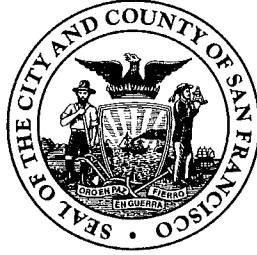


BOARD of SUPERVISORS



City Hall
1 Dr. Carlton B. Goodlett Place, Room 244
San Francisco 94102-4689
Tel. No. 554-5184
Fax No. 554-5163
TDD/TTY No. 554-5227

MEMORANDUM

BUDGET AND FINANCE SUB-COMMITTEE SAN FRANCISCO BOARD OF SUPERVISORS

TO: Supervisor Malia Cohen, Chair
Budget and Finance Sub-Committee

FROM: Linda Wong, Assistant Clerk

DATE: July 18, 2017

SUBJECT: **COMMITTEE REPORT, BOARD MEETING**
Tuesday, July 18, 2017

The following file should be presented as a **COMMITTEE REPORT** at the Board meeting on Tuesday, July 18, 2017, at 2:00 p.m. This item was acted upon at the Sub-Committee Meeting on Tuesday, July 18, 2017, at 10:30 a.m., by the votes indicated.

Item No. 38 File No. 170275

Ordinance amending the Administrative Code to establish an Office of Cannabis; to authorize the Director of the Office of Cannabis to issue permits to cannabis-related businesses; to direct the Director of the Office of Cannabis to collect permit application and annual license fees following the enactment of a subsequent ordinance establishing the amounts of those fees; and to extend the term of the Cannabis State Legalization Task Force.

AMENDED

Vote: Supervisor Malia Cohen - Aye
Supervisor Jeff Sheehy - Aye
Supervisor Norman Yee - Aye
Supervisor Katy Tang - Excused

RECOMMENDED AS AMENDED AS A COMMITTEE REPORT

Vote: Supervisor Malia Cohen - Aye
Supervisor Jeff Sheehy - Aye
Supervisor Norman Yee - No
Supervisor Katy Tang - Excused

c: Board of Supervisors
Angela Calvillo, Clerk of the Board
Jon Givner, Deputy City Attorney
Alisa Somera, Legislative Deputy Director

File No. 170275

Committee Item No. 1
Board Item No. 38

COMMITTEE/BOARD OF SUPERVISORS
AGENDA PACKET CONTENTS LIST

Committee: Budget & Finance Sub-Committee

Date July 18, 2017

Board of Supervisors Meeting

Date JULY 18, 2017

Cmte Board

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Completed by: Linda Wong Date July 13, 2017
Completed by: Linda Wong Date 07/18/17

1 [Administrative Code - Establishing an Office of Cannabis and Extending the Term of the
2 Cannabis State Legalization Task Force]

3 **Ordinance amending the Administrative Code to establish an Office of Cannabis; to**
4 **authorize the Director of the Office of Cannabis to issue permits to cannabis-related**
5 **businesses; to direct the Director of the Office of Cannabis to collect permit application and**
6 **annual license fees following the enactment of a subsequent ordinance establishing the**
7 **amounts of those fees; and to extend the term of the Cannabis State Legalization Task Force.**

8 NOTE: **Unchanged Code text and uncodified text** are in plain Arial font.
9 **Additions to Codes** are in *single-underline italics Times New Roman font*.
10 **Deletions to Codes** are in *strikethrough italics Times New Roman font*.
11 **Board amendment additions** are in double-underlined Arial font.
12 **Board amendment deletions** are in ~~Arial font~~.
13 **Asterisks (* * * *)** indicate the omission of unchanged Code
14 subsections or parts of tables.

15 Be it ordained by the People of the City and County of San Francisco:

16 Section 1. Findings.

17 On November 8, 2016, the voters of the State of California approved Proposition 64,
18 enacting the Control, Regulate and Tax Adult Use of Marijuana Act ("AUMA"). AUMA
19 legalizes the non-medical use of cannabis by adults, and creates a state regulatory and
20 licensing system governing the commercial cultivation, testing, distribution, and sale of non-
21 medical cannabis, and the manufacture of non-medical cannabis products.

