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ERIC GARCETTI
MAYOR

March 6, 2017

The Honorable Members of the Los Angeles City Council
City Clerk
City Hall, Room 395

**OFFICE OF FINANCE'S PLAN ON TAX COLLECTION OF CANNABIS BUSINESS
ACTIVITY (C.F. 16-0600-S170)**

Dear Honorable Members:

SUMMARY

On January 9, 2017, Budget and Finance Committee instructed the Office of Finance (Finance) to report back on a motion (Krekorian/Wesson), introduced on December 13, 2016 (C.F. 16-0600-S170), with a detailed plan on how Finance will ensure full tax compliance and manage payment acceptance relative to cannabis business activity, including using track and trace software.

RECOMMENDATIONS

The Office of Finance respectfully requests that the Council, subject to the approval of the Mayor:

1. Authorize the following 27 regular authority positions for the Office of Finance to carry out its responsibilities in tax collection of cannabis businesses, subject to position allocation by the Personnel Department and pay grade determination by the City Administrative Officer:

<u>No.</u>	<u>Class Code</u>	<u>Title</u>
6	1179-2	Tax Compliance Officer II
1	1179-3	Tax Compliance Officer III
1	1195	Principal Tax Compliance Officer
1	1201	Principal Clerk

1	1211-2	Chief Tax Compliance Officer II
2	1223	Accounting Clerk
8	1229	Customer Service Specialist
5	1514-2	Tax Auditor II
1	1519	Senior Tax Auditor
1	1524	Principal Tax Auditor

2. Approve \$2,582,371 in funding for staffing and related expenses for Fiscal Year (FY) 2017-18 as delineated in Attachment A;
3. Instruct the Department of General Services to work with Office of Finance and report back with options to address the space issues for additional staffing at Finance's offices in City Hall, Van Nuys and West Los Angeles, and to report back on possible separate locations for a cash acceptance facility;

BACKGROUND

California State Proposition 64 on the Control, Regulate and Tax Adult Use of Marijuana Act (AUMA), passed on November 8, 2016. The State of California (State) is working on setting up the regulatory framework needed for the legal sale of recreational marijuana, which will be legal on January 1, 2018, however, it is unclear at this time if the State will meet the 2018 deadline. Further, the State Treasurer has convened a Cannabis Banking Working Group, in which Finance has participated, to compile information and find practical ways to address the issue of banks and other financial institutions general refusal to provide services to cannabis-related businesses because the federal government considers marijuana a Schedule I drug under the Controlled Substances Act. The predominantly cash transactions of this industry and the banking issue impact collecting taxes and also carry other inherent safety and security risks. In addition, it is unclear at this time the number of businesses currently in operation, those that will seek licenses/permits, and those that will actually enter the recreational marijuana market. The State's Legislative Analyst's Office (LAO) recently released a report indicating the same difficulty in assessing the size of the cannabis industry - the State Board of Equalization's (BOE) estimates approximately 1,700 retail dispensaries (based on a 2014 study) while the Department of Consumer Affairs estimates 6,000.

There are two cannabis ballot measures on the March 7, 2017 Special Election that would replace Proposition D, passed in 2013, to regulate medical marijuana. The initiatives are:

- Ordinance N – Cannabis Activity Permits, Regulation and Taxation - A citizen initiative to create a new Department of Marijuana to permit and impose requirements on cannabis establishments. This measure gives priority to the existing medical marijuana businesses compliant with current City law, maintains at

least 135 dispensaries, and establishes a new business tax on non-medical cannabis sales.

- Proposition M – Cannabis Regulation after Citizen Input, Taxation and Enforcement - A City sponsored initiative to provide the Council and Mayor the authority to enact regulatory and enforcement framework rules to regulate cannabis activity, and includes new gross receipts taxes on cannabis-related businesses. The measure also gives priority status in processing of applications to the existing 135 Proposition D-compliant dispensaries.

Neither ballot measure limits the number of cannabis-related businesses and regardless of which measure passes, the City will need to develop its own regulatory framework and permit approval process that meet its policy goals. Since Finance was directed to report back before the City's regulatory framework and permitting process are in place, and given the uncertain number of applicants that will receive permits, this report provides an overview of the challenges in collecting taxes and ensuring tax compliance from this industry and proposes using an incremental approach to staffing for an uncertain workload. Finance plans on updating its assessment of requirements as additional information becomes available on actual workload for the Divisions discussed in this report.

Both measures include applying new gross receipts taxes to cannabis-related business and Finance would be responsible for issuing a Business Tax Registration Certificate (BTRC) to those permitted businesses. It is difficult to determine the level of resources needed to collect cannabis taxes and ensure tax compliance at this time since we do not know the number of businesses that will be permitted, those that will operate but not register, and the respective size of the businesses. What is known is that Finance will need additional resources to: a) educate and promote outreach to this industry on tax assessments; b) respond to inquiries; c) collect taxes; d) review records and payments for compliance; and, e) discover businesses not registered. Finance has also discussed with other jurisdictions their challenges with expanding tax collection to include recreational marijuana businesses and considered their lessons learned in our assessment of resource requirements.

