



Date: August 2, 2016  
To: Patrick H. West, City Manager *T.M.*  
From: John Gross, Director of Financial Management *JG*  
For: Mayor and Members of the City Council  
Subject: **Medical Marijuana Initiative – Analysis**

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On July 12, 2016, the City Council approved a motion requesting an impact report regarding the initiative for the Regulation of Medical Marijuana Businesses, which will appear as a ballot measure for the November 8, 2016 election (Ballot Measure). If the Ballot Measure is approved, it will require substantial City resources and staffing related to: 1) approval and regulation of permitted businesses; 2) closing, or moving into compliance, any unsanctioned facilities; and 3) expected increased public safety service demands. The Ballot Measure also provides for taxes on medical marijuana businesses. Based on an analysis by Financial Management, it is projected that the expenditures associated with the Ballot Measure will significantly exceed the tax revenues generated.

This memo provides a summary of the key features of the Ballot Measure, legal issues, possible numbers of medical marijuana businesses, regulation and enforcement issues, general health and public safety issues, and fiscal impact.

Attached to this summary is the full report by Financial Management that provides background information and details.

### **Key Features of the Ballot Measure**

- Provides for a multi-level business license application process that gives preference to the business entities (not necessarily the people) that participated in the 2010 City medical marijuana dispensary lottery.
- Requires licensed medical marijuana businesses to adhere to State regulations that will be put into place by 2018.
- Allows an estimated 26-32 dispensaries (retail stores), based on population, which can be located in all areas of the City except those zoned exclusively for residential use. Locations are further limited by certain buffers zones including a 1,000 feet separation from other retail dispensaries.
- Allows an unlimited number of cultivation, manufacturing and other non-retail marijuana businesses. These facilities will be limited from operating in residential areas and with certain buffer zones, but there is no requirement of separation (buffer) between these facilities types and other marijuana businesses, including dispensaries.

- Imposes very tight implementation timeframe that may be disruptive to City operations and may not be able to be achieved.
- The Ballot Measure prohibits Police from entering a permitted marijuana business without permission or a search warrant.
- A nine person citizen “Task Force”, composed mostly of members aligned with marijuana interests, must opine on the validity of proposed administrative citations for violations of marijuana regulations. The “Task Force” does not review administrative citations for non-sanctioned violations.
- Prohibits the assessment of regulatory fees on marijuana businesses for the recovery of application, regulation (inspection and compliance), and enforcement costs of marijuana regulations.
- Reduces medical marijuana tax rates from those previously approved by Long Beach voters, and eliminates the tax previously approved by voters on recreational marijuana.

#### **Number of Marijuana Businesses – Sanctioned and Unsanctioned**

- The number of sanctioned cultivation and manufacturing locations that will be established in Long Beach are unknown but over time there may be a high number of illegal businesses, as well as an unlimited number of sanctioned cultivation and manufacturing locations as allowed by the Ballot Measure. At this time it appears Long Beach may be the only large municipality in the area that allows manufacturers, cultivators and other non-dispensary businesses if this ballot measure passes.
- Based on experience that Long Beach and other California jurisdictions have had with legalized medical marijuana businesses, it is likely that a substantial number of unsanctioned dispensaries, cultivation, and manufacturing facilities will operate in Long Beach, including operations in residential areas.
- There are external factors could impact City medical marijuana operations and/or revenue. This includes the results of the November election for the statewide initiative “The Control, Regulate and Tax Adult Use of Marijuana Act” (AUMA) that would allow recreational marijuana business and impose a 15% excise tax on recreation marijuana and end the sales tax on medical marijuana. Actions by neighboring governments to allow or not allow marijuana businesses could also have an impact.

#### **Regulation and Enforcement:**

- The initial licensing process is expected to be relatively burdensome with a special prioritization process for applicants, along with extensive plan review and facility inspections to ensure public safety. The Ballot Measure proscribes short timeframes and the City may not have the resources to handle the intensive licensing process. As a result, the Ballot Measure’s required timeframes may not be met due to delays in the

application process, including the possibility of delays or adverse ramifications to other City functions such as the processing of building plans or of business license revenue collection. Any processing issues are expected to be temporary.

- It is believed the City can impose safe medical marijuana operating regulations until appropriate State regulations are in place in 2018. However, the potential surge in both new sanctioned and unsanctioned medical marijuana businesses may make it difficult to properly enforce the regulations, as both staffing resources and the anticipated tax revenue will not be immediately available to the City.
- The City will treat sanctioned and unsanctioned marijuana businesses similarly to businesses where there are special public safety concerns and neighborhood impacts that need to be addressed.
- Regular public safety related inspections of sanctioned business will occur and financial audits will also be conducted.
- The City Manager's Office is expected to serve as the central point of contact by establishing a Medical Marijuana Coordination Center and will manage the overall medical marijuana program, but the program will operate on a day-to-day basis at the departmental level. Departments involved will include Police, Financial Management (Business Licensing and Cashiering), Development Services (Code Enforcement and Building Inspection), Health, Fire, the City Attorney, and the City Prosecutor.
- Most complaint calls are initially expected to come through 911. If considered non-emergency, the calls are planned to be routed to the Medical Marijuana Coordination Center in the City Manager's Office. Non-emergency Councilmember complaints will similarly be directed to the Medical Marijuana Coordination Center.
- The Coordination Center will advise departments of complaints and initially categorize them as to the level of public safety concern. Departments will then handle as resources and priorities permit.
- Our analysis assumes that complaints concerning sanctioned medical marijuana businesses will normally be handled, at least initially, by a Code Enforcement and Business License team. Police will accompany staff whenever deemed appropriate to ensure that enforcement staff are comfortable about their safety.
- Investigations of complaints or the handling of issues with regard to unsanctioned operations/businesses, will normally be handled by a multi-department team led by the Police Department. The focus will be on public safety. The departments will perform inspections and use the appropriate enforcement tools available, including but not limited to full clean-outs of product and supplies, administrative citations, civil lawsuits, and criminal prosecution (typically for municipal violations).

- While safety and other violations for sanctioned businesses are not expected to be a major problem, they may occur and, if they do, will be treated as any other sanctioned and lawfully operating business that involves public safety concerns. As necessary, interdepartmental teams of staff may be used.
- The regulatory approach used by the City will be regularly reviewed and adjusted for changes in legal interpretations and to better reflect regulatory and enforcement needs and available funding.
- Based on past experience in Long Beach, some unsanctioned/illegal marijuana operations may take months or even years to close. A lien sale of the landlord's property after the issuance of administrative citations may be one of the more dramatic and effective enforcement mechanisms, albeit slow. Overall, closing unsanctioned or illegal operations can be a long, costly process.

### **Legal Issues**

- The language of the Ballot Measure is such that litigation is expected both with regard to both sanctioned and unsanctioned marijuana operations. It is also expected to be costly.
- Litigation and associated challenges to the Ballot Measure and its regulation and enforcement could significantly affect when and how the Ballot Measure is fully implemented and how it is enforced.
- Significant and ongoing City Attorney and City Prosecutor support is expected to be needed for the civil and criminal complaints that will be made by the City, primarily against unsanctioned operations and/or their landlords, and, if needed, against sanctioned businesses that fail to comply with regulations. The City Attorney's Office will also be needed to defend litigation against the City.

### **General Health and Public Safety Impacts**

- It is expected that the Ballot Measure, by authorization of medical marijuana businesses will cause a general increase in emergency medical services and more incidents requiring a police response. This conclusion is based on previous experience in Long Beach and the ongoing experience in Colorado. This can result in an increase in general response times for service calls and also create a need for additional health services associated with misuse prevention.
- Departments are recommending that these impacts be mitigated through increased City services. The fiscal impact section includes these potential impacts.

**Fiscal Impact**

- The net cost of the Ballot Measure is difficult to estimate because it presents many “first time” situations and also some legal uncertainty. As a result of these difficulties an estimated range of cost was projected with the mid-point being used as the logical “best estimate.”
- The net ongoing cost (expenses minus any marijuana tax revenues) of regulation, enforcement and addressing general public safety impacts of the authorization is expected to be between \$3.3 million and \$5.1 million a year with the “best estimate” being the medium level of \$5.1 million as shown in the table below. This is based on the service levels initially recommended by the various Departments involved. It is possible that over an extended period of time (probably years), these ongoing costs could go down as the number of illegal businesses and compliance problems eventually goes down.

**Summary of Projected Net Medical Marijuana Net Enforcement and Regulation Costs**

\$ in millions	Low	Medium	High
Revenue from Ballot Measure Taxes	3.3	6.1	12.5
Sales Tax (Inclusive of Meas A)	0.6	1.0	1.0
<b>Total Ongoing Revenue</b>	<b>3.9</b>	<b>7.1</b>	<b>13.5</b>
Regulation and Enforcement	6.9	8.5	13.9
Related Health & Safety Costs	0.3	3.7	4.1
<b>Total Ongoing Expenses</b>	<b>7.2</b>	<b>12.2</b>	<b>18.0</b>
<b>Net Ongoing Cost</b>	<b>3.3</b>	<b>5.1</b>	<b>4.4</b>
One-time Admin and Enforcement	1.9	2.1	3.2
One-time Related Health & Safety	0.0	0.3	0.4
<b>Total One-time Expenses</b>	<b>1.9</b>	<b>2.4</b>	<b>3.6</b>

- The first year net cost (FY 17) could potentially be higher than the ongoing net cost due to start-up and lower revenue in the first year, but delays in ability to staff up could also serve to reduce costs in the first year from what they otherwise would be, although service problems may occur. However, there will be one-time costs incurred in FY 17 which will increase the fiscal impact and require one-time funds in FY 17. One-time costs are estimated to range between \$1.9 million and \$3.6 million as shown in the table above.
- The Ballot Measure sets recreational taxes to zero; this analysis does not include the potential impact of lost tax revenue from the diversion of medical marijuana sales to recreational sales that could result from AUMA potentially passing this November. In addition, if AUMA passes, no sales tax can be collected on medical marijuana. This

would adversely impact City medical marijuana revenues from that projected in this analysis.