22 Under Proposition 64, localities retain authority to regulate the non-medical cannabis
23 industry, including but not limited to the authority to prohibit commercial activities relating to
24 non-medical cannabis entirely, or to authorize such activities and impose licensing
25 requirements and land use restrictions. Businesses that apply for state permits to engage in

1 commercial cannabis activities will need to demonstrate that the issuance of a state permit
2 would not violate the provisions of any local ordinance or regulation.

3 In 2015, in anticipation of the legalization of cannabis, the Board of Supervisors created
4 the Cannabis State Legalization Task Force (the "Task Force") of the City and County of San
5 Francisco. (Ordinance No. 115-15; Admin. Code Ch. 5, Art. II.) The purpose of the Task
6 Force is to advise the Board of Supervisors, the Mayor, and other City departments on
7 matters relating to the potential legalization of cannabis so that the City's policymakers are
8 fully prepared to address policy questions, through legislation, administrative actions, and
9 otherwise, following the adoption of a State law.

10 In January 2017, the Task Force presented preliminary recommendations to the Board
11 of Supervisors. A copy of its report, entitled "San Francisco State Cannabis Legalization Task
12 Force Year I Report and Recommendations," is on file with the Clerk of the Board of
13 Supervisors in File No. 170036. The Task Force is working towards final recommendations
14 for a regulatory framework governing cannabis in San Francisco.

15 Section 2. The Administrative Code is hereby amended by adding to Chapter 2A,
16 Article XXVI, entitled "Cannabis Regulation," consisting of Sections 2A.420-2A.422, to read as
17 follows:

18 **ARTICLE XXVI: CANNABIS REGULATION**

19 **SEC. 2A.420. OFFICE OF CANNABIS.**

20 **(a) Establishment.** *The Mayor shall establish an Office of Cannabis under the direction of the*
21 *City Administrator to oversee the implementation of laws and regulations governing cannabis in San*
22 *Francisco. The City Administrator shall appoint a Director of the Office of Cannabis. The Office of*
23 *Cannabis shall include such officers and employees as are authorized pursuant to the budgetary and*
24 *fiscal provisions of the Charter.*
25

1 **(b) Duties and functions.** The Director of the Office of Cannabis and/or his or her designee
2 ("Director") shall issue, deny, condition, suspend, or revoke such permits in accordance with
3 applicable laws and regulations. The final decision of the Director regarding a permit may be appealed
4 to the Board of Appeals in the manner prescribed in Article 1 of the San Francisco Business and Tax
5 Regulations Code.

6 The Director may impose reasonable conditions upon the issuance or renewal of cannabis
7 business permits, consistent with applicable law and regulations, for the location and activities for
8 which a permit is sought.

9 The Director shall further coordinate with all relevant City departments, boards, and
10 commissions for the conduct of any inspection or investigation necessary or appropriate for the full and
11 fair consideration of applications for the issuance or renewal of permits under this Article XXVI. City
12 departments, boards and commissions shall cooperate with the Office of Cannabis.

13 **SEC. 2A.421. APPLICATION AND ANNUAL LICENSE FEES.**

14 **(a) Beginning January 1, 2018, the Office of Cannabis shall charge every applicant for**
15 **a cannabis-related permit a non-refundable permit application fee. The Office of Cannabis**
16 **shall also charge every business that receives a cannabis-related permit an annual license**
17 **fee.**

18 **(b) The Office of Cannabis shall not collect any application or license fees under this**
19 **Section 2A.421 until the Board of Supervisors enacts an ordinance establishing the amounts**
20 **of those fees. No later than November 1, 2017, the Director, in consultation with the**
21 **Controller, shall submit to the Board of Supervisors a proposed ordinance setting a schedule**
22 **of permit application and annual license fees. The proposed fee schedule shall be calculated**
23 **to recover but not exceed the City's estimated costs of application-related and licensing-**
24 **related activities, including but not limited to: administration, public outreach and education,**
25 **development and maintenance of an online portal and application system, review and**

