

**DEPARTMENT OF  
CANNABIS REGULATION**

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June 15, 2020

The Honorable City Council  
City of Los Angeles  
City Hall, Room 395  
Los Angeles, California 90012

Dear Honorable Members:

**DEPARTMENT OF CANNABIS REGULATION 2020 COMPREHENSIVE FEE STUDY**

**EXECUTIVE SUMMARY**

The Department of Cannabis Regulation (Department) has completed a comprehensive fee study to achieve full cost recovery for commercial cannabis application, licensing, inspection and regulatory services. The Department utilized a “bottom-up” methodology to conduct this cost analysis. The analysis calculated the fully burdened hourly rates by division, developed time estimates for each service, and ensured that not more than 100% of a position’s time was allocated between fee & non-fee services. After the time spent per fee activity was determined, all applicable non-Departmental and City overhead costs were factored into the calculation to establish the full cost of providing each service. The fee for each service considers direct salaries and benefits, operating services and supplies, departmental and divisional overhead and citywide overhead. The Department utilized the Cost Allocation Plan 42 (CAP 42) rates to determine overhead costs. The City uses CAP 42 to prepare grant applications, contracts and billings for grant activities, and to compute Fees for Special Services for Fiscal Year 2019-20. Based on the fee study findings, the Department recommends revising Los Angeles Municipal Code Section 104.19 to accurately represent the City’s cost of providing services to commercial cannabis businesses.

**RECOMMENDATION**

That the City Council, subject to approval by the Mayor:

- 1) Approve amending the Los Angeles Municipal Code (LAMC) Section 104.19 to revise fees to accurately represent the cost of providing services to commercial cannabis businesses and to achieve full cost recovery, as outlined in Attachment 1; and,
- 2) Request the Office of the City Attorney, with the assistance of the Department of Cannabis Regulation, to prepare and present an ordinance to amend the LAMC Section 104.19 in accordance with the proposed fee changes.

## BACKGROUND

The Department of Cannabis Regulation (Department) develops rules and regulations to implement local and State law pertaining to licensed commercial cannabis businesses, administers the application, licensing, renewal and revocation processes for licensed commercial cannabis businesses, and coordinates with other City departments to ensure timely completion of inspections, audits, and other functions related to regulating licensed commercial cannabis businesses within the City of Los Angeles.

The purpose of this fee study is to determine the total direct and indirect costs associated with regulating licensed commercial cannabis businesses (performing investigations, audits, administrative enforcement and adjudication), as well as reviewing applications, inspecting business premises, and issuing licenses (licensing activities). Additionally, the fee study reanalyzes the analytical structure, service level estimates and assumptions applied in the initial fee studies, accounts for shifts in cost components and organizational structures that were not included in the initial fee studies, and utilizes CAP 42 to compute overhead costs for Fiscal Year 2019-20. The results of this fee study provide a tool for understanding proposed service levels, the total cost associated with those services, and what fees for service can be charged. California law requires that fees charged are in direct proportion to the costs associated with providing those services. Therefore, it is commonly accepted that user fees are established at a level that will recover up to, and not more than, the cost of providing a particular service. The fees listed in Attachment 1 represent the reasonable regulatory costs that fairly and proportionately generate sufficient total revenue to fully cover the City's costs of administering and regulating licensed commercial cannabis businesses within the City. All fees collected are deposited into the Cannabis Regulation Special Revenue Trust Fund (Fund No. 60E).

## METHODOLOGY

The Department utilized a cost allocation methodology commonly known as the "bottom-up" approach to establish fees for service. This methodology uses several cost components that build upon each other to calculate the total cost for providing a service. The general steps utilized by the Department to determine the allocation of cost components to a particular service were to calculate the fully burdened hourly rates by functional area, including direct & indirect costs, develop time estimates for each service included in the study, and ensure that not more than 100% of a position's time is allocated between fee & non-fee services. The overhead costs were established using the Cost Allocation Plan 42 (CAP 42) rates which are also used by the City to prepare grant applications, contracts and billings for grant activities, and to compute Fees for Special Services for other City departments during Fiscal Year 2019-20. The results of these allocations provide detailed documentation for the reasonable estimate of the actual cost of providing each service. The following sections highlight critical points about the use of time estimates and the validity of the analytical model.

