Thompson

Communications Director

Office: (213) 978-7200 | Cell: (310) 490-8595

Email: ian.thompson@lacity.org



Historic Cannabis Revenue Collected:

2012 - 2017 \$ 45,970,327.65

2018: \$30,121,958.45

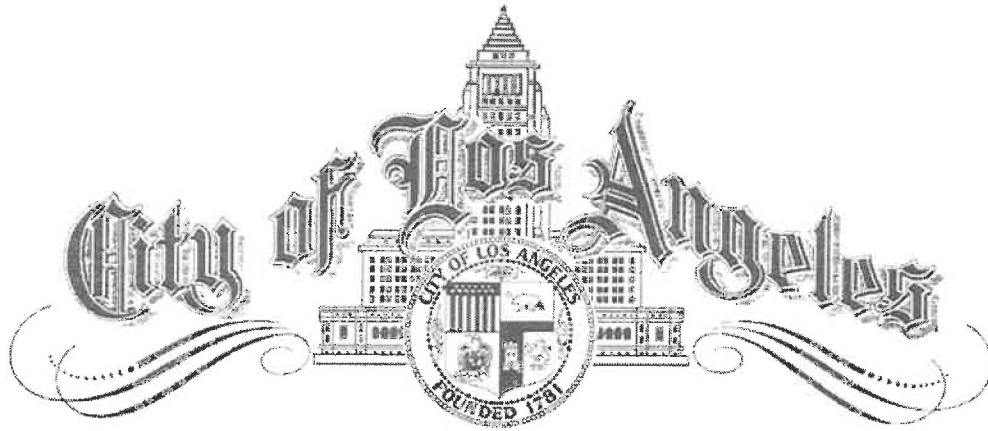
On Sun, Mar 24, 2019 at 7:15 AM Honorable Nick Pacheco <nickpacheco@cannabudsman.com> wrote:

Mr. Thompson,

On March 1, 2019 you issued a Press Release "L.A. Controller Urges Budget Restraint ..." and in it you stated,

- This year, the City is projected to generate \$40 million from cannabis related licensing fees and business taxes, which could grow if the City intensifies its efforts to permit new cannabis businesses and enforce against illegal ones.

Before I get into the purpose of my email I would like to thank you for reminding the City family that a key to increase revenues for the City is enforcement against illegal operators.



RON GALPERIN
CONTROLLER

March 1, 2019

Honorable Eric Garcetti, Mayor
Honorable Members of the City Council

Re: Revenue Forecast Report

In accordance with City Charter Section 311(c), I submit my revenue forecast for fiscal years 2018-19 and 2019-20. Also included are the 2019-20 debt service requirements.

The City's adopted budget for 2018-19 totals \$9.9 billion. Two-thirds, or \$6.19 billion, is General Fund revenue, while the balance, \$3.71 billion, is special purpose funds revenue. The forecast provides updated revenue estimates for the current fiscal year, and projects them for the next, so as to better inform the City's budget decisions.

To develop our forecast, the Controller's Office collected revenue projections from City departments, reviewed recent economic reports and projections, and met with local economists from Beacon Economics and UCLA Anderson School of Management. Although forecasts necessarily involve a modicum of uncertainty, this report represents our best estimates based on the totality of the information available to us. Seeking to promote responsible budgeting in the year ahead, this report aims to provide modest revenue forecasting.

Unlike previous reports, we present this forecast in the form of ranges — giving each category of revenue both a more conservative and a more optimistic estimate. This is consistent with best practices for revenue forecasting and provides a more nuanced approach to predicting the City's likely receipts. We believe this also introduces another layer of context to our analysis.

Projected expenses to outpace revenue growth

General Fund receipts for the current year are estimated to be between \$6.14 and \$6.21 billion, a 5.5 to 6.7 percent increase over 2017-18. Higher than anticipated revenues from the property and business taxes are offset, however, by projected shortfalls in the hotel tax, the telephone users tax and parking fines. Receipts from billboards anticipated in the current budget have not materialized as the City has yet to act on a revised policy.