## **Conclusion**

If the ballot measure is approved by voters, staff members will need to immediately begin working on implementation of the law as the ordinance goes into effect 10 days after the results are certified by City Council. This will divert a significant amount of personnel, resources and City staff time to this new business use and will mean that the costs will start immediately, including one-time startup costs. In addition, revenues are expected to be lower in the first year due to timing of the implementation and opening of the marijuana businesses. Actual costs and revenues will vary as these are based on a set of assumptions that could change. Staff will work to identify options for City Council to fund the expected shortfall; however, this may require redirecting funds from other purposes or using the City's operating reserves.

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## **ATTACHMENT**

CC: CHARLES PARKIN, CITY ATTORNEY  
LAURA L. DOUD, CITY AUDITOR  
DOUG HAUBERT, CITY PROSECUTOR  
TOM MODICA, ASSISTANT CITY MANAGER  
ARTURO SANCHEZ, DEPUTY CITY MANAGER  
REBECCA JIMENEZ, ASSISTANT TO THE CITY MANAGER

**ATTACHMENT:  
MEDICAL MARIJUANA BALLOT MEASURE FISCAL IMPACT ANALYSIS**

The following analysis has been prepared in response to City Council request for a report on the measure titled "Regulation of Medical Marijuana Businesses," which has qualified for the November ballot through voter petition. The report provides a projection of the fiscal impact of the measure, should it pass, as well as a discussion of the regulatory and enforcement model proposed by city staff.

The model of enforcement described in this report is subject to change for a number of reasons. First, although State lawmakers passed the Medical Marijuana Regulation and Safety Act (MMRSA) in October 2015, the agencies responsible for setting rules under MMRSA are not expected to issue final rulings until 2018. Second, if the local medical marijuana ballot measure is approved, there will be a period where Departments will need to reassess the efficiency and effectiveness of the selected regulatory approach, and adjust where necessary. These adjustments will almost certainly have budgetary impacts to the City.

The same is true of the revenue projections developed for this report. The marijuana market is constantly changing as it becomes legalized, and therefore any projections made by staff of anticipated revenues should be interpreted as best estimates as of a point in time.

**Medical Marijuana Business Types**

Earlier versions of medical marijuana ordinances considered by City Council focused primarily on Dispensary and Cultivation sites, setting limits on the number of permits allowed. In contrast, the ballot measure to be voted upon in November explicitly states that "each State license type available in the Medical Marijuana Regulation and Safety Act (MMRSA) is eligible to apply for a City Business License Permit." These permit types include:

- Dispensaries – Facilities where medical marijuana products are offered for retail sale, including through delivery services.
- Cultivators – Businesses involved in planting, growing, harvesting, drying, curing, grading or trimming medical marijuana.
- Testing – Facilities that perform tests of medical marijuana products.
- Manufacturers – Locations that produce manufactured medical marijuana products (edibles, oils, concentrates, etc) through extraction methods.
- Distributors – Businesses licensed to purchase medical marijuana from a Cultivator or Manufacturer, for sale to a Dispensary.
- Transporters – Businesses licensed to transfer medical marijuana products from one licensed location to another.

The ballot measure goes on to state that "the number of licensed and permitted Medical Marijuana Dispensaries shall be limited to not less than one Medical Marijuana Dispensary business for every eighteen thousand residents in the City of Long Beach or not more than one Medical Marijuana Dispensary business for every fifteen thousand residents." Using

current population surveys, this translates to a minimum of 26 and maximum of 32 Dispensaries. For projection purposes, staff is assuming the maximum number of Dispensary permits will be awarded. This is consistent with past experience with the medical marijuana business application process in Long Beach, where there was far greater demand for permits than what was made available.

Following review of the ordinance with the City Attorney’s Office, it has become clear that the maximum and minimum ratios apply only to Dispensary permits. There is no limit to the number of other business permit types, so long as applicants meet the minimum zoning restrictions, buffers, operating conditions, and application requirements specified in the ballot measure. Without a cap on other business types, staff believes that over one-hundred Cultivation and Manufacturing facilities could open in Long Beach, based on experiences from other cities in the nation that did not have a cap.

The measure also reduces the medical marijuana business license tax rates approved by Long Beach voters in 2014. The table below summarizes the new rates that would be applied to the various permit types:

*Table 1: Medical Marijuana Business License Tax Rates*

<b>MMJ Business Type</b>	<b>Type of Tax</b>	<b>Current</b>	<b>Ballot Measure</b>
Dispensaries	Gross Receipts	6% (Min 0% - Max 10%)	6% (Min 0% - Max 6%)
Cultivators	Sq. Ft.	\$15 (Min \$0 - Max \$50)	\$10
Manufacturers	Gross Receipts	6% (Min 0% - Max 10%)	0%*
Testing Sites	Gross Receipts	6% (Min 0% - Max 10%)	0%*
Transporters	Gross Receipts	6% (Min 0% - Max 10%)	0%*
Distributors	Gross Receipts	6% (Min 0% - Max 10%)	0%*

*\*Note: According to the measure, these business types will pay an annual fee of 150% of the average business license rate for personal service businesses in Long Beach, or \$1,000 per year, whichever is more.*

Given that Long Beach has very low business license fees (150% of the average business license fee in Long Beach is approximately \$450), the effective tax rate for Manufacturing, Distribution, Transportation, and Testing businesses will be \$1,000 per license per year.

It should also be noted that the ballot measure repeals taxes on recreational marijuana set forth in the Long Beach Municipal Code. If the ballot measure passes, Long Beach will no longer have the authority to charge a gross receipts or square footage tax on recreational marijuana businesses. Although these business types currently are not allowed under California State law, a statewide initiative has been placed on the November ballot to legalize and regulate adult use and sale of nonmedical marijuana. This measure, titled “The Control, Regulate and Tax Adult Use of Marijuana Act” (AUMA), would also exempt

medical marijuana users from the state sales tax, which includes the local share of 2% in Long Beach. The fiscal impact summary tables presented later in this report estimate the effect AUMA would have on local sales tax revenues if approved by voters. However, it is possible that even after excluding sales tax revenues under AUMA, projections will be overstated, particularly if a portion of medical marijuana users begin making purchases through the recreational marijuana market.

### **Assumptions**

The following section describes the assumptions used by staff in preparing this report. The assumptions informed the cost estimates provided by Departments, as well as the revenue projections developed by staff. The assumptions fall into three main categories:

1. Interpretations of the proposed ordinance;
2. Market based assumptions of the number of sanctioned businesses that will open in Long Beach; and
3. Estimates for the number of unsanctioned businesses.

### Interpretation of the Ordinance

At this time, there is uncertainty regarding the correct interpretation of various aspects of the ballot measure. In instances where multiple interpretations were possible, staff assumed a single position in order to provide consistency in the report. However, some issues may ultimately need to be settled through the litigation process, particularly when conflicting interpretations could favor certain stakeholders over others.

Key interpretations of the ballot measure made by staff include the following:

- *The maximum number of permits established in the measure applies only to Medical Marijuana Dispensaries. There is no limit to the number of other business types that may operate in the City –* Although there is general agreement among staff that this is the best interpretation of the ballot measure, staff is aware that alternate readings are possible. A separate interpretation is that the cap on the maximum number of businesses applies to all business types. While staff believes this to be an unlikely outcome should the issue be decided through litigation, the fiscal impact report includes projections for a scenario (considered “Low”) where the maximum cap on permits applies to all business types.
- *The buffer zones defined in the initiative may only be adjusted through a vote of the people.* Should the measure pass, the buffer requirements would be as follows:
  - Medical Marijuana Businesses could operate anywhere other than areas zoned exclusively for residential. Areas that Medical Marijuana Businesses could operate in include commercial, industrial, and areas zoned for multiple uses (e.g. commercial and residential);
  - Medical Marijuana Businesses must operate outside of a one-thousand foot radius of schools or public beaches, and a six-hundred foot radius of public parks or libraries;

- Medical Marijuana Dispensaries must operate outside of a one-thousand foot radius of another Medical Marijuana Dispensary. This restriction does not apply to other business types. For instance, the ballot measure places no restriction on the proximity of Cultivation or Manufacturing businesses to one another or to Dispensaries.
- *The Long Beach Police Department will be able to participate in the cross-departmental team-based approach to regulating licensed medical marijuana facilities, when necessary, to ensure staff and/or public safety.* Certain sections of the ballot measure appear to conflict with this assumption. The measure states that the Police Department will only be allowed to enter a licensed Medical Marijuana Business if invited by the business manager or owner, in the case of an emergency, or through a search warrant, subpoena or court order. For purposes of this report, staff is assuming that the Police Department will still be able to accompany staff from other Departments into licensed facilities in response to complaints made by the public.
- *Regulatory fees to recover the cost of regulating sanctioned businesses are prohibited under the proposed initiative* – Earlier fiscal impact reports prepared by staff included a marijuana regulatory fee as a potential source of revenue to recoup enforcement costs of sanctioned businesses. This report does not include regulatory fees as a potential revenue source.
- *Ultimate authority to cite businesses for violation of the requirements set forth in the ballot measure rests with Departments and not the nine-member Task Force established by the measure* – The ballot measure states that “a Task Force finding of no violation or that a violation has been cured shall not be considered as a violation by the City Manager.” At this point in time, it is unclear whether this language grants the Task Force authority over determining the validity of citations issued to medical marijuana businesses. Pursuant to the City Charter, the City Manager has the authority to see that all laws and ordinances are enforced. The City Attorney believes the ballot measure authorizes unlawful delegation of administrative authority to the Task Force and that, ultimately, City Manager Departments retain this authority. Should a court determine that the ballot measure supersedes this power, the overall enforcement process for licensed businesses may be slowed substantially pending Task Force review, and enforcement costs may increase.

### Market Based Assumptions

Given that there does not appear to be a limit on the number of Cultivation, Manufacturing or Distribution sites, staff utilized a market-driven approach to determining the number of businesses that should be expected to open in the City. To help complete the market analysis, staff hired consulting firm Hinderliter, de Llamas & Associates (HdL), which has extensive experience working with cities in California to develop medical marijuana ordinances and provide revenue projections. HdL is also able to utilize client-granted access to business level sales tax data from every city and county in California to estimate a per-Dispensary gross receipts, broken out by geographic region.

Next, staff contacted multiple cities in California also developing medical marijuana ordinances in order to learn from their experiences and projections. HdL was also able to inform staff of estimates being used internally by other cities that are contracting with HdL's

medical marijuana consulting practice. Some of the projections being used by other cities serve as the basis for the “Medium” projection scenario presented later in this report.