One of the key components utilized in the "bottom-up" approach is the use of time estimates for the provision of each fee related service. Estimates utilized for services were based on actual service provided by experienced staff members who understand service levels and processes unique to the Department. As such, time estimates are a reasonable and defensible approach. Time estimates were developed using the following criteria:

- Estimates are representative of average times for providing services
- Estimates allow the Department to set a standard level of service
- Estimates for extremely difficult or abnormal tasks are not factored into the average time analysis
- Estimates reflect the time associated with the position or positions that typically perform a service

Other key components utilized to establish the full cost calculation include:

- The City's Budget is a significant source of information affecting cost of service results
- The fee study accepts the City's budget as a legislatively adopted directive describing the most appropriate and reasonable level of City spending
- The Department accepts the Mayor and City Council's deliberative process and ultimate acceptance of the budget plan and further asserts that through that legislative process, the City has yielded a reasonable expenditure plan, valid for use in setting cost-based fees
- Step 12 salary rates as of January 19, 2020 for civil service classifications requested in the Department's FY 2020-21 budget
- The Department included two Special Investigator II positions, the conversion of four Management Assistant positions to four Management Analyst positions, and the conversion of two Administrative Clerk positions to two Senior Administrative Clerk positions into the analysis
- The Department anticipates the aforementioned positions will be authorized once the fee study is adopted and the Department's fee structure can fully support the upgraded positions
- The direct and indirect costs to reimburse the Office of the City Attorney, Office of the City Clerk, Department of City Planning, Office of Finance, General Services Department, and Personnel Department for services directly supporting the Department's commercial cannabis application, licensing, inspection and regulatory programs
- Fringe benefit indirect costs, central services indirect costs, Department administration and support indirect costs, and compensated time off indirect costs were established using CAP 42
- Fringe benefit indirect costs include the Department's share of the Citywide costs associated with Retirement (Civilians), Employee Assistance, Union Sponsored Benefits, Ordinance Life Insurance, Unused Sick/Vacation Payouts, LAWELL Benefit Program (Health Insurance, Dental Insurance, and Basic Life Insurance), Medicare, Unemployment Insurance, Social Security, Workers' Compensation, Part Time/Seasonal/Temporary staff, Hiring Hall Fringe and 457 Retirement Plans
- Central services indirect costs include the Department's share of the Citywide costs associated with Audit Contracts, Equipment Depreciation, Building Leases, Liability Claims, Building Depreciation, Petroleum, Computer Assets Depreciation, Vehicle Depreciation, Insurance on bond-financed assets, Water & Electricity & Natural Gas, Communications Leases, General City Purposes, the Emergency Operations Board, as well as indirect departments such as, the Controller, General Services, Contract Administration, and City Administrative Officer
- Departmental overhead includes administration, executive management, communications, business development, administrative support, and similar positions not directly charged to a fee program
- Compensated time off indirect costs include the salaries paid to employees who are on paid leave such as, Sick Leave, Jury Duty, Floating Holiday, Vacation, Bereavement leave, Injury on Duty, Holiday, Preventive Medicine, Military Leave, and Workers' Compensation

## **SPECIAL SERVICE FEES**

The primary goal of a user fee study is to provide a fair and equitable basis for determining the costs of providing services and ensure that the City is in compliance with State law. The proposed fee structure decouples services that are provided once per application, once per person, and once per activity. The proposed fee structure enables the Department to charge each Applicant for the services that are unique to its Application. Many of the Department's special services are case specific and charged when an Applicant is pursuing a specific commercial cannabis activity or processing through the Social Equity Program. Generally, the Department's special service fees can be classified into three categories.

The first category of special service fees, including but not limited to, LiveScan Review and Social Equity Individual Applicant Eligibility Verification, is charged per natural person. The Department reviews unique documents for each Owner or Primary Personnel associated with the Application. When an entity is an Owner in the Application, all other entities and individuals with a financial interest shall be disclosed to the Department. In a multi-layer business structure, each entity disclosed as having a financial interest must disclose the identities of Persons until only individuals remain. The Department reviews the ownership and financial interest for each individual to determine the number of Owners and Primary Personnel of the Application. As the number of Owners and Primary Personnel increase, the Department's workload associated with processing the Application increases proportionately. Therefore, the Department has established standalone fees for these services which will be charged based on the number of Owners and Primary Personnel associated with each Application. This ensures that a sole proprietor is not burdened with the same fees charged to a partnership, corporation, or Applicant with a multi-layer business structure.