1 processing of applications and permit renewals, complaint resolution, inspections,
2 enforcement activities, adjudication of appeals, and coordination with state agencies and
3 other city departments. In developing this fee schedule, the Director shall estimate the number
4 of permits and licenses to be issued per year, and consider any other information he or she
5 determines appropriate in making the cost estimates referenced above.

6 (c) Beginning with fiscal year 2018-2019, the permit application and annual license fees
7 set pursuant to subsection (b) of this Section 2A.421 may be adjusted each year on July 1,
8 without further action by the Board of Supervisors. Not later than April 1 of each year, the
9 Controller shall determine whether the current fees have produced or are projected to produce
10 revenues sufficient to support the costs of application-related and licensing-related activities,
11 and that the fees will not produce revenue that is significantly more than the costs of providing
12 such services. The Controller shall, if necessary, adjust the fees upward or downward for the
13 upcoming fiscal year as appropriate to ensure that the program recovers the costs of
14 operation without producing revenue that is significantly more than such costs. The adjusted
15 rates shall become operative on July 1.

16 **SEC. 2A.421. EXCLUSIONS.**

17 Nothing in this Article XXVI is intended to limit or abridge the permitting, licensing, or
18 inspection authority of any other City department over commercial businesses or real property.

19 **SEC. 2A.422. UNDERTAKING FOR THE GENERAL WELFARE.**

20 In enacting and implementing this Article XXVI, the City is assuming an undertaking only to
21 promote the general welfare. It is not assuming, nor is it imposing on its officers and employees, an
22 obligation for breach of which it is liable in money damages to any person who claims that such breach
23 proximately caused injury.

1 Section 3. The Administrative Code is hereby amended at Chapter 5, Article II, Section
2 5.2-7, to read as follows:


3 **SEC. 5.2-7. SUNSET.**

4 Unless the Board of Supervisors by ordinance extends the term of the Task Force, this
5 Article II shall expire by operation of law, and the Task Force shall terminate, on December
6 31, 2018~~2017~~, two years after the effective date of Ordinance No. 115-15 establishing the
7 Task Force. After that date, the City Attorney shall cause this Article to be removed from the
8 Administrative Code. The terms of all members on the Task Force on July 12, 2017 shall
9 continue until the termination of the Task Force.

10
11 Section ~~34~~. Effective Date. This ordinance shall become effective 30 days after
12 enactment. Enactment occurs when the Mayor signs the ordinance, the Mayor returns the
13 ordinance unsigned or does not sign the ordinance within ten days of receiving it, or the Board
14 of Supervisors overrides the Mayor's veto of the ordinance.

15
16
17 APPROVED AS TO FORM:
18 DENNIS J. HERRERA, City Attorney

19 By:


20 NEHA GUPTA
21 Deputy City Attorney

22 n:\leganas2017\1700425\01205233.docx

REVISED LEGISLATIVE DIGEST

(Amended, 7/18/2017)

[Administrative Code - Establishing an Office of Cannabis and Extending the Term of the Cannabis State Legalization Task Force]

Ordinance amending the Administrative Code to establish an Office of Cannabis; to authorize the Director of the Office of Cannabis to issue permits to cannabis-related businesses; to direct the Director of the Office of Cannabis to collect permit application and annual license fees following the enactment of a subsequent ordinance establishing the amounts of those fees; and to extend the term of the Cannabis State Legalization Task Force.

Existing Law

On November 8, 2016, the voters of the State of California approved Proposition 64, enacting the Control, Regulate and Tax Adult Use of Marijuana Act ("AUMA"). AUMA legalizes the non-medical use of cannabis by adults, and creates a state regulatory and licensing system governing the commercial cultivation, testing, distribution, and sale of non-medical cannabis, and the manufacture of non-medical cannabis products.