Finally, staff researched Colorado cities similar in size to Long Beach to learn from their experiences in regulating medical marijuana. For proper comparison, staff sought to identify only those cities that did not initially set a cap on the number of Cultivation and Manufacturing businesses that could operate within city boundaries. Staff was able to identify two cities that met both criteria – Denver (pop. 600,158) and Colorado Springs (pop. 416,427). The following table provides a summary of data made available by the Colorado Department of Revenue, which tracks the number of medical and recreational businesses by license type and City:

*Table 2: Comparable License Data*

<b>Colorado Medical Marijuana Business License Data</b>			
<b>City</b>	<b>Population</b>	<b>Cultivation Licenses</b>	<b>Manufacture Licenses</b>
Denver	600,158	366	109
Colorado Springs	416,427	153	47

The license figures presented above are not entirely comparable to Long Beach, given the fact that initially in Colorado, all medical marijuana Dispensaries were required to grow 70% of their own product. This may have had the effect of inflating the number of businesses seeking a Cultivation licenses. Therefore, the Colorado data has been utilized by staff to create the “High” scenario for projections discussed later.

Unsanctioned Business Assumptions

Based on past experience with unsanctioned businesses following the brief legalization of medical marijuana in Long Beach, staff anticipates an increase in the number of unsanctioned businesses operating in Long Beach should the measure pass. This experience is consistent with outcomes in other cities following the approval of medical marijuana ordinances. The medical marijuana enforcement model proposed by staff in this report anticipates a range of approximately fifty to one hundred unsanctioned businesses opening in Long Beach. It is expected that the majority of these unsanctioned businesses will be Dispensaries, as other business types will not experience the same restrictions to market entry.

**Business License Projections**

Using the various assumptions described above, staff has prepared expense and revenue projections for the three scenarios shown in Table 3. Departments used these scenarios to identify additional positions and other resources necessary to properly regulate the proposed ballot measure and address possible health and safety impacts of legalized marijuana. The scenarios were also used to estimate new revenues collected from the medical marijuana industry. The business license projections are intended to be treated as a range that the City should be prepared to handle, whatever the outcome turns out to be.

Table 3: Long Beach Medical Marijuana License Projections

PERMIT TYPE	Total Number of Licenses		
	LOW	MEDIUM	HIGH
Dispensaries	12	32	32
Cultivators	12	32	100
Manufacturers	4	8	50
Distributors/Transporters	4	4	4
<b>Total Permit Holders</b>	<b>32</b>	<b>76</b>	<b>186</b>
<i>Unsanctioned Businesses</i>	<i>50</i>	<i>75</i>	<i>100</i>

A number of factors not considered in this analysis could have a significant impact on the number of Cultivators, Manufacturers, and other business types to open in Long Beach. For example, if voters approve the ballot measure this November, Long Beach will become one of the earliest adopters of legal Cultivator and Manufacturer business types in Southern California. Should other surrounding cities, most notably Los Angeles, continue to ban these business types, Long Beach could be well placed strategically to supply medical marijuana products to Los Angeles County and Orange County markets. With bans in other jurisdictions, low taxes rates on facilities not connected with a Long Beach Dispensary, and no cap on the number of businesses, Long Beach could experience a proliferation of Manufacturing and Cultivation business types.

In the short term, the total number of medical marijuana businesses that open in Long Beach may be restricted by the amount of available property for lease or purchase. Currently, Long Beach vacancy rates are at historical lows in areas zoned for Industrial or Commercial use. Staff believes this will have an impact on the number of Cultivation businesses that can open within the first year after the measure takes effect.

However, in the long term staff does not anticipate the current availability of properties to have a limiting effect on the number of marijuana businesses that will open. Vacancy rates are cyclical, and in the long run the amount of available space that medical marijuana businesses can operate in will depend on their ability to pay at or above market rates. Research conducted by staff finds that medical marijuana businesses are frequently able to pay significantly above market rate, with evidence in other cities of paying up to five times the listed rate. In Denver, Colorado, the industrial real estate market saw sharp spikes in lease prices following legalization of marijuana. This created a challenging market for other small to medium sized industrial tenants looking to find suitable space. Consequently, staff does not anticipate the current availability of industrial or retail space to be a determining factor in the number of businesses that will open in the long run.

### **Projected Regulatory/Enforcement Costs**

Staff has prepared a recommended approach to the regulation and enforcement of medical marijuana businesses under the proposed ballot measure. The approach is subject to change as State Agencies finalize rules under MMRSA, which is not expected to be completed until 2018. It is believed that the City can provide acceptable medical marijuana safety regulations until such time. The enforcement model will be adjusted as Departments develop greater expertise in regulating medical marijuana businesses.

The overall approach can be separated into two categories: sanctioned and unsanctioned businesses.

### Sanctioned Businesses

The City Manager's Office will serve as the central point of contact for medical marijuana issues, and will manage overall medical marijuana programs, but the program will operate on a day-to-day basis at the departmental level. Other participating Departments will include Financial Management, Development Services, Health, Police, Fire, City Attorney and City Prosecutor.

Most complaint calls are initially expected to come through 911. If considered non-emergency, the calls will be routed to a Medical Marijuana Coordination Center in the City Manager's Office. The Coordination Center will advise Departments of complaints and initially categorize them as to level of public safety concern. Departments will then handle these complaints as resources and priorities permit.

Complaints arising from sanctioned businesses will be handled primarily by Code Enforcement and Business License Inspection staff. Inspection staff from other Departments such as Health and Fire will assist when needed, such as during visits to Cultivation and Manufacturing facilities which may create hazardous material and fire safety concerns. Police will accompany staff, including into the business, whenever deemed appropriate to ensure public safety.

While safety and other violations for licensed businesses are not expected to be a major problem, they may occur and, if they do, will be treated as any other licensed and lawfully operating business which also involves public safety concerns would be treated. As necessary, interdepartmental teams of staff may be used. This may include staff from the Office of the City Attorney or City Prosecutor if there are any violations of municipal laws by sanctioned businesses that require administrative hearings or criminal prosecution.

The ballot measure sets deadlines for when the City must begin accepting applications, complete a review of applications, establish priority rankings, and begin issuing business licenses. These deadlines are not likely possible for staff to meet without substantially impacting other work, such as business license revenue collection, plan checks and building inspections.

### Unsanctioned Businesses

Based on past experience, enforcement against illegal marijuana businesses will be difficult and time consuming. In some cases, the process to successfully close an unsanctioned business could take months, if not years to complete. The maximum penalties assessed by the City are often far outweighed by the profit of running an unsanctioned business.

Enforcement of unsanctioned businesses will be handled by a multi-department team led by the Police Department. Under the proposed model, a full Police team will be devoted to conducting search warrants on unsanctioned operators and could perform full clean-outs of product and supplies to ensure unlicensed businesses are not reestablished if deemed appropriate. In addition, Business License and Code Enforcement staff will issue administrative citations. The citations will generally be issued as part of an overall team

enforcement program in response to complaints or following police action. Business License and Code Enforcement staff will not be expected to actively seek out and identify unsanctioned businesses.

The Office of the City Attorney expects to provide legal support in pursuing civil action against unsanctioned businesses, which is a strategy that has found some success in closing down unlicensed facilities in other cities. The City Prosecutor will also be involved in criminal litigation of unsanctioned businesses.

The Health and Fire Departments anticipate being involved in the oversight of environmental hazard clean-ups that could arise from unsanctioned businesses, particularly at Cultivation and Manufacturing locations. The Fire Department will issue red tags for businesses operating in hazardous facilities, as it has done in the past.

Summary of Costs

The table below summarizes the estimated cost of implementing the recommended approach to enforcement. Costs are provided for the three scenarios described in the “Business License Projections” section. This includes a Low scenario of 32-sanctioned and 50-unsanctioned businesses, a Medium scenario of 76-sanctioned and 75-unsanctioned businesses, and a High scenario of 186-sanctioned and 100-unsanctioned businesses.

Costs have been further broken out into two categories: 1) Administration & Enforcement and 2) Health & Safety Impacts. The first category, Administration and Enforcement, summarizes the direct costs incurred by Departments in implementing the measure. This includes activities such as application review, site inspection, tax payment collection and enforcement activity for both sanctioned and unsanctioned businesses. The second category, Health and Safety Impacts, summarizes the indirect costs to the City as a result of sanctioning medical marijuana activities. This includes anticipated increased calls for services from Police and Fire Departments.

*Table 4: Summary of Estimated Ongoing Department Regulatory/Enforcement Costs*

ALL DEPARTMENTS	LOW		MEDIUM		HIGH	
	FTE	Annual Cost	FTE	Annual Cost	FTE	Annual Cost
Total Ongoing Costs	42.57	\$ 6,900,947	54.27	\$ 8,529,186	88.46	\$ 13,869,402
Administration & Enforcement	42.57	\$ 6,900,947	54.27	\$ 8,529,186	88.46	\$ 13,869,402
Health & Safety Impacts	3.00	\$ 320,000	24.00	\$ 3,696,340	25.00	\$ 4,113,826
<b>Total Ongoing Costs</b>	<b>45.57</b>	<b>\$ 7,220,947</b>	<b>78.27</b>	<b>\$ 12,225,526</b>	<b>113.46</b>	<b>\$ 17,983,228</b>

Departments have also calculated one-time costs expected in the first year of enforcement. These costs are in addition to the ongoing costs identified above.

*Table 5: Summary of Estimated One-Time Department Regulatory/Enforcement Costs*

ALL DEPARTMENTS	LOW	MEDIUM	HIGH
Total One-Time Requirements	One-Time Cost	One-Time Cost	One-Time Cost
Administration & Enforcement	\$ 1,917,225	\$ 2,140,401	\$ 3,237,278
Health & Safety Impacts	\$ -	\$ 282,000	\$ 372,000
<b>Total One-Time Costs</b>	<b>\$ 1,917,225</b>	<b>\$ 2,422,401</b>	<b>\$ 3,609,278</b>

For more information on costs and duties broken out by Department, see Exhibit A to this report.