For fiscal year 2019-20, General Fund receipts are projected to be between \$6.29 and \$6.39 billion, 2.4 to 2.9 percent more than 2018-19. The revenues driving the current year's growth should continue to increase, but be partially offset again by reductions in the telephone users tax and parking fines.

While the projected General Fund growth will continue next year, it likely will be eclipsed by the estimated 4.4 percent increase in expenditures in 2019-20, which is mainly attributable to the cost of employee salaries and benefits. Short-term fixes and small adjustments can bolster the City's bottom line now; however, any unanticipated economic stress would put L.A. in a much more precarious financial situation going forward.

In order to strengthen the overall balance sheet, the City must work diligently to boost and diversify its revenue. City leaders need to deliver on promised revenue streams, such as from billboards, while carefully considering the implications of policy actions that may result in greater General Fund spending.

One new revenue source stems from the statewide legalization of cannabis and the development of a local regulatory structure. In the current year, cannabis businesses are projected to remit almost \$40 million in business taxes to Los Angeles, in addition to sales tax receipts. This amount could potentially expand, if the City is able to move forward more expediently in its efforts to permit new cannabis businesses and better enforce against illegal sales.

Need for budgetary restraint

A noteworthy concern highlighted in this report is the City's regular use of the Reserve Fund to balance the budget. As a matter of practice, my office's revenue forecasts do not contemplate using the Reserve Fund in this manner, although the City has done so in 15 of the last 20 years. We urge the City not to employ this strategy on a consistent basis, as it does not comport with sound fiscal policy. More than a decade after the Great Recession began, the Reserve Fund has increased significantly to more than \$350 million. But using the City's reserves to balance the budget in growth years means that less money will be available when the economy contracts.

EXHIBIT 3

**GENERAL FUND ECONOMY-SENSITIVE REVENUES
YEAR-TO-YEAR CHANGES**

	Fiscal Year 2018-19	Fiscal Year 2019-20
Property Tax	<p>\$1.988 - \$2.004 billion</p> <ul style="list-style-type: none"> • Total property tax receipts will be \$20 (1.0 percent) to \$35 million (1.8%) above the budgeted amount, mainly due to higher than anticipated prior year secured property tax revenue. • Uncertainty due to supplemental property taxes and delinquency rates contribute to the size of the range. • The estimates reflect growth in total property tax receipts of between 6.9% to 7.8% over 2017-18. 	<p>\$2.099 - \$2.116 billion</p> <ul style="list-style-type: none"> • Total property tax receipts are projected to increase by \$110 (5.8%) to \$112 million (5.9%) over the 2018-19 estimates. • Uncertainty due to supplemental property taxes and delinquency rates contribute to the size of the range.
Utility Users' Tax (Electrical, Telephone, and Gas)	<p>\$653 - \$660 million</p> <ul style="list-style-type: none"> • Electric users' tax receipts are estimated to be \$423 to \$427 million and reflect the approved rate increase. • The lower estimate is based on DWP's projections, and would be 9.4% above 2017-18 (2.9% over budget). The upper estimate is based on current collection trends, and would be 10.5% over 2017-18 (4% over budget). • Telephone users' tax receipts are estimated to be \$156 to \$157 million, \$9.6 to \$10.6 million below budget based on actual collection trend through the first six months of the year. The estimate is 8.3% to 8.9% less than 2017-18. • Gas users' tax receipts are estimated to be \$74 to \$76 million, \$11 to \$13 million above budget based on collection to date. The estimate is 8.8% to 11.8% more than 2017-18. 	<p>\$649 - \$660 million</p> <ul style="list-style-type: none"> • Electric users' tax receipts are estimated to be \$432 to \$437 million and reflect the approved rate increase. This represents 2.1% to 2.3% growth over the current year. • Telephone users' tax receipts are estimated to be \$143 to \$147 million, representing a reduction of 6.4% to 8.3% based on long term trends. • Gas users' tax receipts are estimated to be \$74 to \$76 million, roughly equal to the current year. Restricted supply and severe weather contribute to this level of receipts.
Business Tax	<p>\$594 - \$607 million</p> <ul style="list-style-type: none"> • Business tax receipts are estimated to grow 7.1% to 9.5% over 2017-18. • The estimates include approximately \$40 million in cannabis-related revenues. 	<p>\$617 - \$630 million</p> <ul style="list-style-type: none"> • The forecast reflects 3.8% historical economic growth and \$41 million in cannabis-related revenues. • No assumption is made regarding additional cannabis businesses which