Under Proposition 64, localities retain authority to regulate the non-medical cannabis industry, including but not limited to the authority to prohibit commercial activities relating to non-medical cannabis entirely, or to authorize such activities, and impose licensing requirements and land use restrictions.

Article 33 of the San Francisco Health Code regulates medical cannabis, and authorizes the San Francisco Department of Public Health to oversee the permitting of medical cannabis dispensaries. Currently, there is no City law that regulates non-medical cannabis, or that authorizes any department or commission to oversee the permitting of businesses that engage in commercial activities relating to non-medical cannabis.

In 2015, San Francisco established via Chapter 5, Article II of the Administrative Code a Cannabis State Legalization Task Force with a two-year lifespan to advise City policymakers on local policy questions arising from the potential state legalization of cannabis.

Amendments to Current Law

This ordinance will create an Office of Cannabis under the direction of the City Administrator. The City Administrator will appoint a Director of the Office of Cannabis. The Director or his or her designee shall oversee the implementation of laws and regulations relating to cannabis, impose conditions on the issuance or renewal of cannabis permits, and coordinate with other City departments as necessary.

The ordinance also authorizes the Director of Cannabis to charge permit application and annual license fees sufficient to recover the City's application-related and licensing-related activities. But the Director could not collect any application or license fees until the Board of Supervisors enacts an ordinance establishing the amounts of those fees. The ordinance would require the Director to consult with the Controller and submit to the Board of Supervisors a proposed ordinance setting a schedule of permit application and annual license fees by November 1, 2017.

The proposal specifies that it does not intend to limit or abridge the other City departments to regulate commercial businesses or real property in San Francisco.

Finally, the proposal would extend the term of the Cannabis State Legalization Task Force from its current expiry through December 31, 2018, and extend the terms of current members until such date.

Background

This legislative digest reflects amendments adopted at the Rules Committee on July 12, 2017, to a substitute version of this ordinance introduced at the Board of Supervisors meeting on June 6, 2017. The initial version of this ordinance was first introduced at the Board of Supervisors meeting on March 14, 2017.

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Item 1 File 17-0275	Department: General Services Agency – City Administrator’s Office
EXECUTIVE SUMMARY	
Legislative Objectives	
<p>The proposed ordinance would amend the City’s Administrative Code to establish an Office of Cannabis, which will be charged with setting application and annual license fees to recover the City’s estimated costs of application- and licensing-related activities. The fee schedule shall be submitted to the Board of Supervisors for approval no later than November 1, 2017.</p>	
Key Points	
<ul style="list-style-type: none"> • In June 2017, the State passed SB 94, which consolidates provisions of the State’s regulatory framework for medical cannabis and the Adult Use of Marijuana Act (Proposition 64) approved by California voters in November 2016. • Since 2005, the Department of Public Health (DPH) has overseen the permitting of medical cannabis dispensaries, of which 39 currently operate in San Francisco. • It is not known how many new permits will be issued when the new regulations go into effect in January 2018. 	
Fiscal Impact	
<ul style="list-style-type: none"> • The budget pending before the Board of Supervisors includes \$1,365,227 in FY 2017-18 and \$1,424,893 in FY 2018-19 for (1) the new Office of Cannabis in the City Administrator’s Office and (2) additional Environmental Health services at DPH for regulating cannabis businesses. • The City will receive General Fund revenue equivalent to 1 percent of non-medical cannabis retail sales. • The Office of Cannabis is budgeted to recover \$350,000 or 50 percent of its costs in the first year (FY 2017-18). 	
Policy Consideration	
<ul style="list-style-type: none"> • While the new legislation requires new permits for medical cannabis cultivation, distribution and manufacturing businesses, as well as permits for non-medical retail, cultivation, distribution and manufacturing businesses, the increased permit activity is not known. • According to the Cannabis State Legalization Task Force “license fees should be set at reasonable levels that cover administrative and regulatory costs, as high license fees may limit entry for those without the necessary capital and/or encourage actors to remain in the illicit market”. • The potential for new businesses entering the cannabis market is limited by the cash-dependent nature of the industry. 	
Recommendation	
<ul style="list-style-type: none"> • Approval of the proposed ordinance is a policy matter for the Board of Supervisors. 	