The various Finance Divisions expecting an increase in workload are similar to those identified in BOE's resource assessment. It should be noted that BOE's staffing assessment is based on: a) continuing the practice of not accepting cash payment except if granted exemption; b) requiring businesses to register online; c) Customer Service Center receiving nearly 12,000 telephone inquiries and staff responding to 100 written inquiries annually; and, d) auditing retailers on marijuana taxes at the same time that they audit sales and use tax although additional staff time is required to examine marijuana transactions to verify excise tax amounts are correctly reported. BOE reported that it is currently researching cash acceptance issues and may need additional resources in the future to provide for the safe

handling of cash at its field offices. In addition, BOE's assessment does not include staffing for investigation since the amount is unknown at this time and that auditing is typically performed to cover a three-year period. Therefore, audit and investigation resources will also be requested at a later date.

Following is a discussion of Finance's Divisions that will have direct involvement with cannabis businesses and an assessment of the necessary resources to fulfill their respective responsibilities relative to managing revenue intake and/or ensuring tax compliance. For the purposes of this report and projecting required resources for FY 2017-18, it is assumed that approximately the same number of dispensaries (currently 189) will be licensed in the 2017 Tax Year since the State's licensing framework is not expected to be in place until January 1, 2018, which is the beginning of the 2018 Tax Year. It is further assumed that other cannabis-related industries (for which Finance has no data on which to base any estimates) such as growing, transporting, and other related activities, would also not be licensed until the 2018 Tax Year. The 2018 Tax Year will impact Finance's resource requirements for FY 2018-19.

The estimated resources for the Divisions discussed below are further based on the assumptions in the respective sections and attachments. It should be noted that although we are assuming that permits will be issued starting in January 2018, Finance will have to hire staff four to six months earlier so that staff receive the necessary training on the tax codes and on using the LATAX system. Tax Compliance Officers' (TCO) training is three full weeks, Customer Service Specialists' training is four full weeks, and Auditors' training is six weeks, and all new hires must pass the respective exams. The four to six month lead time also allows for: a) providing on-the-job training for new staff; b) conducting education sessions and holding outreach events prior to the due date of the first payment; and, c) shifting assignments so that experienced supervisory staff have time to prepare and have procedural manuals in place prior to the registration period.

Given the uncertainties surrounding the cannabis industry and regulatory issues, Finance is taking an incremental approach to staffing requirements. Note that staffing requirements identified in this report also assume that other currently authorized positions in Finance's budget will not be eliminated or required to hold vacant which would limit Finance's ability to absorb workload and meet other existing priorities.

MANAGE TAX REVENUE INTAKE

By most accounts, acceptance of money from cannabis businesses by a financial institution raises concerns of financial crime, including money laundering. This is despite relatively relaxed Federal guidelines by the Department of Justice under the 2013 Cole Memo ("Guidelines Regarding Marijuana Enforcement", Deputy Attorney General James M. Cole, August 29, 2013) in the enforcement of Federal marijuana laws and Department of the

Treasury Financial Crimes Enforcement Network guidance (“Bank Secrecy Act (BSA) Expectations Regarding Marijuana-Related Businesses”, FIN-2014-G001, February 14, 2014) identifying how financial institutions could service marijuana-related businesses consistent with their obligations under the BSA. At this time, no major banks are knowingly and directly accepting cannabis money.

Under a new Federal government administration and Attorney General, there is no certainty as to how the environment may change. Should the Federal government reclassify marijuana from a Schedule I drug or determine to actively enforce existing Federal marijuana laws; either way could render the City’s investments in tax revenue intake largely moot. Considering this, Finance is attempting to provide a prudent approach to revenue intake, incrementally adjusting and improving while simultaneously exploring future options ranging from identifying third-party solutions to building out a dedicated cash acceptance facility. Failure to account for multiple options may result in the long-term failure of the program and/or wasted resources on unnecessary solutions. In light of these challenges, Finance’s approach is similar to those of other entities regulating recreational marijuana.

Oregon, Washington, and Colorado have each developed methods for cash acceptance from the cannabis industry. Each has made investments in staffing and equipment to specifically handle the manual intake of cash payments. Each continues to evaluate various options as well.