Advancing Legal Medical Marijuana Therapeutics and Research

To: Honorable Members of the Budget Committee

From: Sarah Armstrong JD

Re: July 27, 2018 FBI Press Release Detailing A Debit Card Fraud Case in Los Angeles
January 9, 2018 Providence Journal Article Detailing What Happens When a Bank
No Longer Wishes to Process Debit Cards

Over the weekend you received a detailed letter from me explaining why the nation's largest medical cannabis advocacy group opposes making the use of debit cards by patients compulsory. It is in the Council Files if you missed it.

Attached are two items:

1. An FBI Press Release for a case right here in Los Angeles about a case of debit card fraud, demonstrating how easy it is to hack debit card systems.
2. A Providence Journal Article which discusses the refusal of a bank to process marijuana debit cards after then Attorney General Sessions changed federal policy.

I could have burdened you with hundreds of articles about marijuana and debit cards, a Google search turned up three hundred thousand hits. However, these two articles, which demonstrate how easy it is to hack and how changes at the federal level could gravely affect debit cards, I think you'll find particularly interesting.

Regards,

A handwritten signature in blue ink, appearing to read "Sarah", is written over the typed name.

Sarah Armstrong JD
Director of Industry Affairs
Americans for Safe Access

Headquarters

1300 Clay Street, Suite 600, Oakland CA 94612
PHONE: 510.251.1856

National Office

1806 Vernon St. NW, Suite 100, Washington DC 20009
PHONE: 202.857.4272 FAX: 202.857.4273

General Information

WEB: www.AmericansForSafeAccess.org
TOLL FREE: 1.888.939.4367

R.I. medical marijuana dispensaries shut off from debit-card processing

By Jennifer Bogdan

Posted Jan 9, 2018 at 2:57 PM

Updated Jan 9, 2018 at 6:53 PM

Two of the state's three medical marijuana dispensaries have been shut off from debit-card processing following U.S. Attorney General Jeff Sessions' move last week to undo a policy that kept federal prosecutors from interfering in states where marijuana is legal.

PROVIDENCE — Two Rhode Island medical marijuana dispensaries have been shut off from debit-card processing following U.S. Attorney General Jeff Sessions' move last week to undo a policy that kept federal prosecutors from interfering in states where marijuana is legal.

As of Tuesday afternoon, Summit Medical Compassion Center, in Warwick, and Greenleaf Compassionate Care Center, in Portsmouth, were accepting only cash or check payments.

Both dispensaries use a payment-processing company that works with a bank in Massachusetts where the state's top federal prosecutor, U.S. Attorney for Massachusetts Andrew E. Lelling, has called marijuana a "dangerous drug" and has taken an especially aggressive stance on enforcement.

"I understand that there are people and groups looking for additional guidance from this office about its approach to enforcing federal laws criminalizing marijuana cultivation and trafficking. I cannot, however, provide assurances that certain categories of participants in the state-level marijuana trade will be immune from federal prosecution," Lelling said in a written statement on Monday.

Officials believe the statement quickly set off reactions throughout the industry. Hours later, the dispensaries relying on Massachusetts banking lost their ability to conduct debit transactions.