MANDATE STATEMENT

City Charter Section 2.105 states that all legislative acts shall be by ordinance, approved by a majority of the members of the Board of Supervisors.

BACKGROUND**Changes to California Law**

On November 8, 2016, California voters approved Proposition 64, the Adult Use of Marijuana Act (AUMA), which allows adults 21 years of age or older to legally grow, possess, transport, purchase, and use cannabis for non-medical purposes, with certain restrictions. Under Proposition 64, the State is responsible for creating a regulatory and licensing system to govern the commercial cultivation, manufacture, testing, distribution, taxation and sale of non-medical cannabis and related products. In accordance with Proposition 64, cities and counties can also regulate non-medical cannabis businesses, including imposing restrictions on where such businesses can be located, requiring local licenses or permits to operate and allowing restricted taxation and fee structures. Under Proposition 64, cities and counties may begin issuing licenses for such businesses on January 1, 2018.

In 2015, Governor Brown signed legislation that established California's first regulatory framework for the medical cannabis industry. Under the Medical Cannabis Regulation and Safety Act (MCRSA), all commercial medical cannabis activity requires both a state license and local approval through a license, permit, or other authorization. Local approval will be authorized by local governments. Under MCRSA, cities and counties would begin issuing local permits for such businesses on January 1, 2018. While AUMA and MCRSA had similar requirements, they established different license types and procedures at the State and local level. In order to address these differences, on June 27, 2017, Governor Brown signed SB 94 into law. This bill repealed MCRSA and included certain provisions of MCRSA in the licensing provisions of AUMA. Under the bill, these consolidated provisions are now known as the Medicinal and Adult-Use Cannabis Regulation and Safety Act (MAUCRSA).

SF Cannabis State Legalization Task Force

In June 2015, the Board of Supervisors approved the establishment of the Cannabis State Legalization Task Force to advise the Board of Supervisors, Mayor, and City departments for two years on issues related to the potential legalization of cannabis (File No. 15-0436; Ordinance No. 115-15). In December 2016, this Task Force issued its Year I Report and Recommendations.

The Task Force recommended that the City should consider new and/or existing regulatory and regulatory oversight structures for nonmedical cannabis regulation. Options would include: (1) standalone agency with its own staff and commission; (2) standalone agency with its own staff and no commission; or (3) part of an existing agency or agencies.

Current Local Regulations

Since 2005, medical cannabis has been regulated under Article 33 of the City's Health and Safety Code, which authorizes the Department of Public Health (DPH) to oversee the permitting of medical cannabis dispensaries, which operate as collectives or cooperatives¹. DPH permits and regulates medical cannabis dispensaries in accordance with state and local laws, inspects each permitted dispensary twice annually, and responds to complaints. As of July 2017, there are 39 permitted medical cannabis dispensaries operating in San Francisco. There are currently 28 pending applications for medical cannabis dispensary permits, of which 17 were submitted in FY 2016-17.

To obtain a permit for a medical cannabis dispensary, applicants need to: (1) confirm that the location meets Planning Department requirements for medical cannabis dispensaries²; (2) submit an application to DPH; (3) file for a permit from the Department of Building Inspection (DBI); (4) submit an entitlement application to the Planning Department; (5) receive approval from the Planning Commission; (6) submit full plans to DBI; (7) submit plans to the Mayor's Office of Disability to certify ADA compliance; and (8) receive approval from DPH at the Director's Hearing.