Some variation of common options includes the following:

1. No Cash Acceptance Policy – This would essentially force cannabis businesses to self-identify other means of payment which may include their engagement with third-party providers purporting means of electronic payments; however, it could also lead to non-compliance with tax payment, and may not be able to be strictly adhered to by the City. Finance is considering limiting cash acceptance to only City Hall.
2. Partnership in Tax Service Centers – This would entail entering into agreements with other governmental entities to provide a centralized cash payment center. Senate Bill 148 introduced by Senators Weiner and Atkins on January 17, 2017 authorizes BOE or a county to collect cash payments from cannabis-related businesses on behalf of the State with an agreement between BOE and the county. A county will be reimbursed for its costs for collection, but not to exceed 10 percent of the amounts collected. This particular proposal does not include cities.
3. Enhance Existing Cash Acceptance “Systems” – This would entail improving existing facilities and equipment to better enable cash acceptance, including procurement of cash acceptance systems from third-party providers. Finance is actively pursuing aspects of this option, although it may be a somewhat stop-gap solution as it is unlikely to fully

resolve the long-term issues. BOE recently issued a Request for Information on cash acceptance systems but deemed that the offerings did not meet its needs.

4. Establish Strategic Cash Acceptance Facility – This would entail developing a site specifically for optimizing and securing cash acceptance. This would be a long-term solution that Finance would also like to consider in the event that it should become necessary.
5. Engage Third-Party Services for Payment Delivery – This would entail the City contracting with or requiring cannabis businesses to contract with third-party services purporting to provide alternatives to cash payment for the cannabis industry. To our knowledge, no other jurisdiction has levied such a requirement to date and this is not recommended by Finance at this time.
6. Cash Acceptance by Banks – This would be the optimal solution; however, it is largely prevented by Federal law and regulations. Finance will continue to explore options for capturing taxes directly such that it can be deposited to a bank without the need for extensive cash handling by the City.

Revenue intake for Finance consists of two operations that are inter-related: customer service and payment acceptance. The Customer Support Division (CSD) manages three public counters and a Contact (call) Center through which assistance is provided in person, via phone, e-mail or on-line chat to taxpayers, residents, businesses, and other City departments. Public counter staff receives and processes payments for business, parking occupancy, transient occupancy, gas users, and communication users' taxes, and for certain permits such as police, fire, and tobacco retailers. An increase in workload is expected with Business Tax Registrations (new and renewals) and to intake and process cannabis business tax payments which are due quarterly beginning July 2018 and due monthly beginning July 2019. Proposition M also requires Finance to implement a reasonable process, including set times and secure conditions, whereby every cannabis business subject to business tax is allowed to pay in cash by appointment. Based on current experience, cash payments can be very labor intensive depending on the payment amount and require additional checks and balances to avoid errors. Proper supervision is required to oversee this type of operation.

Facilities and Security

Other jurisdictions have made significant investments in facilities and security in response to cash intake from the cannabis industry. Oregon has one cash acceptance location for the entire state which received significant upgrades to accommodate cash acceptance requirements and is in the process of building out a more upgraded replacement facility for cash acceptance. Washington's Liquor and Cannabis Board, which collects marijuana taxes

at one location, also retrofitted its office. Irrespective of the cannabis industry, the City should invest in securing cash acceptance facilities.

Currently, none of the public counters at Finance's three locations (City Hall, Van Nuys and West Los Angeles) are suitable for acceptance of cannabis tax payments. While some businesses currently have banking accounts, they could be short-lived – that is, the account gets closed by the bank/financial institution. Although not currently the case, there is the possibility that nearly 100 percent of payments could be made in cash given the instability with bank accounts and the lack of financial services to this industry. Additionally, Finance has limited capacity at each of the three public counters and has no more room for expansion or added staff other than a few public counter windows at City Hall. Finance recently requested the City Administrative Officer and Department of General Services (GSD) to provide space options for the Contact Center which is also at capacity. Finance recommends that GSD provide options to address the space issues at all three sites, including for accommodating the needs of Finance's Contact Center.

At this time, to limit impacts and costs to multiple locations, Finance is proposing to accept cash payments from cannabis businesses exclusively at City Hall by appointment. Consequently, Finance is recommending that two Security Officers be assigned to the interior public counter area for all instances and periods of cannabis cash collections which will become a year-round activity by FY 2018-19 when the City goes to quarterly and monthly payment requirements.

Additionally, Finance recommends issuing a Request for Proposal (RFP) for a security review of the public counter and an analysis of the necessary procedural, security and safety enhancements, including an assessment on whether or not there should be a separate security enhanced site for accepting payments in person. Estimated cost for the assessment is \$350,000. Further updates will be necessary when a security review report is available.

Customer Support Resource Requirements

Finance has dedicated significant resources to the cannabis industry in FY 2016-17, in fact more than in prior years, as the demands and complexities of the industry have increased along with cash payments. Cannabis business-related transactions and issues have been more numerous and more time consuming than for other industries. This support has come at the expense of general customer support for the City's half million registered businesses.