The Thomas C. Slater Center in Providence, which does not rely on the same processor, has not been affected.

Banking is a complicated issue in the marijuana industry. As marijuana remains illegal under federal law, many banks, which are governed by federal regulators, will not do business with the industry, creating challenges for payroll and investment in marijuana businesses. Credit-card processors often also steer clear. None of Rhode Island's dispensaries accept credit-card payments.

Summit sent out a blast to its email list late Tuesday morning alerting patients about the problem. Greenleaf posted notice on its website stating that debit cards would no longer be accepted "due to recently passed federal policy." Both dispensaries said they are working through alternatives.

Lelling's statement came after advocates of Massachusetts' legalization movement called on him to clarify his intentions as the Bay State prepares to open its first recreational pot shops later this year. Sessions last week rescinded any Obama-era policy that limited prosecution of marijuana operations in states with legal markets. The policy change gives U.S. Attorneys more discretion in deciding how to enforce the law and is expected to create confusion.

JoAnne Leppanen, executive director of the Rhode Island Patient Advocacy Coalition, said the debit-card issue is a "terrible inconvenience," but said the medical marijuana patient community does not feel particularly threatened by Sessions' latest move.

"The patients have been around for a while, so they've lived through a lot of things. I think the general sense is that [Sessions] may be able to slow things down, hold things back, but he won't stop it completely. Medical cannabis is so much a part of life now," Leppanen said.

— jbogdan@providencejournal.com

(401) 277-7493



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CENTRAL DISTRICT *of* CALIFORNIA

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Department of Justice

U.S. Attorney's Office

Central District of California

FOR IMMEDIATE RELEASE

Friday, July 27, 2018

Russian Hacker Sentenced to Nearly 6 Years in Prison in Scheme that Caused \$4.1 Million in Losses with Fraudulent Debit Cards

LOS ANGELES – A Russian national was sentenced today to 70 months in federal prison for hacking into the accounts of two companies and issuing unauthorized debit cards associated with dependent care accounts to conspirators around the world, leading to losses of more than \$4 million.

Mikhail Konstantinov Malykhin, 36, an illegal alien who was living in the Park La Brea district of Los Angeles, was sentenced by United States District Judge Dolly M. Gee after admitting to hacking into the accounts and conspiring to use the fraudulent debit cards.

In addition to the 70-month sentence, Judge Gee ordered Malykhin to pay \$4,131,731 in restitution. Malykhin has agreed to forfeit approximately \$1.3 million in cash and more than \$22,000 in gift cards previously seized by FBI agents from Malykhin's safe deposit boxes, as well as several gold bars, nearly \$30,000 that Malykhin sent to a plastic surgery center, and a 1966 Ford Mustang.

Judge Gee today described Malykhin's offenses as "reprehensible," noting that he had "caused much pain" and "ruined the lives of many of his victims."

Malykhin pleaded guilty in 2016 to two felony offenses – conspiracy to use unauthorized access devices (the stolen debit cards) and unauthorized access to a protected computer.

According to court documents, in late 2015 and early 2016, Malykhin used login credentials supplied to him by another hacker to illegally access the online software platform of a Massachusetts company, which other companies used to manage flexible spending accounts and dependent care accounts. Once he illegally accessed the platform, Malykhin reactivated dormant dependent care accounts associated with an Oregon company and issued debit cards from these accounts with limits of up to \$5 million. Malykhin also illegally accessed the platform and issued debit cards linked to a Colorado company that later went out of business as the result of the losses suffered through the hack.

Malykhin caused the debit cards to be sent to conspirators around the world, including to people in the United States and Russia, where the cards were used to purchase big-ticket items at retail stores, such as Best Buy and Apple in the Los Angeles area. For his part, Malykhin received cash payments, luxury items, and gift cards obtained when items purchased with the fraudulent debit cards were returned.

