

MOTION

Beginning on January 1, 2018, two new state laws, Medical Cannabis Regulation and Safety Act (MCRSA) and Adult Use of Marijuana Act (AUMA) (Proposition 64) will go into effect throughout California. MCRSA and AUMA will create a new paradigm in cities that choose to regulate, tax and implement license structures for cannabis business activity. Additionally, in March 2017, voters in the City of Los Angeles will decide upon two ballot measures which would will begin the taxation and regulation of cannabis business activity in the City.

It is believed that the City would be entitled to upwards of \$100 million in general fund revenue from gross receipts and sales tax within the first few years of the industry operating legally. However, because the federal government currently recognizes marijuana as a Schedule I drug, and many banks that adhere to federal banking policies and regulations, including the Federal Deposit Insurance Corporation (FDIC), will not bank with any entity in the cannabis industry for fear of violating Federal laws. The lack of a legitimate banking system has the de facto effect of turning the vast majority of cannabis business activity into a cash only business.

This circumstance leads to the reality that the City's Office of Finance will be faced with the prospects of (i) potential underpayment or evasion of taxes due to the City, or (ii) receipt of cash payments for tax obligations of cannabis businesses. The City must be prepared, as it begins the discussion of the 2017-2018 City Budget, for increasing demands in staffing and equipment for ensuring tax compliance by cannabis enterprises and for managing the potential of cash tax payments within the Office of Finance and as needed, with the Office of the Controller.

I THEREFORE MOVE that the Office of Finance report back to the Budget and Finance Committee within the next 45 days with a detailed plan of how the Office of Finance will ensure full tax compliance, and manage the intake, counting, depositing and overall management of the increases in tax revenue, relating to cannabis business activity;

I FURTHER MOVE that the Office of Finance report back to the Budget and Finance Committee on whether or not the City should begin the process of obtaining "track and trace" software or other technical means to ensure tax compliance and to verify sales, product movement, sales volume and any other metric that will allow the City to fully realize all tax revenues due from cannabis business activity.

Presented by: Paul Krekorian
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Seconded by: [Signature]

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