DPH currently employs two staff members (0.75 FTE total) to manage the medical cannabis dispensary program at a cost of \$131,408 in FY 2016-17, as shown in Table 1 below.

Table 1: Environmental Health Salary and Benefits for Medical Cannabis Program

Position	FTE	Amount
0922 Environmental Health Bureau Asst. Director	0.25	\$44,498
6122 Senior Environmental Health Inspector	0.5	86,910
Total	0.75	\$131,408

Fees charged by DPH for medical cannabis dispensary permits in FY 2016-17 are shown in Table 2 below.

Table 2: Fees for Medical Cannabis Dispensary Application and License

Fee	Amount
Application Permit for New Locations	\$8,973
Application Permit for Existing Locations	4,904
Annual License	4,354

Currently, no City laws regulate non-medical cannabis or authorize any City department to oversee non-medical cannabis permitting or activities.

¹ Medical cannabis collectives and cooperatives with nine or fewer members are exempt from local permit requirements.

² Medical cannabis dispensaries cannot be located within 1,000 feet of a public or private elementary or secondary school or recreation building nor located on a property containing a substance abuse treatment facility.

Implications of Changes to State Law for Local Regulations

According to Mr. Israel Nieves-Rivera, Director of the Office of Equity & Quality Improvement at DPH, due to the changes in State law, there will be many different kinds of permits for cannabis businesses after January 2018, whereas the City currently only issues permits for medical cannabis dispensaries. For example, if a single business currently has two dispensary locations, eight cultivation locations, and one location for extraction/manufacturing, they currently need to have two permits from the City for the two dispensary locations. However, under the new regulations, they may need to apply for multiple permits based on forthcoming state and local cannabis legislation. According to Mr. Nieves-Rivera, it is not known how many of the existing medical dispensary businesses will apply to transfer from medical cannabis to non-medical cannabis dispensaries, nor how many cultivation or manufacturing permits would be associated with each of the existing medical cannabis dispensaries. According to Mr. Nieves-Rivera, the City does not know the total number of cultivators that are currently operating in San Francisco. It is also not known how many new businesses will seek to enter the non-medical cannabis market that are not currently operating in the medical cannabis market.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would add Chapter 2A, Article XXVI to the City's Administrative Code entitled "Cannabis Regulation" to establish:

- **A new Office of Cannabis**, under the direction of the City Administrator consisting of a Director appointed by the City Administrator. Additional officers and employees for the Office of Cannabis would be subject to appropriation authorization by the Mayor and the Board of Supervisors. The Office of Cannabis would be responsible for overseeing the implementation of laws and regulations relating to cannabis in San Francisco.
- **Application and Annual License Fees**, to be set by the Office of Cannabis in consultation with the Controller, and submitted to the Board of Supervisors for approval no later than November 1, 2017. The fee schedule shall recover but not exceed the City's estimated costs of application- and licensing-related activities, such as administration, public outreach and education, development and maintenance of an online portal and application system, review and processing of applications and permit renewals, complaint resolution, inspections, enforcement activities, adjudication of appeals, and coordination with State agencies and other City departments. Beginning with FY 2018-19, application and annual license fees may be adjusted each year on July 1, if deemed necessary by the Controller, without further Board of Supervisors approval.

The proposed ordinance also specifies that these provisions are not intended to limit or abridge the authority of any other City department with respect to the regulation of medical cannabis dispensaries.

FISCAL IMPACT**The FY 2017-18 and FY 2018-19 Budget of the Office of Cannabis**

The FY 2017-18 and FY 2018-19 budget pending before the Board of Supervisors includes \$700,000 in FY 2017-18 and \$575,000 in FY 2018-19 for the new Office of Cannabis in the City Administrator's Office. The budget for the new Office of Cannabis includes three new positions, as shown in Table 3 below, as well as Underage Use Prevention and Community Outreach and a new website.