The second category of special service fees, including but not limited to, Pre-Application Review, Environmental Assessment, and Notice, is charged per location. Since an Application is only associated with one contiguous location, the Department charges these fees per Application. During Phase 2 Priority Processing as described in LAMC Section 104.08 (Suppliers of Existing Medical Marijuana Dispensaries), the Department began accepting Applications for commercial cannabis activities that had compatible land use (zoning) and sensitive use restrictions. Since the service provided only needs to be completed once for all of the commercial cannabis activities listed on an Application, the Department has established standalone fees for these services which will be charged once per Application. This ensures that Applicants pursuing more than one commercial cannabis activity at a contiguous location is not overcharged for the same service.

The third category of special service fees, including but not limited to, Temporary Approval Applications, Annual License Applications, and renewal fees, is charged per activity. As described in the Department's Rules and Regulations, each commercial cannabis activity requires specific documents and unique operational requirements. Although there may exist some overlap in the information provided for each activity and although the operational procedures may be similar, the Department has to review each activity separately and make a licensing determination or recommendation for each activity.

In addition to the fees described above, pass-through and expedited services fees are included in the updated fee schedule. The Department will charge pass-through fees at actual cost for services, including but not limited to, environmental impact report review and extraordinary service requests. Although the Department charges defined fees for environmental assessments and categorical exemptions for which time estimates are dependable, time estimates for projects that require an environmental impact report are project specific. For this reason, the Department will collect an upfront deposit and bill against the deposit until the analysis is completed. If the balance of the deposit falls below \$1,000, the Applicant will be required to replenish the deposit before analysis continues on the project. Any unused portion of the deposit will be returned to the Applicant upon project completion. In the future, the Department may be required to implement court orders or similar orders for which services are not directly addressed in the fee study. In these extraordinary circumstances, the Department will meet with the Applicant to determine specific services that must be provided to implement the order or effectuate the service request. The Department shall charge the actual costs associated with providing services for extraordinary projects. At the request of the Applicant, the Department may, at its sole discretion, approve requests for expedited services. The Department shall charge a fee to offset the overtime expenses to expedite the application review, license renewal, or other process for any approved request. The fee charged shall be based on either time and a half (142.04% overtime rate) or double time (189.38% overtime rate) and include applicable overhead costs. Pension costs and compensated time off are not included in the applicable overhead rates. The applicable expedited services overtime rate shall be multiplied by the base fee amount to determine the applicable expedited services fee.

Before an Application is deemed complete, the Department analyzes and processes over 30 application related documents (Table 1). The Department's fee structure is designed to reduce an Applicant's initial costs associated with Pre-Application Review and Temporary Approval and further defers the collection of fees for the Annual License Application until specific stages in the Application process.

Table 1. List of Documents from Pre-Application Review to a Complete Annual License Application.

APPLICATION DOCUMENTS BY APPLICATION STAGE	
Application Stage	Activity/Document Reviewed
Pre-Application Review	Land-Use Review
	Dated Radius Map
	Site Plan
	Evidence of Legal Right to Occupy (Attestations Accepted)
Temporary Approval Application/ SEP Temporary Approval Application	Cannabis LAFD Inspection Fee
	LAFD Statement of Intended Use
	Labor Peace Agreement Attestation Form
	Business Premises Diagram
	Business Formation and Organization Documents
	Equity Share Documents (Social Equity Applications only)
	Executed Lease or Property Deed
	Evidence of Legal Right to Occupy
	Organizational Chart
	Ownership Disclosure Form
	History of Denial
	Indemnification Agreement
	Initial Inspection
	Review Arrest Records, Income Tax, and Residency Documents (Social Equity Individual Owners only)
	Primary Personnel Application Background Review
	LiveScan Review and Description of Convictions
Annual License Application/ SEP Annual License Application	Government-Issued Identification/Military Status/Veteran Status
	Individual History of Denial
	Cannabis Waste Management Plan
	Certificate of Occupancy
	Commercial Cannabis Activity Plan
	Financial Information
	ISO 17025 (Testing Applications Only)
	Labor Peace Agreement
	Management Company Agreement
	Proof of Bond or Insurance
	Security Plan
	Staffing Plan
	Standard Operating Procedures
	Final Inspection
	Environmental Assessment Form and Initial Study leading to Negative Declaration or Mitigated Negative Declaration or any other State exemptions