**Projected Revenues**

The rapid evolution of the medical marijuana industry, the recent adoption of Medical Marijuana Regulation and Safety Act and the potential legalization of recreational marijuana, make forecasting revenue from taxation extremely difficult. Even states that have legalized the recreational use of marijuana have found accurately forecasting tax revenue a difficult task. In Colorado, marijuana tax revenue came in 42% lower than projected in the first fiscal year of retail marijuana. The State of Washington decided not to budget any marijuana tax revenue for the first year of retail legalization, and Alaska decided not to even conduct a revenue forecast due to the lack of data.

To assist with inherent difficulty in projecting revenues for the marijuana market, the Financial Management Department contracted with HdL, a consulting firm that specializes in local government revenue projections. HdL has access to sales tax data on over 1,408 active registered accounts in California related to the retail sale of medical marijuana. Using this dataset, HdL created a model to estimate a range of revenue projections for the City’s gross receipts tax, cultivation square footage tax, and local sales tax.

See the table below for a summary of anticipated revenues, by medical marijuana business type. The projections also utilize the Low, Medium, and High scenarios described earlier in this report.

*Table 6: Summary of Estimated Revenues*

Total Revenues for All Medical Marijuana Businesses		Low		Medium		High	
Business Type	Capture Rate	# of Lic.	Revenues	# of Lic.	Revenues	# of Lic.	Revenues
Dispensary	Gross Receipts Tax (6%)	12	\$1,838,664	32	\$3,074,688	32	\$3,074,688
	Sales Tax (2%)		\$612,888		\$1,024,896		\$1,024,896
Cultivator	Cultivation Sq. Ft. Tax (\$10)	12	\$1,480,000	32	\$3,000,000	100	\$9,420,000
Manufacturer	150% of Avg. Bus. Lic. Tax or \$1,000 per permit (whichever is higher)	4	\$4,000	8	\$8,000	50	\$50,000
Transporter/ Distributor	150% of Avg. Bus. Lic. Tax or \$1,000 per permit (whichever is higher)	4	\$4,000	4	\$4,000	4	\$4,000
<b>Total Permits/Revenues*</b>		<b>32</b>	<b>\$3,939,552</b>	<b>76</b>	<b>\$7,111,584</b>	<b>186</b>	<b>\$13,573,584</b>
<i>Total Permits/Revenues (assuming AUMA passage)</i>		<i>32</i>	<i>\$3,326,664</i>	<i>76</i>	<i>\$6,086,688</i>	<i>186</i>	<i>\$12,548,688</i>

*Note: Total revenues exclude testing facilities. Revenues from this business type is expected to be minimal.*

The below-the-line projections assuming AUMA passage adjust for the fact that medical marijuana will be exempted from sales tax if the statewide measure is approved by voters. However, it is possible that even after excluding sales tax revenues under AUMA, staff projections shown in Table 6 will be overstated, particularly if a portion of medical marijuana users begin making purchases through the recreational marijuana market as this ballot measure eliminates the recreational marijuana tax rate. For more information on revenues broken out by business type, see Exhibit B to this report.

## Timeline

If the ballot measure is approved by voters, staff members from all Departments identified in this report will need to immediately begin working on implementation of the law. The measure sets strict deadlines for when the City must begin accepting applications, complete a review of applications, establish priority rankings, and begin issuing business licenses. The following table provides an estimate of when certain responsibilities of the City would need to be completed:

*Table 7: Estimated Timeline*

<b>Date</b>	<b>Process</b>	<b>Notes</b>
11/8/2016	Ballot Measure Voted Upon	<i>Following steps assume passage.</i>
12/23/2016	Ordinance takes effect	<i>10 days after City Council adopts certified results.</i>
1/2/2017	Business license application made available	<i>Required 10 days after initiative takes effect.</i>
1/22/2017	Application period opens	<i>If submitted application incomplete, City must promptly notify applicant.</i>
2/21/2017	Application period closes	<i>30 days after open of application period.</i>
4/7/2017	City completes review of applications and assigns points based on system outlined in initiative	<i>45 days after close of application period.</i>
4/12/2017	City posts point priority rankings on its website	<i>Maximum of 5 days after review completed.</i>
<b>4/13/2017</b>	<b>City issues business licenses</b>	
4/27/2017	Public lottery (if required) for applicants that tied for the most number of points	<i>Deadline to complete lottery. Lottery could be held sooner.</i>

For purposes of this analysis, the fiscal impact projections assume staff to be hired and businesses to begin operation in accordance with the estimated timeline above. Should there be delays, the “Ramp Up” period used to calculate revenues and expenditures in FY 17 will be shortened. This may serve to reduce both anticipated revenues and expected expenditures in the first fiscal year. However, there will be one-time costs incurred in FY 17, regardless of adjustments made to the timeline above. The FY 18 period represents the cost and revenues under a full year of operations for medical marijuana business and city staff enforcement.

## Summary of Projected Fiscal Impact

A summary of the projected fiscal impact of the proposed ballot measure is summarized in Tables 8, 9 and 10. In all three scenarios, staff projects costs to exceed revenues, creating a deficit in the General Fund.

Table 8: Summary of Fiscal Impact (Low Cost & Revenue Projections)

<b>Projected Medical Marijuana Expense and Revenues</b>		
<b>At <u>Low</u> Cost and Revenue Projections</b>		
<b>(12 Dispensaries, 12 Cultivators, 4 Manufacturers, 4 Distributors, 50 Unsanctioned)</b>		
	<b>FY 17</b>	<b>FY 18</b>
<b>Revenues</b>	<b>Ramp Up</b>	<b>Annual</b>
Gross Receipts Tax Revenue (at 6%)	\$ 766,110	\$ 1,838,664
Sales Tax Revenue (2%)	\$ 255,370	\$ 612,888
Cultivation Square Footage Tax Revenue (at \$10)	\$ 616,667	\$ 1,480,000
Manufacturer/Distributor Bus. Lic. Revenue (\$1,000/year)	\$ 3,333	\$ 8,000
<b>Total Revenues</b>	<b>\$ 1,641,480</b>	<b>\$ 3,939,552</b>
<b>Expenditures</b>		
Ongoing Admin & Enforcement Costs	\$ (4,585,646)	\$ (6,900,947)
Estimated Health & Safety Impacts	\$ (149,918)	\$ (320,000)
One-Time Admin & Enforcement Costs	\$ (1,917,225)	
One-Time Health & Safety Costs	\$ -	\$ -
<b>Total Expenditures</b>	<b>\$ (6,652,789)</b>	<b>\$ (7,220,947)</b>
<b>Total Estimated Surplus/(Shortfall)</b>	<b>\$ (5,011,309)</b>	<b>\$ (3,281,395)</b>
<i>AUMA Sales Tax Exemption on Medical Marijuana</i>	<i>\$ (255,370)</i>	<i>\$ (612,888)</i>
<i>Estimated Surplus/(Shortfall) - Assuming AUMA Passage</i>	<i>\$ (5,266,679)</i>	<i>\$ (3,894,283)</i>

Table 9: Summary of Fiscal Impact (Medium Cost & Revenue Projections)

<b>Projected Medical Marijuana Expense and Revenues</b>		
<b>At <u>Medium</u> Cost and Revenue Projections</b>		
<b>(32 Dispensaries, 32 Cultivators, 8 Manufacturers, 4 Distributors, 75 Unsanctioned)</b>		
	<b>FY 17</b>	<b>FY 18</b>
<b>Revenues</b>	<b>Ramp Up</b>	<b>Annual</b>
Gross Receipts Tax Revenue (at 6%)	\$ 1,281,120	\$ 3,074,688
Sales Tax Revenue (2%)	\$ 427,040	\$ 1,024,896
Cultivation Square Footage Tax Revenue (at \$10)	\$ 1,250,000	\$ 3,000,000
Manufacturer/Distributor Bus. Lic. Revenue (\$1,000/year)	\$ 5,000	\$ 12,000
<b>Total Revenues</b>	<b>\$ 2,963,160</b>	<b>\$ 7,111,584</b>
<b>Unbudgeted Expenditures</b>		
Ongoing Admin & Enforcement Costs	\$ (5,780,858)	\$ (8,529,186)
Estimated Health & Safety Impacts	\$ (2,930,547)	\$ (3,696,340)
One-Time Admin & Enforcement Costs	\$ (2,140,401)	
One-Time Health & Safety Costs	\$ (282,000)	\$ -
<b>Total Expenditures</b>	<b>\$ (11,133,806)</b>	<b>\$ (12,225,526)</b>
<b>Total Estimated Surplus/(Shortfall)</b>	<b>\$ (8,170,646)</b>	<b>\$ (5,113,942)</b>
<i>AUMA Sales Tax Exemption on Medical Marijuana</i>	<i>\$ (427,040)</i>	<i>\$ (1,024,896)</i>
<i>Estimated Surplus/(Shortfall) - Assuming AUMA Passage</i>	<i>\$ (8,597,686)</i>	<i>\$ (6,138,838)</i>

*Table 10: Summary of Fiscal Impact (High Cost & Revenue Projections)*

<b>Projected Medical Marijuana Expense and Revenues</b>		
<b>At High Cost and Revenue Projections</b>		
<b>(32 Dispensaries, 100 Cultivators, 50 Manufacturers, 4 Distributors, 100 Unsanctioned)</b>		
	<b>FY 17</b>	<b>FY 18</b>
<b>Revenues</b>	<b>Ramp Up</b>	<b>Annual</b>
Gross Receipts Tax Revenue (at 6%)	\$ 1,281,120	\$ 3,074,688
Sales Tax Revenue (2%)	\$ 427,040	\$ 1,024,896
Cultivation Square Footage Tax Revenue (at \$10)	\$ 3,925,000	\$ 9,420,000
Manufacturer/Distributor Bus. Lic. Revenue (\$1,000/year)	\$ 22,500	\$ 54,000
<b>Total Revenues</b>	<b>\$ 5,655,660</b>	<b>\$ 13,573,584</b>
<b>Unbudgeted Expenditures</b>		
Ongoing Admin & Enforcement Costs	\$ (9,774,022)	\$ (13,869,402)
Estimated Health & Safety Impacts	\$ (3,306,116)	\$ (4,113,826)
One-Time Admin & Enforcement Costs	\$ (3,237,278)	
One-Time Health & Safety Costs	\$ (372,000)	\$ -
<b>Total Expenditures</b>	<b>\$ (16,689,417)</b>	<b>\$ (17,983,228)</b>
<b>Total Estimated Surplus/(Shortfall)</b>	<b>\$ (11,033,757)</b>	<b>\$ (4,409,644)</b>
<i>AUMA Sales Tax Exemption on Medical Marijuana</i>	<i>\$ (427,040)</i>	<i>\$ (1,024,896)</i>
<b>Estimated Surplus/(Shortfall) - Assuming AUMA Passage</b>	<b>\$ (11,460,797)</b>	<b>\$ (5,434,540)</b>

Should the number of licenses for any business type fall outside of this range, the cost and revenue projections provided by staff could be significantly different from what has been presented.