If Proposition M passes, as with any new tax program, CSD requires additional staff and resources to: a) handle an increase in phone calls and e-mail questions from taxpayers requiring assistance to comply with the provisions of the tax ordinance; b) renew/register account and update account information; c) manage appointments; and, d) assist with making payments online and to accept payments at public counters. Finance anticipates

having to provide assistance to existing medical marijuana businesses that will expand into recreational marijuana to separately report sales due to the different tax rates and to correctly calculate the respective taxes owed. Further, the businesses currently involved in or to be established to provide cannabis-related activities such as transportation, testing or research, manufacturing, cultivation, or other commercialization of cannabis businesses will need to be educated on the ordinance provisions and setup in LATAX under the appropriate tax classification code. If any of these existing businesses are in LATAX, they are currently reporting under tax classification code(s) which would no longer be appropriate.

Finance has prepared estimates on staffing requirements for customer service and payment acceptance as delineated in Attachment B. There are also equipment and security requirements in addition to staffing which have been included in the estimate. Also included in the estimate is the cost for an online appointment system since Proposition M requires Finance to schedule payment appointments. The estimated total direct cost is \$1,267,066.

Note that Finance's proposed Customer Support staffing is limited by existing facilities. There is little to no room for growth in support of this industry given its intensive needs under existing circumstances. Not only does growth require the necessary line staff, facilities and equipment, but also supervisory and support staff. Thus, resources to support existing levels are not necessarily indicative of future staffing requirements should the number of cannabis businesses licensed in the City increase. Any future City regulatory or licensing body should consider the capacity of the City to support this industry in determining the level of licensing. Finance will continue to evaluate resources versus workload and changes in the environment that may further impact future needs.

Included in the request is a Chief TCO II position to oversee CSD. Finance's current authorized position is one Chief Management Analyst to manage both CSD and Administration Division, which makes it difficult for the Chief to focus on managing, planning and improving CSD. Many departments the size of Finance have a chief level position dedicated to the Administration Division. Allocating the appropriate position authorities and staffing level to CSD is important given that as front-line personnel they are key to taxpayers' and constituents' experience with Finance. Therefore, Finance is currently using a substitute position authority for a Chief level position to manage CSD, and requested a new regular position authority in the proposed budget for FY 2017-18. By having a dedicated position this year, Finance has been able to launch On-Line Chat, assess and purchase new equipment to improve cash acceptance process, and conduct sufficient hiring to replenish a depleted workforce. The position is requested in the proposed budget, but it is critical to convey the impact of not having a dedicated manager to oversee and manage the Division.

ENSURE FULL TAX COMPLIANCE

Ensuring full tax compliance and collecting all taxes owed involves three divisions in Finance: Tax and Permit, Billing and Collection, and Systems.

Tax and Permit - Audit Section Resource Requirements

The cannabis industry being predominantly cash based makes it difficult to audit with any amount of accuracy if the taxpayer is uncooperative; therefore, if the City follows the State in requiring that all cannabis businesses are to obtain and use point of sale and track and trace software products it would definitely assist Audit staff's ability to verify sales (gross receipts) and determine the delineation between recreational and medical marijuana sales. Furthermore, due to the complexities of the Los Angeles Municipal Code, requiring the software products would also help Finance to confirm and establish nexus and business tax liabilities for growers and transporters outside the City's jurisdiction that are receiving revenue from the sales or transportation of cannabis based products to businesses within the City.

Finance's goal is to audit all identified retail cannabis businesses within a two-year cycle. Currently, 189 existing medical marijuana dispensaries (MMD) were mailed the 2017 Business Tax Renewal period. Attachment C delineates the additional resources required to audit 200 to 400 retail dispensaries with and without software product requirements for track and trace. If there are to be no limits to be imposed per the new ordinance as to number of recreational marijuana businesses that can be established within the City, then there is the distinct possibility that the City will be returning to over 1,200 locations that were once in the LATAX database for all marijuana businesses within the City. In addition to requiring Tax Auditors, Finance will need one Principal Tax Auditor to meet its two year auditing goal so as not to impact the Division's two Principal Tax Auditors responsible for the other business audit operations. Finance currently does not audit every business which will not be the case with cannabis businesses. In addition to other responsibilities, the Principal Tax Auditor is responsible for the final review of all audit reports and the workload is expected to increase significantly with auditing every business within a two-year cycle. Finance will also need to add one Senior Tax Auditor if the number of businesses is 400, and an additional Senior Tax Auditor for every five to six Tax Auditors added to have the necessary level of supervision, to accompany Tax Auditors at site visits, and for first level audit review. Attachment D identifies the number of Tax Auditors required for 200 to 1,200 retail dispensaries.

Current audit protocols require that Tax Auditor conduct a site visit to confirm revenue generation methodology and determine whether anything was inadvertently missed. Since staff safety is Finance's priority, we are recommending that the onsite visit to cannabis businesses be conducted with the appropriate health and safety protocols, including by a team and joint agency initiatives. The same protocols would be followed by Discovery and Enforcement field staff, which is discussed in the next section. It should be noted that the

need to conduct audit site visits could be reduced by the availability of track and trace software. However, Finance is assuming that it will not be implemented by July 2018 since it is unknown at this time how and when the State will implement software requirements and whether or not the collected data will be available to local municipalities. If the City can access data from the State's system, Finance will report back on the resources required for the Systems Division and Audit Section to support data extraction and analysis.