The Department will charge a Pre-Application Review fee to verify if the proposed business premises is compatible with the Applicant's desired commercial cannabis activity licenses. If the property is deemed eligible for further processing, the Applicant may submit a Temporary Approval Application. Upon payment of the applicable Temporary Approval Application and Primary Personnel Application Background Review fees, the Department will begin analyzing documents associated with the issuance of a temporary license. As part of this document analysis, the Department will identify the Primary Personnel associated with the Application. If one or more of the Primary Personnel have not completed a LiveScan or the Primary Personnel's related results are more than one year old, the Primary Personnel will have to pay a Background Review fee and complete the LiveScan process. Until the LiveScan process is available, the Department may continue processing the Application provided a related attestation form is completed by all Primary Personnel. Social Equity Applicants must submit their Equity Share documents with their SEP Temporary Approval Application. Once all of the Temporary Approval Application documents have been analyzed, the Applicant will be scheduled for a pre-licensing inspection. Upon receiving Temporary Approval, the Applicant will be invoiced for Annual License Application and Environmental Assessment fees. Upon payment, the Department will continue processing the Application until it is deemed complete. Once the Application is deemed complete, the Applicant will be invoiced for any applicable notice, meeting, or hearing fees. Upon payment and Application approval, an annual license will be issued. Licenses must be renewed annually.

Table 2. Comparison of the Minimum Application Fees Paid per Phase for Retail Storefronts

<b>Retail Storefront Application/License Filing Fees</b>				
<b>Fee Description</b>	<b>104.07 Application</b>	<b>104.06.1[c] Application</b>	<b>General Application</b>	<b>Social Equity Application</b>
Pre-Application Review (Per Application)	N/A	N/A	\$ 597	\$ 597
Temporary Approval Application (Per Activity)	\$ 9,360	\$ 8,059	\$ 5,720	\$ 6,969
Annual License Application (Per Activity)	\$ 7,691	\$ 7,691	\$ 7,691	\$ 7,691
Environmental Assessment/Initial Study (Per Application)	\$ 6,024	\$ 6,024	\$ 6,024	\$ 6,024
Minimum Environmental Clearance (Per Application)	\$ 2,596	\$ 2,596	\$ 2,596	\$ 2,596
Minimum Notice for Retail Storefront (Per Application)	\$ 2,167	\$ 2,167	\$ 2,167	\$ 2,167
Community Meeting and Commission Hearing (Per Application)	\$ 4,379	\$ 4,379	\$ 4,379	\$ 4,379
SEP Individual Applicant Eligibility Verification (per Social Equity Individual Owner)	N/A	N/A	N/A	\$ 597
Primary Personnel Background Review (Per Application)	\$ 614	\$ 614	\$ 614	\$ 614
Annual Primary Personnel LiveScan Review (per Natural Person)	\$ 450	\$ 450	\$ 450	\$ 450



Table 3. Comparison of the Minimum Application Fees Paid per Phase for Non-Retail (under 30k Sq. Ft.)

<b>Non-Retail Application/License Filing Fees</b>			
<b>Fee Description</b>	<b>104.08 Application</b>	<b>General Application</b>	<b>Social Equity Application</b>
Pre-Application Review (Per Application)	N/A	\$ 597	\$ 597
Temporary Approval Application (Per Activity)	\$ 11,806	\$ 5,720	\$ 6,969
Annual License Application (Per Activity)	\$ 7,691	\$ 7,691	\$ 7,691
Environmental Assessment/Initial Study (Per Application)	\$ 6,024	\$ 6,024	\$ 6,024
Minimum Environmental Clearance (Per Application)	\$ 2,596	\$ 2,596	\$ 2,596
Minimum Notice for Non-Retail Applications (Per Application)	\$ 484	\$ 484	\$ 484
Community Meeting and Commission Hearing (Per Application)	If Applicable	If Applicable	If Applicable
SEP Individual Applicant Eligibility Verification (per Social Equity Individual Owner)	\$ 597	N/A	\$ 597
Primary Personnel Background Review (Per Application)	\$ 614	\$ 614	\$ 614
Annual Primary Personnel LiveScan Review (per Natural Person)	\$ 450	\$ 450	\$ 450