Table 3: Office of Cannabis Salary and Benefits

Position	FY 2017-18		FY 2018-19	
	FTE	Amount	FTE	Amount
0931 Manager III	1.00	\$207,667	1.00	\$215,542
1824 Principal Administrative Analyst	1.00	178,035	1.00	184,661
1840 Junior Management Assistant	0.77	86,763	1.00	117,046
Total	2.77	\$472,465	3.00	\$517,249

The FY 2017-18 and FY 2018-19 Budget of DPH Environmental Health Services to Regulate Cannabis

The FY 2017-18 and FY 2018-19 budget pending before the Board of Supervisors includes \$665,227 in FY 2017-18 and \$849,893 in FY 2018-19 for additional Environmental Health services for regulating cannabis businesses, as shown in Table 4 below.

Table 4: Additional DPH Environmental Health Budget to Regulate Cannabis

Use	FY 2017-18	FY 2018-19
Staff Salary and Fringe Benefits	\$576,529	\$776,195
Rent (\$36.25 per sq. ft.)	63,438	63,438
Materials and Supplies	10,260	10,260
Workstations (\$3,000 per FTE)	15,000	--
Total	\$665,227	\$849,893

The DPH FY 2017-18 and FY 2018-19 budget adds five new positions for regulating cannabis businesses, as shown in Table 5 below.

Table 5: Environmental Health Salary and Benefits

Position	FY 2017-18		FY 2018-19	
	FTE	Amount	FTE	Amount
6124 Principal Environmental Health Inspector	0.77	\$142,881	1.00	\$192,306
6122 Senior Environmental Health Inspector	1.54	267,934	2.00	360,545
6220 Inspector of Weights and Measures	0.77	82,857	1.00	111,672
3450 Agricultural Inspector	0.77	82,857	1.00	111,672
Total	3.85	\$576,529	5.00	\$776,195

Total FY 2017-18 and FY 2018-19 Budgets for Regulating Cannabis

Other City departments that would be involved in the permitting process, such as Planning and DBI, are not planning to add staff resources. Therefore, the eight additional positions and associated costs budgeted for the City Administrator's Office and DPH represent the total new cost of regulating cannabis businesses, as shown in Table 6 below.

Table 6: New Costs of Regulating Cannabis

Department	FY 2017-18	FY 2018-19
City Administrator's Office	\$700,000	\$575,000
Department of Public Health	665,227	849,893
Total	\$1,365,227	\$1,424,893

Potential Revenues

Medical cannabis is not and will not be subject to sales tax under Proposition 64. Non-medical cannabis will be subject to sales tax which will result in General Fund revenue to the City equivalent to 1 percent (the City's share of the 8.5 percent sales tax rate) of non-medical retail sales.

As noted above, the proposed ordinance calls for a fee schedule, to be determined, that will recover the City's costs of application- and licensing-related activities. According to the City Administrator's Office, the Office of Cannabis is budgeted to recover \$350,000 or 50 percent of its costs in the first year (FY 2017-18) given (1) the uncertainty about policy direction and the amount of new business applications, and (2) that fees cannot be collected until after January 1, 2018.

The fees charged to cannabis businesses to cover the Office of Cannabis and DPH costs of \$1,424,893 in FY 2018-19 would need to increase to an amount significantly higher than current fees charged to medical cannabis businesses. As noted above, currently the City charges fees to medical cannabis businesses to cover the costs of permitting dispensaries.

To fully recover the second-year (FY 2018-19) costs of \$1,424,893, at the current rate of DPH fees, the amount of new business applications and businesses paying annual license fees would need to far exceed the current amount of 39 operating medical cannabis dispensaries and 17 applications per year. For example, as shown in Table 7 below, if the City collects annual license

fees for 50 existing cannabis businesses (assuming 11 pending applications are approved by FY 2018-19), there would need to be 135 applications for permits in FY 2018-19 under the current DPH medical cannabis fee structure in order to achieve cost recovery.