Malykhin's conduct resulted in over \$4 million in losses, with the now-defunct Colorado company suffering the bulk of those losses, which had to be shouldered by the Massachusetts company in the wake of the primary victim's insolvency. As a result of the losses caused by Malykhin, employees of the Oregon and Colorado companies lost their jobs, as well as investments in those small businesses and retirement savings.

Judge Gee today described some of the victim-impact letters submitted to the court as "heart-breaking" and noted the "lasting emotional harm" that Malykhin had caused the victims.

Last year, five local "runners" who used the fraudulent debit cards at retail locations were sentenced to federal prison.

The case against Malykhin was investigated by the Federal Bureau of Investigation.

The case against Malykhin was prosecuted by Assistant United States Attorney Anil J. Antony of the Cyber & Intellectual Property Crimes Section, with assistance provided by Assistant United States Attorney Jonathan Galatzan of the Asset Forfeiture Section.

Component(s):

USAO - California, Central

Contact:

Thom Mrozek
Spokesperson/Public Affairs Officer
United States Attorney's Office
Central District of California (Los Angeles)
213-894-6947

Press Release Number:

18-121

Updated July 30, 2018

CLASS OF SERVICE DESIRED		NAME	
TELEGRAM		FULL NAME	
DAY LETTER		DEPARTED	
NIGHT MESSAGE		CALL LETTERS	
NIGHT LETTER	X	WEST END LETTER	

WESTERN UNION

NEWCOMB CARLTON, PRESIDENT
A. C. WILLEVEL, FIRST VICE-PRESIDENT

CHECK
TIME FILED

Send the following message, subject to the terms on back hereof, which are hereby agreed to

Col. Arthur M. Woods

Col. Arthur M. Woods
United States Government Coordinator
Unemployment Relief
Washington, D.C.

January 6, 1931.
January 6, 1931

We note press notices this morning. Figure four hundred thousand deportable aliens United States. Stop. Estimate fifty five per cent in this district. Stop. We can pick them all up through police and sheriff channels. Stop. United States Department of Emigration incapsulated to handle. Stop. You advise please as to method of getting rid. Stop. We need their jobs for needy citizens. **We need their jobs for needy citizens.**

LOS ANGELES CITIZENS COMMITTEE
COORDINATION UNEMPLOYMENT RELIEF
C P VISEL
COORDINATOR
CITY HALL

City of Los Angeles
Coordinator CP Visel
Office: 1st Floor City Hall

Handwritten notes:
Name of CP Hall
CP Hall
CP Hall
CP Hall

Vol. L MOND.
MAYOR CALLS JOBS MEETING

Water and Power Board Convened Today

Will Consider Using Fund for Employment

Sum of \$100,000 Available From Bonds Account

Mayor Porter has called a special session of the Board of Water and Power Commissioners for this morning at which he will present the proposal to allocate \$100,000 of department funds to unemployment work project, which will permit the employment of an additional 1000 men.

The money will be transferred from surplus department funds to the general fund and then turned over to the special unemployment relief fund. The department, the Mayor said, set up a large fund to pay interest on the \$30,000,000 water bonds voted last May, but as little as this sum has been utilized so far, the \$100,000 can be taken from that source.

The department also has 65,000 boxes of apples from orchards owned by the city in the Owens River Valley the Mayor stated and plans are now being worked out whereby they can be distributed to unemployed men to sell on the streets, the matter being a straight deal between the city and the salesmen, without middlemen.

EMPLOYMENT DIRECTOR MAY GO TO WASHINGTON

Los Angeles Times—Feb. 2, 1931
(\$100,000 = \$1,560,453 today)

The money will be

- transferred from surplus department funds to the general fund, then
- [transferred from general fund] over to the special unemployment relief fund

funds available for spending on Angelenos but not Mexicans

"where there is a will, there is a way"

When the City wants something, it goes out and gets it done.

We simply ask the same to remedy the injury caused by the "war on drugs."

Nick Pacheco 4/15/19