## CONCLUSION

The fee study considered time estimates per unit of fee activity, all applicable non-Departmental costs, and City overhead costs which were factored into the calculation to establish the full cost of providing services. The recommended fees are based on a nexus between the costs of providing services and each specific user fee that is charged. Specific fee recommendations can be found in Attachment 1. Before an Application is deemed complete, the Department analyzes and processes over 30 application related documents. A general description of the documents reviewed by application stage can be found in Table 1. The Department's fee structure is designed to reduce an Applicant's initial costs associated with Pre-Application Review and Temporary Approval and further defers the collection of fees for the Annual License Application until specific stages in the application process. The Department has requested the Office of the City Attorney to prepare and present an ordinance to amend Los Angeles Municipal Code Section 104.19 in accordance with Attachment 1 to revise the Department's fees to achieve full cost recovery and accurately represent the cost of providing services to commercial cannabis businesses.

## FISCAL IMPACT

Approving the recommendations in this report complies with the City's financial policies inasmuch as the proposed fees for special services for commercial cannabis application, licensing, inspection and regulatory services are set at full cost recovery and all eligible costs will be fully covered by the associated fees for special services. If the fees for special services are not set at full cost recovery, General Fund monies will need to be appropriated to subsidize the Department's cost of providing special services.

Sincerely,

A handwritten signature in black ink, appearing to read 'J. Killeen', is written over a light gray rectangular background.

JASON KILLEEN  
Assistant Executive Director

CP:JK

## ATTACHMENT

### Attachment 1 – Fee Table

c: William Chun, Deputy Mayor of Economic Development  
Ron L. Frierson, Director of Economic Policy  
Richard H. Llewellyn, Jr., City Administrative Officer  
Sharon Tso, Chief Legislative Analyst  
Heather Aubry, Assistant City Attorney - Cannabis Law Division



APPLICATION AND LICENSE FILING FEES	
Fee Name	Fee
Cannabis LAMC Section 104.07 EMD Retail TA License Application (per Activity)	\$ 9,360
Cannabis LAMC Section 104.07 Annual License Application (per Activity)	\$ 7,691
Cannabis LAMC Section 104.08 TA License Application (per Activity)	\$ 11,806
Cannabis LAMC Section 104.08 Annual License Application (per Activity)	\$ 7,691
Cannabis LAMC Section 104.06.1(c) TA License Application (per Activity)	\$ 8,059
Cannabis LAMC Section 104.06.1(c) Annual License Application (per Activity)	\$ 7,691
Pre-Application Review (per Application)	\$ 597
Temporary Approval Application (per Activity)	\$ 5,720
SEP Temporary Approval Application (per Activity)	\$ 6,969
Cannabis LAFD Inspection Fee (per Application)	Actual Cost*
Annual License Application/SEP Annual License Application (per Activity)	\$ 7,691
Annual Primary Personnel LiveScan Review (Annually per Natural Person)	\$ 450
Primary Personnel Application Background Review (per Application)	\$ 614
Social Equity Individual Applicant Eligibility Verification Application (per Natural Person)	\$ 597
ENVIRONMENTAL ASSESSMENT FILING FEES	
Fee Name	Fee Amount
Environmental Assessment Form (EAF)/Initial Study (per Application)	\$ 6,024
Addendum prior to Environmental Determination (per Application)	\$ 4,137
Categorical Exemption (per Application)	\$ 2,596
Mitigated Negative Declaration/Negative Declaration - Expanded Initial Study (per Application)	\$ 16,454
Environmental Impact Report - Initial Deposit (per Application)	\$ 16,454
Environmental Analysis Review Services (hourly rate varies)	Actual Cost*
Publication Fee (per Application)	\$732 plus Actual Cost*
NOTICE FILING FEES	
Fee Name	Fee Amount
Written Notice (per Application)	\$ 484
Mailed Notice (per Application)	\$ 1,683 plus Actual Cost*
Printed Notice (per Application)	\$ 484
LICENSE RENEWAL FILING FEES	
Fee Name	Fee Amount
Cannabis License Renewal Fee (per Activity)	\$ 8,486
Cannabis SEP License Renewal Fee (per Activity)	\$ 9,735
MEETING & HEARING FILING FEES	
Fee Name	Fee Amount
Community Meeting Fee (per Application)	\$ 986
Cannabis Regulation Commission Hearing Fee (per Application)	\$ 1,940
Administrative Hearing Appeal Fee (Administrative Hold/License Renewal/Notice of Violation)	\$ 4,669
Administrative Hearing Appeal Fee (Eligibility Determination)	\$ 12,927
Administrative Hearing Appeal Fee (Temporary Approval Suspension or Revocation)	\$ 12,927
Administrative Hearing Appeal Fee (License Suspension/Revocation)	\$ 18,676
Cannabis Regulation Commission Hearing Appeal Fee	\$ 6,802
City Council Hearing Appeal Fee	\$ 6,210