The process of selecting businesses for audit is currently done manually by Senior Auditors by reviewing the data fields in LATAX, which is a time-consuming process, to come up with audit lists. Finance has been discussing purchasing software that uses advanced analytics for selecting businesses for audit and to flag relationships between businesses. The software would also facilitate case tracking and document the amount of time it takes to complete audits and the results. Given the anticipated number of audits for cannabis businesses, data analytics and case tracking software will help Finance tremendously with its responsibility of ensuring tax compliance.

The estimated direct cost for staffing to audit 400 businesses and for auditing software is \$1,025,573 without track and trace data availability.

Finance will analyze the results of the cannabis business audits to determine the additional resources necessary for auditing in future years. We anticipate that auditing staffing will need to be increased in FY 2019-20 due to the added complexities resulting from the proposed cannabis business tax remitting period going from quarterly to a monthly basis, and there will also be the need to audit businesses that are involved in cultivating, transporting, and testing. At this time, we do not know the number of businesses involved in these activities in the City.

Tax and Permit - Discovery and Enforcement Section Resource Requirements

The Discovery and Enforcement (D&E) Section is responsible for: a) outreach events to explain the City's tax code and reporting requirements; b) assisting taxpayers with more complicated tax issues; c) conducting field investigations or mailing campaigns to discover unregistered businesses; and, d) utilizing database matching to identify businesses that should be registered.

Finance will need to add four TCO IIs to D&E to conduct site visits at all new marijuana businesses to confirm that they are physically located at the business address noted on their BTRC and to document the activity level at the business locations. D&E staff will also be responsible for outreach events and educating cannabis businesses. We have heard from other municipalities that outreach and educating taxpayers on the tax code is an important component of a tax compliance program especially with this industry, which has been operating basically in a non-regulated environment and as such, do not understand the nuances of taxation. From its field work, D&E staff will also flag businesses for more in-depth

review by Audit Section. Finance had to re-assign three TCO IIs this year to review and resolve issues with the 189 medical marijuana dispensaries, which has resulted in backlogs in other discovery and enforcement work. The estimated total direct cost is \$279,682.

Billing and Collection Division (BCD) Resource Requirements

BCD processes renewals on a monthly, quarterly and yearly basis for business and user taxes. The Division also processes all refund requests, penalty waivers, installment agreements, and scan all documents for storage into Finance's documents management system. In addition, BCD is responsible for collecting on accounts that are delinquent or deficient, which have exhausted their administrative appeal process. The number of delinquent accounts is expected to increase given the history of installment agreements requested by this industry. Delinquent accounts are anticipated to increase by 50 per quarter, which could be more when monthly payments are required, assuming a 25 percent delinquency rate on 400 businesses. Therefore, BCD will require two Accounting Clerks to handle the increased workload relative to processing annual renewals, refund claims, and penalty waivers, and two TCO II to work on delinquent accounts. The estimated total direct cost is \$183,700.

Systems Division Resource Requirements

The LATAX system should be able to support the needs for taxation of cannabis businesses without significant modifications provided that all taxable activity is recorded on either a monthly, quarterly or annual basis. The City currently taxes the sale of medical marijuana as a separate tax category. The Systems Division will establish a separate tax code for recreational marijuana to segregate data on sales data between recreational and medical marijuana in the system. The other aspects of the process such as transportation, testing and/or cultivation with taxation at differing rates would require separate tax classification codes as well. The establishment of new tax codes and related taxing rates should be fully configurable within the LATAX system. Additional resources are not requested at this time for these programming changes. Funding for additional staffing and licensing costs will be necessary if the City will require businesses to use software products and/or the City can access data from the State's system, but the actual level would not be known until more details become available on the scope of work that would need to be done.

Track and Trace System

Proposition 64 includes provisions to control the cultivation, processing, manufacture, distribution, testing and sale of recreational marijuana through a system of State licensing, regulation, and enforcement. The State has gone out to bid for a database system known as "track and trace", which will give the State's taxing, regulatory and enforcement agencies the ability to follow a marijuana plant from a seed to the packaged product at a retail dispensary, research laboratory or to destruction. The system entails assigning a unique serial number (e.g., barcode identifier) to every plant and capturing details on what happened to that plant

such was when it was packaged and sold and how much remains in the store. The system would allow the various State agencies to view in real time, every plant's progress through its life cycle. At this time, we do not know if local municipalities will have access to the data, if the available data to cities will be granular, and the format that the data will be provided in. If sufficient data is available to the City, Finance will be able to leverage this data for audit purposes. The resources necessary to receive, view, and analyze the data is unknown at this time; however, Finance will continue to monitor the progress of the State's system and will report back as necessary to advise on any required steps for the City to obtain State "track and trace" system data.

