

CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

0220-05258-0013

Date: November 15, 2018

To: The City Council
Attn: Rules, Elections and Intergovernmental Relations Committee

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

Sharon M. Tso, Chief Legislative Analyst

Subject: **CANNABIS BUDGET POLICY**

RECOMMENDATIONS

That the Council approve one of the three following options:

1. Instruct the Department of Cannabis Regulation to submit an annual budget request to fund the Social Equity Program; or
2. Request the City Attorney to prepare and present an ordinance whereby the Department of Cannabis Regulation would receive a percentage of revenue collected to be programmed through the annual budget process for the Social Equity Program; or
3. Request the City Attorney to prepare and present an ordinance whereby the Department of Cannabis Regulation would receive \$3 million annually to fund the Social Equity Program for three years.

SUMMARY

On July 31, 2018, the City Council instructed the Chief Legislative Analyst (CLA) and the City Administrative Officer (CAO), with the assistance of the Department of Cannabis Regulation (DCR), the Mayor's Office, the Chair of the Budget & Finance Committee, and the Chair of the Rules, Elections & Intergovernmental Relations Committee, to report with a proposed budget policy to provide ongoing and sustainable funding for DCR programming, illegal enforcement operations, and child and youth development, prevention, and Science, Technology, Engineering and Mathematics (STEM) education (C.F. 18-1800-S2). This report addresses the funding needs for DCR programming. The request to report on funding for illegal enforcement and youth programs will be addressed at a later time.

Our Offices met with said representatives to discuss a potential proposed budget policy and discussed the programming needs for the DCR. The DCR indicated that it requires funding for the Social Equity Program and for a public education campaign regarding cannabis in the City

of Los Angeles. DCR would provide technical and business assistance for Social Equity program participants, as well as workforce development and outreach. The Department has preliminarily estimated the cost of these programs to be approximately \$3 million per year beginning in 2019-20. The DCR is developing a Request for Qualifications to establish vendors that will provide the technical and business assistance and workforce and outreach services.

Social Equity Program 2018-19 Requested Funding

In addition, DCR indicated that it would need an additional \$2 million in 2018-19 for a Fee Deferral Program for the Social Equity Program whereby the City would defer licensing costs for Social Equity applicants. Council has requested that the DCR report on a fee deferral policy for the Social Equity Program (C.F. 14-0366-S5). On November 9, 2018, DCR submitted a report with a recommendation to transfer/appropriate \$2 million from the Unappropriated Balance line item Various Programs and Services – Contingent Revenue Account to the DCR Special Revenue Trust Fund. It should be noted that the recommended line item is a placeholder for contingent revenues that have not yet been received by the City. It is unclear at this time if these revenues will be realized in 2018-19. Therefore, DCR's recommendation to transfer \$2 million will require a transfer from the Reserve Fund or a Reserve Fund loan.

Social Equity Program Ongoing Funding Options

There are several options available to fund the Social Equity Program as envisioned by DCR:

1. The DCR would submit a budget request through the City's budget process where the decision to use cannabis revenue would be made in the context of the development of the budget. This would allow the City to maintain flexibility regarding the use of revenue. However, a budget request is not a dedicated or guaranteed funding source. Should the Council approve this option, DCR could be instructed to prepare an annual budget request to be reviewed and considered by the Mayor and Council.
2. The Mayor and Council could elect to adopt a policy by ordinance whereby the Department would receive a percentage of revenue collected, which would be programmed through the City's annual budget process. This policy could be structured such that the Department would receive a percentage of funding above a base budget amount or based on overall revenues received from the sale of cannabis. The policy could also include a maximum dollar amount that could be generated by the policy. As the initial term of the Social Equity Program is three years, the policy could also be limited to three years and reviewed at the end of this period to determine if the funding and programming should continue at that level. The level of funding would be directly tied to the revenue generated by the sale of cannabis. Should the Council wish to adopt such a policy, a recommendation to request the City Attorney to prepare and present an ordinance is required.
3. The Mayor and Council could elect to adopt a policy by ordinance whereby DCR would receive \$3 million on an annual basis to fund the Social Equity Program for three years. This option would provide the most consistent funding amount to the DCR and would not be reliant on the revenue generated by the sale of cannabis. Should the Council wish to adopt such a policy, a recommendation to request the City Attorney to prepare and present an ordinance is required.

FISCAL IMPACT STATEMENT

Should the Council elect to adopt a policy or ordinance whereby the DCR would receive funding based on a percentage of cannabis revenue, there would be a commensurate impact on the General Fund as these funds are currently budgeted for city services. Should the Council elect to adopt a policy or ordinance whereby the DCR would receive \$3 million annually, there would be a \$3 million impact to the General Fund each year the funding is received. Should the Council instruct the DCR to submit an annual budget request, the General Fund impact will be determined at the time the annual budget is adopted. Should the Council elect to appropriate \$2 million from the Unappropriated Balance for a Social Equity Fee Deferral Program, there would impact of \$2 million to the General Fund.