\*Actual Cost means the direct and indirect costs of providing a service including contractor and third-party pass through costs.

\*\*DCR shall bill Actual Cost when processing extraordinary requests.

<b>MODIFICATION, DOCUMENT REVIEW, &amp; MISC FILING FEES</b>	
<b>Fee Name</b>	<b>Fee Amount</b>
Cannabis Application/License Modification Request Document Review Fee	\$ 542
Cannabis License Relocation Modification Fee	\$ 3,554
Cannabis License Existing Premises Modification Review Fee	\$ 3,368
Cannabis License Ownership Modification Document Review Fee	\$ 2,335
Cannabis SEP License Ownership Modification Document Review Fee	\$ 3,870
Ownership Modification Primary Personnel Background Review (per Application/License)	\$ 614
Ownership Modification Primary Personnel LiveScan Review (per Natural Person)	\$ 450
Land-Use Document Review Fee	\$ 186
Dated Radius Map Document Review Fee	\$ 186
Site Plan Document Review Fee	\$ 123
Evidence of Legal Right to Occupy Document Review Fee	\$ 101
Executed Lease or Property Deed Document Review Fee	\$ 597
Business Premises Diagram Document Review Fee	\$ 489
Business Formation and Organization Document Review Fee	\$ 1,194
Organizational Chart Document Review Fee	\$ 428
Ownership Disclosure Form Document Review Fee	\$ 131
History of Denial Document Review Fee	\$ 244
Equity Share Documents/Social Equity Agreement Review Fee	\$ 1,248
Indemnification Agreement Document Review Fee	\$ 56
Cannabis Waste Management Plan Document Review Fee	\$ 597
Categorical Exemption Document Review Fee	\$ 2,596
Certificate of Occupancy Document Review Fee	\$ 131
Commercial Cannabis Activity Plan Document Review Fee	\$ 597
Financial Information Document Review Fee	\$ 624
Labor Peace Agreement Document Review Fee	\$ 131
Management Company Agreement Document Review Fee	\$ 597
Proof of Bond or Insurance Document Review Fee	\$ 131
Security Plan Document Review Fee	\$ 597
Staffing Plan Document Review Fee	\$ 597
Standard Operating Procedures Document Review Fee	\$ 1,221
Standard Inspection	\$ 2,468
Off-Hours Inspection	\$ 3,623
Extraordinary Projects or Services**	Actual Cost*
Expedited Services (Time and a Half Rate)	142.04% of Regular Fee
Expedited Services (Double Time Rate)	189.38% of Regular Fee
<b>PUBLIC CONVENIENCE OR NECESSITY FILING FEE</b>	
<b>Fee Name</b>	<b>Fee Amount</b>
Cannabis Public Convenience or Necessity Filing Fee (per Activity)	\$ 1,592
<b>FINES</b>	
<b>Fee Name</b>	<b>Fee Amount</b>
Cannabis Code Violation Inspection Fee	\$ 2,317
Cannabis Code Violation Inspection Fee (Off-Hours)	\$ 3,051
Cannabis License Non-Compliance Inspection Fee	\$ 4,416
Cannabis License Non-Compliance Inspection Fee (Off-Hours)	\$ 5,886
Cannabis License Violation Fine – Minor Violation	\$ 7,004
Cannabis License Violation Fine – Moderate Violation	\$ 21,013
Cannabis License Violation Fine – Major Violation	\$ 42,026

\*Actual Cost means the direct and indirect costs of providing a service including contractor and third-party pass through costs.

\*\*DCR shall bill Actual Cost when processing extraordinary requests.