Summary of Staffing and Funding Request

Since the increase in workload is unclear at this time, Finance proposes an incremental approach to its staffing request. However, a significant increase in the number of businesses will require reassessment of the identified resources for the applicable divisions including supervisory span of control as well as evaluation of the impact to other Finance divisions such as Accounting and Administration Divisions. The funding requested has also not factored in the increase in cost for processing cannabis payments based on different depositing scenarios since the volume for each payment type is unknown at this time. For reference, processing fees for cash are approximately 30 times greater than for a check. The requested 27 staff and funding for FY 2017-18 for a total of \$2,756,021 consists of \$2,108,237 in on-going costs with salaries cost prorated and \$647,784 in one-time costs, and is for an estimated 400 cannabis businesses.

FISCAL IMPACT STATEMENT

Approval of the recommendations in this report will require funding from the General Fund of \$2,756,021 for direct costs for FY 2017-18. It is unclear at this time the new revenues to be generated from the passage of either of the cannabis measures on the March 7, 2017 Special Election. However, it should also be noted that additional expenditures for regulatory and enforcement efforts may be offset by revenues from taxes, licenses, permits, fees, and fines related to recreational and commercial cannabis activities. If Proposition M passes, cannabis businesses will begin paying new businesses taxes on July 1, 2018; therefore, the payments will be recorded in FY 2018-19.

If you have any questions, please feel free to contact me at (213) 978-1774.

Sincerely,



Claire Bartels
Director of Finance / City Treasurer

Attachment A

Estimated Funding for FY 2017-18
200 - 400 Cannabis Businesses without Point of Sale/Track and Trace Software

Account No.	Account Name	Amount	No. of Positions
1010	Salaries - General	\$ 1,231,784	27
3310	Transportation	20,070	
3040	Contractual Services	1,295,583	
6010	Office and Admin	183,584	
7300	Furniture, Office & Technical Equipment	25,000	
	Total	\$ 2,756,021	

Attachment B

**Cannabis Tax Collection Implementation Resource Requirements for FY 2017-18
Customer Support Division**

The resource requirements are based on the available remaining space at Finance's City Hall location, which is where Finance is considering limiting cash acceptance to. City Hall has nine windows available to assist customers and five are utilized regularly. The staffing plan would provide: a) staffing for the other windows and Contact Center; b) additional staff/supervisor for monitoring cash counting; c) available backup; and, d) the necessary supervisory positions responsible for deposits, reconciliations, training, appointments, and supervision. The plan is also based on receiving annual payment for 2017 Tax Year by February 28, 2018, and having staff in place in FY 2017-18 for the quarterly payments starting on July 1, 2018.

Personnel / Item	No.	FY 17-18 Wages & Count	10 Months Total	Office Supplies	Transport- ation (Mileage)	Computer, Software & Phone Line (one-time)	Furniture (one-time)	Total
Tax Compliance Officer III (1179-3)	1	\$ 105,804	\$ 88,170	\$ 400	\$ 1,338	\$ 4,692	\$ 1,300	\$ 95,900
Principal Clerk (1201)	1	78,125	65,104	400	-	4,692	1,300	71,496
Customer Service Specialist (1229)	4	72,976	243,253	1,600	-	18,768	5,200	268,821
4 Months Total								
Chief Tax Compliance Officer II (1211-2)	1	\$ 155,167	\$ 51,722	\$ 400	\$ -	\$ 4,692	\$ 1,300	\$ 58,114
Principal Tax Compliance Officer (1195)	1	122,809	40,936	400	1,338	4,692	1,300	48,666
Customer Service Specialist (1229)	4	72,976	97,301	1,600	-	18,768	5,200	122,869
Subtotal Personnel Related Costs	12	\$	\$ 586,486	\$ 4,800	\$ 2,676	\$ 56,304	\$ 15,600	\$ 665,866

Assumption is that licensing begins on January 1, 2018; therefore, first hiring phase will be in September 2017 to allow time to train staff before the annual payment is due in February 2018. Second hiring phase will be in FY 2017-18 in anticipation of the quarterly payments starting on July 1, 2018 and for supervisors to develop procedures.

Equipment (one-time)	Quantity	Unit Cost	Subtotal
Cash Register	2	\$ 500	\$ 1,000
Cash Counting Machine (with printer)	2	4,200	8,400
Smart Safe	1	25,000	25,000
Check Scanner	2	800	1,600
Appointment System and Electronic Queue System	1	100,000	100,000
Subtotal Equipment		\$	\$ 136,000

Estimates for Appointment System and Electronic Queue System were not available at time of report preparation. Finance will have to solicit bids. \$100,000 for both systems is a rough estimate.