### **Conclusion**

Staff has projected a one-time funding shortfall under all projection scenarios in FY 17. As new revenues are unreliable in the first year until a collection pattern has been established there is a risk that the shortfall could be greater than indicated in this report. On the expense side, as the measure dictates the timeline, there will be one-time costs needed right away to implement the measure. In addition, since the new positions identified in this report would require some time to fill through the hiring process, Departments will require the temporary use of outside consultants to assist in completing regulatory and enforcement tasks. Departments will also need to rely on existing staff to absorb medical marijuana tasks in their existing duties. This may cause delays in other areas as Departments adjust to new responsibilities under the law. If voters approve the measure, staff will work to identify options for City Council to fund this shortfall so that Departments can begin acquiring the resources they need to regulate the medical marijuana market immediately. However, this may require redirecting funds from other purposes or using the City's operating reserves.

Staff will have a better understanding of any ongoing operational surplus or deficit resulting from the measure once businesses begin applying for permits. Should the medical marijuana measure create ongoing operational deficits in FY 18 and beyond, staff will present City Council with options for how to deal with shortfalls as part of future budget

processes. In general, under the Measure, ongoing tax revenues appear inadequate to support ongoing regulation and enforcement costs under all three scenarios as summarized in Table 11. At the higher end, revenues increase, but so do costs to regulate, enforce, and maintain public safety response times. If recreational marijuana is approved this fall, the gross receipts tax for recreational dispensaries is set to zero. No analysis was done for this possibility, but with a zero tax rate for recreational marijuana use, and the anticipated diversion of sales from medical to recreational marijuana, the City's ability to generate revenue will likely be significantly reduced while costs could go up even further.

*Table 11: Summary of Projected Net Ongoing Costs*

\$ in millions	Low	Medium	High
Revenue from Ballot Measure Taxes	3.3	6.1	12.5
Sales Tax (Inclusive of Meas A)	0.6	1.0	1.0
<b>Total Ongoing Revenue</b>	<b>3.9</b>	<b>7.1</b>	<b>13.5</b>
Regulation and Enforcement	6.9	8.5	13.9
Related Health & Safety Costs	0.3	3.7	4.1
<b>Total Ongoing Expenses</b>	<b>7.2</b>	<b>12.2</b>	<b>18.0</b>
<b>Net Ongoing Cost</b>	<b>3.3</b>	<b>5.1</b>	<b>4.4</b>
One-time Admin and Enforcement	1.9	2.1	3.2
One-time Related Health & Safety	0.0	0.3	0.4
<b>Total One-time Expenses</b>	<b>1.9</b>	<b>2.4</b>	<b>3.6</b>

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EXHIBIT A: DEPARTMENTAL RESPONSIBILITIES AND COSTS  
 EXHIBIT B: REVENUE BY BUSINESS TYPE

## EXHIBIT A: DEPARTMENTAL RESPONSIBILITIES AND COSTS

The departmental responsibilities to administer and enforce the measure along with associated potential health and safety impacts are detailed below.

### Financial Management

#### *Sanctioned Businesses*

The initial application intake, review and licensing process will require a significant investment of Business Licensing staff time for sanctioned businesses. After that, the additional sanctioned businesses are not expected to materially increase workload for existing Business License Inspectors, but significant contractual costs are expected for outside audits for compliance with cash controls/reporting and for audits to help ensure the accuracy of the self-reporting of taxes. Commercial Services will receive and count taxes paid by the sanctioned medical marijuana businesses. Due to the industry's difficulties with accessing traditional banking resources, tax payments are expected to be made entirely in cash. Since these payments are expected to be relatively large, the Commercial Services Bureau will require additional staff, security and equipment.

The anticipated number of licensed business locations are not expected to have a significant impact on staffing and departmental costs since, once properly licensed, it is assumed that these businesses will remain in compliance and submit tax payments in a timely manner. However, should a significant number of licensed violations occur, enforcement of sanctioned businesses could be costly. These potential costs have not been included in the fiscal analysis.

#### *Unsanctioned Businesses*

Unsanctioned businesses, anticipating most locations will be Dispensaries, are expected to create a substantial workload for Business License Inspectors for citations and associated follow-up. The Business Services Bureau will issue business licenses to sanctioned medical marijuana businesses and cite unsanctioned businesses that are brought to its attention, treating them similar to other illegal businesses that operate in the City. This type of enforcement is slow and labor intensive and is expected to take a significant amount of time to achieve compliance. This could include filing legal proceedings in order to achieve compliance.

The Bureau is not planning to actively seek to identify unsanctioned business, but it is likely that many will be identified by complaints originating from the community, sanctioned medical marijuana businesses, other businesses operating next to an unsanctioned medical marijuana business or by the Police Department. Additional inspectors and associated support are expected to be required based on historical workloads. At this time, it is not envisioned that unsanctioned businesses will voluntarily pay taxes; however, if this is the case, it could impact the level of staffing and equipment needed in Commercial Services.

Business License anticipates spending the majority of the additional requested time and resources on enforcement towards unsanctioned dispensary locations. These costs are viewed as a scalable model based on the total number of unsanctioned location projections

and the enforcement strategy adopted. If the number of unsanctioned locations exceeds the estimates, then additional staff and resources may be required to maintain the expected level of enforcement.

*Table 1: Financial Management Costs*

FINANCIAL MANAGEMENT	LOW		MEDIUM		HIGH	
	FTE	Annual Cost	FTE	Annual Cost	FTE	Annual Cost
<b>Administration &amp; Enforcement</b>						
<b><i>Business Licensing</i></b>						
• License Inspector	2.00	\$ 180,000	4.00	\$ 360,000	4.00	\$ 360,000
• Assistant Administrative Analyst	1.00	\$ 40,000	1.00	\$ 40,000	1.00	\$ 40,000
• Contract Auditor	-	\$ 300,000	-	\$ 350,000	-	\$ 400,000
<b><i>Commercial Services</i></b>						
• Customer Services Representative (Cashier)	1.00	\$ 80,000	1.00	\$ 80,000	1.00	\$ 80,000
• Police Officer - Lobby Security	1.00	\$ 143,000	1.00	\$ 143,000	1.00	\$ 143,000
• Armored Car Service	-	\$ 30,000	-	\$ 60,000	-	\$ 60,000
• Misc. Operating Expense (Internal Support, Materials & Supplies, Overhead, etc)	-	\$ 7,250	-	\$ 7,250	-	\$ 7,250
<b>Total</b>	<b>5.00</b>	<b>\$ 780,250</b>	<b>7.00</b>	<b>\$ 1,040,250</b>	<b>7.00</b>	<b>\$ 1,090,250</b>

FINANCIAL MANAGEMENT	LOW	MEDIUM	HIGH
<b>Admin &amp; Enforcement (One-Time)</b>	<b>One-Time Cost</b>	<b>One-Time Cost</b>	<b>One-Time Cost</b>
• Vehicles purchase for inspectors	\$ 72,200	\$ 144,400	\$ 144,400
• Cashiering equipment	\$ 25,000	\$ 25,000	\$ 25,000
• Reconfiguration and Reinforcement of cashiering facilities	\$ 64,000	\$ 64,000	\$ 64,000
• Video security cameras	\$ 70,000	\$ 70,000	\$ 70,000
• Consultant for initial application	\$ 25,000	\$ 25,000	\$ 25,000
• Programming for Business License Information and Cashiering Systems	\$ 150,000	\$ 150,000	\$ 150,000
<b>Total</b>	<b>\$ 406,200</b>	<b>\$ 478,400</b>	<b>\$ 478,400</b>

Police

*Sanctioned Businesses*

The Police Department will participate in a cross-departmental team-based approach to regulating sanctioned businesses as needed. Depending on the number of medical marijuana licenses issued, the Police Department will require between 2.5 to 5.0 FTE Police Officers to assist other Departments in this team-based approach and respond to calls for service. The proposed measure restricts the ability of Police Officers to enter medical marijuana facilities without a warrant, so officers will not play an active role in the administrative oversight of sanctioned businesses. However, Police will accompany staff, including into the business, whenever deemed appropriate to ensure public safety.

The Police Department anticipates additional workload to track, analyze, and manage data related to medical marijuana businesses. It is estimated that \$10,000 in overtime will be required to perform data entry and analysis.

#### *Unsanctioned Businesses*

In addition to administrative citations, it is likely that criminal prosecution will be required to keep unsanctioned businesses from continuing to operate. Under this proposed model, a full team will be devoted to conducting search warrants on unsanctioned marijuana businesses and will perform full clean-outs of product, supplies, and paraphernalia to ensure unlicensed businesses are not reestablished whenever deemed appropriate.

Police Department responsibilities will include executing search warrants, stings, and performing complete shut downs of unsanctioned businesses as appropriate. This will increase workload significantly and cannot be absorbed within existing staffing levels. The Police Department plans to use a full-time 11-person team to deal with unsanctioned businesses under the “Low” and “Medium” enforcement models, which will cost \$1.7 million annually. Under Police Department assumptions for the “high” scenario, the Department will likely need two 11-person teams to enact full enforcement at a cost of \$3.3 million.

#### *Potential Health and Safety Impacts*

History has shown that crime increases in the areas around both sanctioned and unsanctioned businesses. To counter this, LBPD is estimated to need at least 16 additional patrol officers to handle the new calls for service, an additional narcotics K-9, and 200 additional hours of helicopter flight time. Drug Recognition Expert (DRE) training will assist officers in detection, identification, and investigation of marijuana impaired drivers. Outside of reactive enforcement, community and educational outreach would be a key component for LBPD. Four additional public resource officers (one in each division) will serve as liaisons with their respective communities, handling complaints and working with stakeholders to ensure a safe environment. An educational component will be key to proactive enforcement and would be handled by drug awareness outreach by officers on overtime with Long Beach Unified School District.