Attachment B

Cannabis Tax Collection Implementation Resource Requirements for FY 2017-18 Customer Support Division		
Security		
Security Officers for City Hall - 2 officers*	\$	115,200
Facilities Security Assessment** (one-time)		350,000
Subtotal Security	\$	465,200
<p>*Cash acceptance will be limited to City Hall and by appointment. Process may be further updated when the security review is completed. Security Officers will be assigned inside the public counter area.</p> <p>**Future security enhancement funding to be determined pending results of security assessment</p>		
Total	\$	1,267,066
Estimated Ongoing Costs	\$	709,162
Estimated One-Time Costs	\$	557,904

Salary estimate is for 4 to 11 months. Will require 12 months funding in future years.

Notes/Assumptions

- a) Office supplies is \$400 per position.
- b) Mileage for TCOs and Auditors based on minimum mileage standard is \$1,338 per position.
- c) Computer (with monitor and software) and data/phone line is \$4,692 per position: \$2,067 for computer and \$2,625 for data/phone line (quote provided by ITA).
- d) Public Counter CSS will be paired (for dual control and segregation of duties) at each window along with supervisory oversight and reconciliation. CSS staff could flex between Public Counter and other cannabis-related Customer Support functions as necessary, while also ensuring sufficient coverage to maintain at least one dedicated payment window through staff breaks, absences, or compensated time off.

Attachment C

**Cannabis Tax Collection Implementation Resource Requirements for FY 2017-18
Audit Section**

The following provides the resource requirements for 200 cannabis businesses and the incremental increase for 400 businesses under two scenarios - with and without point of sale/track and trace software requirement. The chart on Attachment D further details requirements if the number of businesses exceed 400.

Personnel / Item	No.	FY 17-18 Wages & Count	4 Months Total*	Office Supplies	Transport- ation (Mileage)	Computer, Software & Phone Line (one-time)	Furniture (one-time)	Total
Initial 200 Businesses - Point of Sale/Track and Trace Software Not Required								
Tax Auditor II (1514-2)	3	\$ 95,624	\$ 95,624	\$ 1,200	\$ 4,014	\$ 14,076	\$ 3,900	\$ 118,814
Principal Tax Auditor (1524)	1	131,438	43,813	400	1,338	4,692	1,300	51,543
Subtotal Personnel Related Costs	4		\$ 139,437	\$ 1,600	\$ 5,352	\$ 18,768	\$ 5,200	\$ 170,357
Incremental 200 Businesses - Point of Sale/Track and Trace Software Not Required								
Tax Auditor II (1514-2)	2	\$ 95,624	\$ 63,749	\$ 800	\$ 2,676	\$ 9,384	\$ 2,600	\$ 79,209
Senior Tax Auditor (1519)	1	118,066	\$ 39,355	\$ 400	\$ 1,338	\$ 4,692	\$ 1,300	\$ 47,085
Subtotal Personnel Related Costs	3		\$ 103,104	\$ 1,200	\$ 4,014	\$ 14,076	\$ 3,900	\$ 126,294
Initial 200 Businesses - Point of Sale/Track and Trace Software Required								
Tax Auditor II (1514-2)	2	\$ 95,624	\$ 63,749	\$ 800	\$ 2,676	\$ 9,384	\$ 2,600	\$ 79,209
Principal Tax Auditor (1524)	1	131,438	43,813	400	1,338	4,692	1,300	51,543
Subtotal Personnel Related Costs	3		\$ 107,562	\$ 1,200	\$ 4,014	\$ 14,076	\$ 3,900	\$ 130,752
Incremental 200 Businesses - Point of Sale/Track and Trace Software Required								
Tax Auditor II (1514-2)	2	\$ 95,624	\$ 63,749	\$ 800	\$ 2,676	\$ 9,384	\$ 2,600	\$ 79,209
Senior Tax Auditor (1519)	1	118,066	\$ 39,355	\$ 400	\$ 1,338	\$ 4,692	\$ 1,300	\$ 47,085
Subtotal Personnel Related Costs	3		\$ 103,104	\$ 1,200	\$ 4,014	\$ 14,076	\$ 3,900	\$ 126,294

Assumption is that licensing begins on January 1, 2018; therefore, funding is required by March 2018 to allow time to train staff and develop procedures.