It must also be noted that these staffing models only focus on medical marijuana facilities. November’s statewide ballot initiative legalizing recreational marijuana could greatly expand the number of dispensaries and cultivation sites, if permitted by the City. It would be expected that enforcement costs would be significantly higher if recreational marijuana is legalized.

Table 2: Police Department Costs

POLICE DEPARTMENT	LOW		MEDIUM		HIGH	
Administration & Enforcement	FTE	Annual Cost	FTE	Annual Cost	FTE	Annual Cost
<b><u>Sanctioned Enforcement</u></b>						
• Detectives	2.50	\$ 367,517	3.50	\$ 514,523	5.00	\$ 735,033
• Clerk Typist III Overtime	-	\$ 10,000	-	\$ 10,000	-	\$ 10,000
<b><u>Unsanctioned Enforcement</u></b>						
• Sergeant	1.00	\$ 187,688	1.00	\$ 187,688	2.00	\$ 375,377
• Detectives	8.00	\$ 1,176,053	8.00	\$ 1,176,053	16.00	\$ 2,352,107
• Clerk Typist III	1.00	\$ 77,017	1.00	\$ 77,017	2.00	\$ 154,034
• Administrative Analyst II	1.00	\$ 118,683	1.00	\$ 118,683	2.00	\$ 237,367
<b><u>Other Costs</u></b>						
• Technology/Radio & Disposable Clothing Costs	-	\$ 52,190	-	\$ 56,167	-	\$ 104,379
• Fleet O/M & Capitalization	-	\$ 57,444	-	\$ 57,444	-	\$ 129,249
<b>Total</b>	<b>13.50</b>	<b>\$ 2,046,592</b>	<b>14.50</b>	<b>\$ 2,197,576</b>	<b>27.00</b>	<b>\$ 4,097,545</b>

POLICE DEPARTMENT	LOW		MEDIUM		HIGH	
Health & Safety Impacts	FTE	Annual Cost	FTE	Annual Cost	FTE	Annual Cost
• Police Resource Officer	-	\$ -	4.00	\$ 588,027	4.00	\$ 588,027
• Police Officer	-	\$ -	16.00	\$ 2,352,107	16.00	\$ 2,352,107
• Drug Recognition Expert Training	-	\$ -	-	\$ 150,000	-	\$ 150,000
• Police Officer-OT	-	\$ -	-	\$ 25,000	-	\$ 25,000
• 200 Helicopter Hours	-	\$ -	-	\$ -	-	\$ 298,800
• Additional K-9	-	\$ -	-	\$ -	-	\$ 23,186
• Technology/Radio & Disposable Clothing Costs	-	\$ -	-	\$ 79,540	-	\$ 79,540
• Fleet O/M & Capitalization	-	\$ -	-	\$ 86,166	-	\$ 86,166
<b>Total</b>	<b>-</b>	<b>\$ -</b>	<b>20.00</b>	<b>\$ 3,280,840</b>	<b>20.00</b>	<b>\$ 3,602,826</b>

POLICE DEPARTMENT	LOW	MEDIUM	HIGH
<b>Admin &amp; Enforcement (One-Time)</b>	<b>One-Time Cost</b>	<b>One-Time Cost</b>	<b>One-Time Cost</b>
• New Vehicles	\$ 188,000	\$ 188,000	\$ 376,000
<b>Total</b>	<b>\$ 188,000</b>	<b>\$ 188,000</b>	<b>\$ 376,000</b>

POLICE DEPARTMENT	LOW	MEDIUM	HIGH
<b>Healthy &amp; Safety Impacts (One-Time)</b>	<b>One-Time Cost</b>	<b>One-Time Cost</b>	<b>One-Time Cost</b>
• New Vehicles	\$ -	\$ 282,000	\$ 282,000
• K-9 Start-Up Cost	\$ -	\$ -	\$ 90,000
<b>Total</b>	<b>\$ -</b>	<b>\$ 282,000</b>	<b>\$ 372,000</b>

## Development Services

### *Sanctioned and Unsanctioned Businesses*

Development Services anticipates potential medical marijuana businesses will start submitting building plans immediately following the election. Consequently, prior to the election, Building and Safety staff will need to work with a consultant to develop standards for each type of medical marijuana business to have standards by which the building plans can be checked and inspected. Staff also expects to spend a lot of time answering numerous inquiries from potential applicants regarding various design and regulation requirements. Staff will have to balance the reviews of these plans with other critical work and so there will be delays. The medical marijuana business submittals will impact the Permit Center at a time when the volumes are already anticipated to be high due to the triennial code change that goes into effect January 1, 2017. Plan review of all types of projects could be affected in the short term including restaurants, downtown mixed-use developments, and proposed retail developments. The City will attempt to alleviate the delay through additional staffing and contract support.

Building inspection demand will also experience an upswing. Response times could be delayed but, to the extent possible, Development Services will bring on consultant staff to assist with the increased demand. However, demand for contract consultant inspectors is high in the Los Angeles region and supply may not be available to keep up with demand.

Because medical marijuana businesses require specialized knowledge of land use regulations, the Department anticipates three to four Planning professionals will be needed to provide focused service for these applicants. This will require redistribution of daily operational workload to other staff. The greatest impact is expected immediately following the effective date of the ordinance as potential businesses make inquiries about Planning requirements. Therefore, the delays in the Planning and Building processes are expected to be temporary as the first businesses work to get established.

In addition to impacts to Planning and Building processes, staff will be expected to respond to complaints arising from both sanctioned and illegal, unsanctioned business operations. It is expected that staff will be informed of nuisance activities (e.g., noise and loitering), illegal construction or illegal business operations by the public and the Coordination Center, and Code Enforcement Inspection staff will be required to investigate and issue citations, as necessary, for violations of Building and Safety codes or other City regulations. The Department anticipates that illegal, unsanctioned medical marijuana businesses will begin opening immediately if the ballot initiative passes and will be exceedingly difficult to close. As part of the team, Code Enforcement will issue administrative citations, however the relatively minimal penalties assessed through the citation process is an inadequate deterrent when compared to the profit of running this type of business. Therefore, criminal prosecution may also be needed. Once an illegal business is removed from a premises, Code Enforcement staff will work with the property owner to remove unpermitted construction related to the illegal business's operations. Given currently available staff, Code Enforcement does not have adequate resources to respond to this increase in calls for service and anticipates generating an 8- to 12-week backlog to respond to standard code enforcement complaints that protect health and safety, such as unpermitted construction, substandard buildings, and land use violations. Additional FTE's will be

required to maintain current response times and address code enforcement and nuisance abatement issues. Depending on the scenario, Development Services anticipates the need for 8, 13, or 24 additional staff including clerical assistance, with approximately 2, 3 and 10 inspectors assigned to sanctioned businesses and 6, 7 and 10 assigned to unsanctioned.

*Table 3: Development Services Costs*

DEVELOPMENT SERVICES	LOW		MEDIUM		HIGH	
	FTE	Annual Cost	FTE	Annual Cost	FTE	Annual Cost
• Principal Building Inspector	2.00	\$ 297,332	2.00	\$ 297,332	5.00	\$ 743,330
• Senior Combination Building Inspector - Building	1.00	\$ 133,026	3.00	\$ 399,078	4.00	\$ 532,104
• Combination Building Inspector	4.00	\$ 494,688	5.00	\$ 618,360	11.00	\$ 1,360,392
• Clerk Typist III	1.00	\$ 76,275	3.00	\$ 228,825	4.00	\$ 305,100
• Misc. Operating Expenses (Internal Support, Materials & Supplies, Overhead etc.)	-	\$ 246,348	-	\$ 395,604	-	\$ 736,044
<b>Total</b>	<b>8.00</b>	<b>\$ 1,247,669</b>	<b>13.00</b>	<b>\$ 1,939,199</b>	<b>24.00</b>	<b>\$ 3,676,970</b>

DEVELOPMENT SERVICES	LOW	MEDIUM	HIGH
<b>Admin &amp; Enforcement (One-Time)</b>	<b>One-Time Cost</b>	<b>One-Time Cost</b>	<b>One-Time Cost</b>
• Buffer Zone Map Creation	\$ 668	\$ 668	\$ 668
• Training	\$ 28,209	\$ 28,209	\$ 28,209
• Special Development Consultant	\$ 25,000	\$ 25,000	\$ 25,000
• New Vehicles	\$ 152,520	\$ 244,032	\$ 457,560
<b>Total</b>	<b>\$ 206,397</b>	<b>\$ 297,909</b>	<b>\$ 511,437</b>

## Health and Human Services

### *Sanctioned and Unsanctioned Businesses*

The Health Department anticipates inspecting sanctioned medical marijuana facilities, which are involved in dispensing, cultivating, manufacturing, and distributing medical marijuana. The Health Department currently charges a permit fee for both hazardous waste and food safety inspections. Inspections of this nature for licensed facilities would be covered under current charges. As part of the inspection process, Health Department staff would also verify medical marijuana Testing certificates.

The Health Department also currently addresses environmental health hazards. Additional staff time will be required to address these hazards and be involved in the oversight of environmental clean-ups that could arise at unsanctioned cultivation facilities. These clean-ups are performed at a substantial cost in contractor fees and City resources. The need for hazardous waste clean-up is unpredictable in nature, as is the ability to recoup the cost of clean-up from violators. Therefore, clean-up expense will be regularly revisited and the budget will be adjusted as events occur.

### *Potential Health and Safety Impacts*

Communities that have medical marijuana dispensaries have seen an increase in marijuana use among youth. Currently LBUSD does not provide drug prevention programming beyond elementary school and drug treatment options do not exist for youth within Long Beach who have health coverage through Medi-Cal or are uninsured. It is anticipated that DHHS will need to work with the schools and our non-profit partners to increase opportunities for prevention and to offer a place for youth to turn for treatment interventions.

To coordinate prevention and treatment activities, Health Educators will coordinate with school personnel in the 26 public middle and 14 public high schools in Long Beach to provide school-based prevention programming, reaching approximately 50,000 students. The Health Educators will spearhead programming designed to address risk and protective factors associated with use of cannabis. Strategies will include: 1) implementing evidence-based campus-wide awareness campaigns; 2) conducting evidence-based interventions in classrooms; 3) meeting individually with students; and 4) referring students as needed to treatment.

Drug treatment options do not exist for youth within Long Beach who have health coverage through Medi-Cal or are uninsured. A Licensed Clinical Social Worker will provide interventions for youth who are experiencing marijuana or other substance-related issues. The Licensed Clinical Social Worker will; 1) offer youth evidence based interventions, such as the five session Motivational Enhancement Therapy and Cognitive Behavioral Therapy for Adolescent Cannabis Users; 2) provide opportunities for group support; and 3) provide referrals and linkages to community-based service providers and support programs.

The actual number of youth who need interventions and education will be monitored after the ordinance takes effect and, should additional staffing or resources be required, the Department will request a budget enhancement at a later date.

*Table 4: Health Department Costs*

HEALTH AND HUMAN SERVICES	LOW		MEDIUM		HIGH	
	FTE	Annual Cost	FTE	Annual Cost	FTE	Annual Cost
• Environmental Health Specialist ( <i>Dispensaries</i> )	0.18	\$ 24,666	0.50	\$ 65,777	0.50	\$ 65,777
• Haz Mat Specialist ( <i>Unsanctioned</i> )	1.09	\$ 150,326	1.09	\$ 150,326	1.09	\$ 150,326
• Haz Mat Specialist/Env Health Specialist ( <i>Cultivation/Manufacturing</i> )	0.24	\$ 31,981	0.62	\$ 79,951	2.27	\$ 291,821
• Environmental Health Specialist ( <i>Distribution</i> )	0.06	\$ 8,222	0.06	\$ 8,222	0.10	\$ 8,222
• Haz Mat Cleanup Costs	-	\$ 352,024	-	\$ 352,024	-	\$ 352,024
On-going Training	-	\$ 5,000	-	\$ 5,000	-	\$ 5,000
<b>Total</b>	<b>1.57</b>	<b>\$ 572,219</b>	<b>2.27</b>	<b>\$ 661,300</b>	<b>3.96</b>	<b>\$ 873,170</b>

HEALTH AND HUMAN SERVICES	LOW		MEDIUM		HIGH	
Health & Safety Impacts	FTE	Annual Cost	FTE	Annual Cost	FTE	Annual Cost
• Health Educators	2.00	\$ 191,000	3.00	\$ 286,500	4.00	\$ 382,000
• Licensed Clinical Social Worker	1.00	\$ 129,000	1.00	\$ 129,000	1.00	\$ 129,000
<b>Total</b>	<b>3.00</b>	<b>\$ 320,000</b>	<b>4.00</b>	<b>\$ 415,500</b>	<b>5.00</b>	<b>\$ 511,000</b>

HEALTH AND HUMAN SERVICES	LOW	MEDIUM	HIGH
Admin & Enforcement (One-Time)	One-Time Cost	One-Time Cost	One-Time Cost
• Staff Training	\$ 30,000	\$ 30,000	\$ 30,000
• System Upgrades- Envision - Forms	\$ 15,000	\$ 15,000	\$ 15,000
• Plan Check Consulting for Initial	\$ 52,928	\$ 79,392	\$ 264,641
<b>Total</b>	<b>\$ 97,928</b>	<b>\$ 124,392</b>	<b>\$ 309,641</b>

## Fire

### *Sanctioned and Unsanctioned Businesses*

The Fire Department anticipates that it will require additional resources to assist in the review and inspection of both sanctioned and unsanctioned facilities. Cultivation and manufacturing sites will require highly specialized fire suppression and alarm systems. The Department will be expected to review plans for these facilities and inspect legal and illegal businesses for structural, fire, and other hazards. Additionally, these business types are likely to have on hand chemicals and equipment that must be stored and installed properly. This includes high voltage electrical equipment and flammable lighting systems.

The Fire Department will issue red tags for businesses operating in hazardous facilities, as it has done in the past. The additional FTE's will allow for the approval, inspection and team-based enforcement of sanctioned facilities, and will also participate in team-based enforcement of unsanctioned medical marijuana facilities. It should be noted that these staffing models only focus on medical marijuana facilities and if the November ballot initiative legalizing recreational marijuana is passed, it could greatly expand the potential number of dispensaries and cultivation sites, if permitted by the City, which would increase staffing levels and enforcement costs.

Because of the workload that the new inspections would place on our current engines which respond to fires and emergency calls, overall response times would be adversely impacted. To eliminate the adverse impacts of the marijuana inspections, the Fire Department proposes the implementation of a Business Inspection Unit. This Unit, comprised of four sworn fire staff, will conduct inspections that would otherwise have been completed by engine companies in the field, including assemblies, larger residential complexes, and sanctioned marijuana facilities. By consolidating these duties in the Fire Prevention Bureau, engine companies will no longer be placed out of service to conduct these inspections, thereby making more resources available to respond to an increasing number of emergency incidents. The Inspection Unit could be phased in as the number of sanctioned and unsanctioned businesses increases.

### *Potential Health and Safety Impacts*

The Fire Department anticipates potential increases in both fire and paramedic responses to traffic accidents and emergency room transports related to marijuana use. The Fire Department also expects to see an increase in structure fires and injuries, due to the nature of THC extraction operations in both sanctioned and unsanctioned facilities. The use of CO2 in cultivation and flammable gasses in both cultivation and illegal THC extraction will also likely result in an increase in Hazardous Material Unit responses. Further, Fire Chiefs of large cities in Oregon and Colorado, where both recreational and medicinal marijuana have been legalized, have reported a 3 to 5% increase in annual emergency responses that are directly attributable to marijuana usage. If this trend were to happen in Long Beach, a 3% increase in emergency responses would equate to an additional 2,130 annual responses; a 5% increase would equate to an additional 3,550 annual responses. The Fire Department will monitor the call volume and Fire Department response. Should additional staffing or resources be required, the Department will request a budget enhancement at a later date.

*Table 5: Fire Department Costs*

FIRE DEPARTMENT	LOW		MEDIUM		HIGH	
Administration & Enforcement	FTE	Annual Cost	FTE	Annual Cost	FTE	Annual Cost
<b><i>Fire Prevention</i></b>						
• Fire Plan Checker II	1.00	\$ 160,789	1.00	\$ 160,789	1.00	\$ 160,789
• Firefighter (Inspector)	1.00	\$ 156,280	1.00	\$ 156,280	2.00	\$ 312,560
• Deputy Fire Marshal	0.20	\$ 36,244	0.20	\$ 36,244	0.20	\$ 36,244
<b><i>Business Inspection Unit</i></b>						
• Fire Captain	-	\$ -	1.00	\$ 197,430	1.00	\$ 197,430
• Fire Engineer	-	\$ -	-	\$ -	1.00	\$ 166,750
• Firefighter	-	\$ -	-	\$ -	2.00	\$ 312,560
• Misc. Operating Expense	-	\$ 21,696	-	\$ 25,423	-	\$ 47,452
<b>Total</b>	<b>2.20</b>	<b>\$ 375,009</b>	<b>3.20</b>	<b>\$ 576,166</b>	<b>7.20</b>	<b>\$ 1,233,785</b>

FIRE DEPARTMENT	LOW	MEDIUM	HIGH
Admin & Enforcement (One-Time)	One-Time Cost	One-Time Cost	One-Time Cost
<b><i>Fire Prevention</i></b>			
• New Vehicle	\$ 60,000	\$ 90,000	\$ 210,000
• Uniforms	\$ 1,200	\$ 4,200	\$ 13,800
<b>Total</b>	<b>\$ 61,200</b>	<b>\$ 94,200</b>	<b>\$ 223,800</b>

City Manager

*Sanctioned and Unsanctioned Businesses*

Because of the evolving nature of California legislation on this industry, and the impacts of both sanctioned and unsanctioned businesses on City resources, it is prudent for senior staff in the City Manager’s Office to be involved on an ongoing basis. The City Manager’s Office manages medical marijuana regulatory programs in other California cities, as it is a complex regulatory program that requires direction and coordination with a multitude of Departments. Therefore, a Medical Marijuana Coordination Center will be established in the City Manager’s Office. The Assistant to the City Manager position will provide the City

Council and community with a central point of contact for medical marijuana issues, and will direct and coordinate interdepartmental efforts, and lead the work of the cross-departmental enforcement team. The position will assess evolving policy and industry standards, and maintain a dialogue with state officials regarding license compliance and appropriate enforcement methods. In addition, the City Manager's Office will be involved in active policy coordination and oversight with direct reports to the entire City Council. The Administrative Analyst position will track data from the respective Departments related to calls for service and impacts to neighborhoods. The position will also research best policies and practices in order to provide City Council and Departments with current information on the most efficient and effective strategies for enforcement. Lastly, the Administrative Aide will assist with call taking and clerical tasks.

*Table 6: City Manager Costs*

CITY MANAGER	LOW		MEDIUM		HIGH	
	FTE	Annual Cost	FTE	Annual Cost	FTE	Annual Cost
• Assistant to the City Manager	1.00	\$ 148,000	1.00	\$ 148,000	1.00	\$ 148,000
• Administrative Analyst	1.00	\$ 118,683	1.00	\$ 118,683	1.00	\$ 118,683
• Administrative Aide	0.30	\$ 27,048	0.30	\$ 27,048	0.30	\$ 27,048
<b>Total</b>	<b>2.30</b>	<b>\$ 293,732</b>	<b>2.30</b>	<b>\$ 293,732</b>	<b>2.30</b>	<b>\$ 293,732</b>

CITY MANAGER	LOW	MEDIUM	HIGH
Admin & Enforcement (One-Time)	One-Time Cost	One-Time Cost	One-Time Cost
• (None)	\$ -	\$ -	\$ -
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

### City Attorney

#### *Sanctioned and Unsanctioned Businesses*

Since 2010, the City Attorney has dedicated significant staff and related resources to tasks relating to medical marijuana regulation. The City Attorney has provided legal advice and support in writing and interpreting City ordinances, relevant state and federal legislation and case law related directly to medical marijuana. The City Attorney has conducted numerous medical marijuana related administrative hearings and has handled an unprecedented amount of medical marijuana related litigation.