Attachment C

Cannabis Tax Collection Implementation Resource Requirements for FY 2017-18 Audit Section
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Auditing Software & Licenses	\$	726,000	(subsequent annual cost is \$598,000)
Leased Vehicle - 2	\$	2,922	
Subtotal	\$	728,922	

Total for 200 Businesses & Software Products Not Required	\$	899,279	
Total for 400 Businesses & Software Products Not Required	\$	1,025,573	
Total for 200 Businesses & Software Products Required	\$	859,674	
Total for 400 Businesses & Software Products Required	\$	985,968	

400 Businesses & Point of Sale and Track and Trace Software Products Not Required			
Estimated Ongoing Costs	\$	983,629	Includes \$726,000 for auditing software which will be reduced to \$598,000 in future years. Salary estimate is for 4 months. Will require 12 months funding in future years.
Estimated One-Time Costs	\$	41,944	
Total	\$	1,025,573	

Notes/Assumptions

- a) Office supplies is \$400 per position.
- b) Mileage for TCOs and Auditors based on minimum mileage standard is \$1,338 per position.
- c) Computer (with monitor and software) and data/phone line is \$4,692 per position: \$2,067 for computer and \$2,625 for data/phone line (quote provided by ITA).
- d) Leased vehicle requested is to protect the privacy of City employees and for their safety when performing field discoveries and audits. Proposing to use the City's Enterprise lease agreement to rent cars and create a vehicle pool. Requested funding is for four months.

Attachment D

Audit Resource Requirements			
Number of Medical / Recreational Cannabis businesses	Number of Tax Auditor II required to perform audits within a 2 year cycle (40 audits annually)	Number of Tax Auditor II required to perform audits with availability of Point of Sale/Track and Trace Software (25% increase in efficiency)	Number of Sr. Tax Auditor
200	3	2	
300	4	3	
400	5	4	1
500	6	5	
600	8	6	
700	9	7	
800	10	8	1
900	11	8	
1000	13	9	
1100	14	10	
1200	15	11	1

The above table reflects the number of Auditors that Finance will need to achieve the goal of completing all audits of cannabis businesses within a two year cycle for the number of businesses indicated. The table does not include auditing cannabis supporting services such as growers, transporters etc. If the City requires businesses to use point of sale/track and trace software, it would facilitate auditors acquiring the necessary general ledger data and decrease the wait time that audit staff currently spends in communicating with taxpayer and waiting for submission of documentattion required to perform the audit. If point of sale/track and trace data is accessible to audit staff and is uniform in its revenue reporting format, Finance projects up to a 25% increase in efficiency since it would not be necessary to discuss the numbers reported, apportionment, and classification.

Attachment E

Cannabis Tax Collection Implementation Resource Requirements for FY 2017-18

**Discovery and Enforcement Section
and Billing and Collection Division**

Personnel / Item	No.	FY 17-18 Wages & Count	8 Months Total	Office Supplies	Transport- ation (Mileage)	Computer, Software & Phone Line (one-time)	Furniture (one-time)	Total
Discovery and Enforcement Section (D&E)								
Tax Compliance Officer II (1179-2)	4	\$ 92,738	\$ 247,301	\$ 1,600	\$ 5,352	\$ 18,768	\$ 5,200	\$ 278,221
Subtotal Personnel	4		\$ 247,301	\$ 1,600	\$ 5,352	\$ 18,768	\$ 5,200	\$ 278,221
Leased Vehicle - 1			\$ 1,461					
D&E Total			\$ 279,682					
Assumption is that licensing begins on January 1, 2018; therefore, funding is required from November 2017 to allow time to train staff, prepare for outreach and case reviews, and develop procedures.								

Billing and Collection Division (BCD)

			4 to 8 Months Total					
Tax Compliance Officer II (1179-2)	2	\$ 92,738	\$ 61,825	\$ 800	\$ 2,676	\$ 9,384	\$ 2,600	\$ 77,285
Accounting Clerk (1223)	2	70,223	93,631	800	-	9,384	2,600	106,415
Subtotal Personnel	4		\$ 155,456	\$ 1,600	\$ 2,676	\$ 18,768	\$ 5,200	\$ 183,700
BCD Total			\$ 183,700					
Assumption is that licensing begins on January 1, 2018; therefore, funding is required for November 2017 to June 2018 for Accounting Clerks (8 months) and for March to June 2018 (4 months) for Tax Compliance Officers to allow time to train staff and develop any necessary procedures prior to first payment due date of July 1, 2018.								

Attachment E

Cannabis Tax Collection Implementation Resource Requirements for FY 2017-18

**Discovery and Enforcement Section
and Billing and Collection Division**

Discovery and Enforcement Section, and Billing and Collection Division

Estimated Ongoing Costs	\$ 415,446	Salary estimate is for 4 to 8 months depending on position. Will require 12 months funding in future years.
Estimated One-Time Costs	\$ 47,936	
Total	\$ 463,382	

Notes/Assumptions

- a) Office supplies is \$400 per position.
- b) Mileage for TCOs and Auditors based on minimum mileage standard is \$1,338 per position.
- c) Computer (with monitor and software) and data/phone line is \$4,692 per position: \$2,067 for computer and \$2,625 for data/phone line (quote provided by ITA).
- d) Leased vehicle requested is to protect the privacy of City employees and for their safety when performing field discoveries and audits. Proposing to use the City's Enterprise lease agreement to rent cars and create a vehicle pool. Requested funding is for four months.