The City Attorney expects that significant legal staff time will be required in the future because of the evolving nature of the industry. In 2015, the State enacted the Medical Marijuana Regulatory and Safety Act (MMRSA). As the State implements new regulations in support of MMRSA, it is anticipated that significant legal staff time will be needed to insure that the City's medical marijuana providers are fully compliant with all City and State regulations. If the most recent initiative petition relating to medical marijuana passes in November 2016, the establishment of sanctioned and unsanctioned businesses will result in further and extensive legal support from the City Attorney's office. Additionally, a large amount of staff time will be required to initiate and defend medical marijuana litigation and administrative proceedings. For these reasons, the City Attorney's Office will continue to be significantly involved in the legal issues surrounding medical marijuana.

Table 7: City Attorney Costs

CITY ATTORNEY	LOW		MEDIUM		HIGH	
	FTE	Annual Cost	FTE	Annual Cost	FTE	Annual Cost
Administration & Enforcement						
• Deputy City Attorney	4.00	\$ 840,000	4.00	\$ 840,000	6.00	\$ 1,260,000
• Legal Assistant I-IV	3.00	\$ 382,500	3.00	\$ 382,500	4.00	\$ 510,000
<b>Total</b>	<b>7.00</b>	<b>\$ 1,222,500</b>	<b>7.00</b>	<b>\$ 1,222,500</b>	<b>10.00</b>	<b>\$ 1,770,000</b>

CITY ATTORNEY	LOW	MEDIUM	HIGH
	One-Time Cost	One-Time Cost	One-Time Cost
Admin & Enforcement (One-Time)			
• Office Equipment & Furnishing	\$ 70,000	\$ 70,000	\$ 100,000
• Outside Legal Council (Temporary)	\$ 700,000	\$ 700,000	\$ 1,000,000
<b>Total</b>	<b>\$ 770,000</b>	<b>\$ 770,000</b>	<b>\$ 1,100,000</b>

### City Prosecutor

#### *Sanctioned and Unsanctioned Businesses*

The City Prosecutor's Office prosecutes all adult misdemeanor crimes occurring in the City of Long Beach including, but not limited to, assaults, domestic violence, drug possession, vehicular manslaughter, and driving under the influence of drugs or alcohol. The Office handles approximately 14,000 cases annually.

The City Prosecutor's Office has been involved in the enforcement of the City's medical marijuana ordinances since 2010. During this period, it was found that criminal prosecution was needed to successfully shut down certain unsanctioned dispensaries – which are, by definition, illegal – who were unlikely to abide by City regulations and administrative citations, and other administrative attempts to shut them down. With the diligent work of the Police Department, the City Prosecutor's Office was able to close rogue dispensaries operating while LBMC chapters 5.87 and 5.89 have been in force through criminal prosecution of the dispensary operators and property owners. To do this, in addition to a through police investigation, it requires the filing of criminal charges, appearances in court, defending against challenges to the ordinances, and the devotion of thousands of attorney hours.

Since 2010, the City Prosecutor has prosecuted over 650 individuals under the City's medical marijuana ordinances. This does not include the medical marijuana cases that were reviewed, but ultimately rejected for lack of evidence. This also does not include incidents that may involve marijuana dispensaries where the crime did not include dispensary operations (e.g., impaired driving, theft, battery, etc.).

Under the proposed marijuana initiative, the City Prosecutor expects to continue being involved in criminal prosecution, due process, state and federal law pre-emption, and other issues relating to medical marijuana. Under this initiative, the City Prosecutor has the sole responsibility of criminally prosecuting persons who violate the ordinance. Under the initiative as written, criminal prosecution by the City Prosecutor may be the most expedient way to close unsanctioned dispensaries.

The increased scope and number of sanctioned businesses under the initiative will require additional prosecution resources to be allocated as, from experience, it is anticipated that the number of unsanctioned (illegal) businesses will be proportional to the number of sanctioned businesses.

*Potential Health and Safety Impacts*

Additionally, there are ancillary costs that must be considered. With the increased availability of marijuana necessarily comes a greater incidence of driving under the influence (DUI) crimes. Indeed, since legalizing marijuana, the State of Colorado found an increase in the number of persons driving under the influence of marijuana to the point where approximately 12% of all DUIs in Colorado now involve marijuana. In contrast, marijuana DUIs currently account for less than 1% of the current DUI caseload. Likewise, from the past ordinances, the City Prosecutor’s Office has found an increase in petty theft crimes attributable to persons seeking to obtain marijuana.

The actual number of prosecutions will be monitored after the ordinance takes effect and, should additional staffing or resources be required, the Department will request a budget enhancement at a later date.

*Table 8: City Prosecutor Costs*

CITY PROSECUTOR	LOW		MEDIUM		HIGH	
	FTE	Annual Cost	FTE	Annual Cost	FTE	Annual Cost
• Prosecutor	2.00	\$ 254,975	3.00	\$ 382,463	4.00	\$ 509,950
• Paralegal	1.00	\$ 108,000	2.00	\$ 216,000	3.00	\$ 324,000
<b>Total</b>	<b>3.00</b>	<b>\$ 362,975</b>	<b>5.00</b>	<b>\$ 598,463</b>	<b>7.00</b>	<b>\$ 833,950</b>

CITY PROSECUTOR	LOW	MEDIUM	HIGH
<b>Admin &amp; Enforcement (One-Time)</b>	<b>One-Time Cost</b>	<b>One-Time Cost</b>	<b>One-Time Cost</b>
• Office Equipment & Furnishings	\$ 72,500	\$ 72,500	\$ 81,000
• Temporary Prosecutor Position	\$ 115,000	\$ 115,000	\$ 157,000
<b>Total</b>	<b>\$ 187,500</b>	<b>\$ 187,500</b>	<b>\$ 238,000</b>

## EXHIBIT B: REVENUE BY BUSINESS TYPE

The revenues associated with the medical marijuana business types are detailed below.

### Dispensary Gross Receipts Business License Tax Revenues

The ballot measure sets a maximum business license tax rate of 6% on Dispensaries, while eliminating the gross receipts tax on all other business types. The following tables summarize the projected revenues from this tax on Dispensaries. The tables provide estimates for both a 12 Dispensary model (Low), as well as a 32 Dispensary model (Medium and High). The figures were derived by HdL by analyzing the gross receipt sales tax data of all active Dispensaries located in Los Angeles County and surrounding areas.

*Table 1: Gross Receipts Revenues*

#### **Estimated Gross Receipts Business License Tax**

<b>Dispensaries</b>	<b>Low</b>	<b>Medium &amp; High</b>
Number of Dispensaries	12	32
Estimated Gross Receipts Per Dispensary	\$2,553,700	\$1,601,400
Total Gross Receipts	\$30,644,400	\$51,244,800
Gross Receipts Tax Rate	6.0%	6.0%
<b>Gross Receipts Tax</b>	<b>\$1,838,664</b>	<b>\$3,074,688</b>

### Local Sales Tax Revenues

The sale of medical marijuana is currently subject to the State Sales Tax, with 2%, or \$0.02 of every \$1.00 in sales going to the City. The tax is applied to gross receipts at the point of sale, which would apply only to Dispensaries. Revenues have been projected using the same methodologies as those outlined in the section above.

*Table 2: Sales Tax Revenues*

#### **Estimated Local Sales Tax**

<b>Dispensaries</b>	<b>Low</b>	<b>Medium &amp; High</b>
Number of Dispensaries	12	32
Estimated Gross Receipts Per Dispensary	\$2,553,700	\$1,601,400
Total Gross Receipts	\$30,644,400	\$51,244,800
Gross Receipts Tax Rate	2.0%	2.0%
<b>Gross Receipts Tax</b>	<b>\$612,888</b>	<b>\$1,024,896</b>

### Cultivation Square Footage Business License Tax Revenues

The ballot measure does not set a limit to the number of Cultivation businesses that can operate in the city. Therefore, revenue tables for the square footage tax are based on the Low, Medium and High business license projections described earlier in this report.

*Table 3: Cultivation Square Footage Revenues*

**Estimated Cultivation Square Footage Business License Tax**

Permit Type	Low		Medium		High	
	No. of Permits	Total Sq. Ft.	No. of Permits	Total Sq. Ft.	No. of Permits	Total Sq. Ft.
Type 1A Cultivation Sites (5,000 sq. ft)	4	20,000	16	80,000	50	250,000
Type 2A Cultivation Sites (10,000 sq. ft)	4	40,000	11	110,000	34	340,000
Type 3A Cultivation Sites (22,000 sq. ft)	4	88,000	5	110,000	16	352,000
<b>Total Cultivation Sites (permits/sq. ft.)</b>	<b>12</b>	<b>148,000</b>	<b>32</b>	<b>300,000</b>	<b>100</b>	<b>942,000</b>
<b>Total Projected Revenues</b>	<b>\$1,480,000</b>		<b>\$3,000,000</b>		<b>\$9,420,000</b>	

Manufacturing, Transporter and Distributor Business License Tax Revenues

Manufacturing, Transporter and Distributor businesses will be taxed annually at a flat rate of \$1,000 per license. As with Cultivators, the ballot measure does not set a limit to the number of businesses that can operate with the Manufacturer, Transporter or Distributor license type. Therefore, the business license tax revenues generated from these businesses are also based on the Low, Medium and High business license projections described earlier in this report.

*Table 4: Manufacturing, Transporter and Distributor Revenues*

**Estimated Manufacturing Business License Tax**

Permit Type	Low		Medium		High	
	No. of Permits	Total Tax Revenues	No. of Permits	Total Tax Revenues	No. of Permits	Total Tax Revenues
Type 6 Manufacturing Sites (non-volatile)	2	\$2,000	4	\$4,000	25	\$25,000
Type 7 Manufacturing Sites (volatile)	2	\$2,000	4	\$4,000	25	\$25,000
<b>Total Projected (permits/revenues)</b>	<b>4</b>	<b>\$4,000</b>	<b>8</b>	<b>\$8,000</b>	<b>50</b>	<b>\$50,000</b>

**Estimated Transporter & Distributor Business License Tax**

Permit Type	Low, Medium & High	
	No. of Permits	Total Tax Revenues
Types 11 & 12 (Transporter & Distributor)	4	\$4,000
<b>Total Projected (permits/revenues)</b>	<b>4</b>	<b>\$4,000</b>