Table 7: Applications and Licenses Needed for Cost Recovery in FY 2018-19

	Fee	Existing Businesses (assumed)	New Applications Needed	FY 2018-19 Revenue
Application Fee	\$8,973	--	135	\$1,211,355
Annual License Fee	\$4,354	50	--	217,700
			TOTAL	\$1,429,055

Under the proposed ordinance, the new Office of Cannabis has until November 1, 2017 to set the fees for cost recovery. The challenge in setting application and annual license fees is the uncertainty around how many businesses will apply for and be granted cannabis business permits, and when. While some applications for medical cannabis business permits have been approved within three months, 11 of the 28 currently pending applications have been under review for over a year.

As shown in Table 7, there would need to be a substantial increase in the number of cannabis businesses operating in San Francisco in order to reach cost recovery without setting fees at a much higher level than the current fees. Significantly increasing application and annual license fees could discourage legal compliance. According to the Cannabis State Legalization Task Force "license fees should be set at reasonable levels that cover administrative and regulatory costs, as high license fees may limit entry for those without the necessary capital and/or encourage actors to remain in the illicit market".

POLICY CONSIDERATION

Barriers to Growth in the Cannabis Business

Compared to other states that have legalized non-medical cannabis in recent years, California has the most established medical cannabis industry. Medical cannabis was legalized in the state in 1996 and San Francisco has had its current medical cannabis dispensary program since 2005. According to interviews with local officials, there may not be substantial growth in new retail non-medical cannabis businesses due to the number of existing established medical cannabis businesses. While the new legislation requires new permits for medical cannabis cultivation, distribution and manufacturing businesses, as well as permits for non-medical retail, cultivation, distribution and manufacturing businesses, the increased permit activity is not known.

Because marijuana is illegal under the Controlled Substances Act, banks could face criminal prosecution for serving cannabis-related businesses. As a result, banks are reluctant to serve cannabis-related businesses due to increased risks, which are not sufficiently offset by the financial benefits. Cannabis businesses are generally not able to get loans and most business activities must be conducted in cash, including payment of fees and taxes. Therefore, the

potential for new businesses entering the cannabis market is limited by the cash-dependent nature of the industry.

Consolidated Medical and Non-Medical Cannabis Regulation

With the passage of SB 94, the State is establishing regulatory responsibilities for both medical and non-medical uses of cannabis under the same State agencies³, to oversee both markets.

Washington State approved non-medical cannabis use in 2012. Initially, Washington separated its medical and non-medical cannabis regulation systems. However, in 2015, Washington State opted to consolidate them into one system to level the playing field and create a more effective regulatory structure for the medical market. In Seattle, one office oversees cannabis regulation and administers local licenses, which are coordinated with local building, fire, and public health departments.

In Colorado, one Marijuana Enforcement Division oversees cannabis regulation. In Denver, the Office of Marijuana Policy oversees both medical and non-medical cannabis use, with different licensing procedures, fees, and taxes, and coordinates with other city departments.

In Oakland, the City Administrator's Office intends to use a single regulatory process and fee structure for medical and non-medical cannabis businesses. Oakland currently has 0.5 FTE Assistant City Administrator and 0.75 FTE Administrative Assistant assigned to cannabis regulation. According to a City of Oakland official, Oakland will consider hiring additional staff next year for the regulation of cannabis businesses if the increase in fee revenue from business applications and licenses would cover the cost of new positions.

RECOMMENDATION

Approval of the proposed ordinance is a policy matter for the Board of Supervisors.

³ A new State Bureau of Cannabis Control, under the Office of Consumer Affairs, will assume the duties of the previously established State agency to regulate medical and adult use cannabis. This agency is anticipated to begin issuing State licenses on January 1, 2018.

170275
SUBMITTED & PRESENTED
07/18/2017

OFFICE OF THE
CITY ADMINISTRATOR

Proposed Office of Cannabis

Adam Nguyen
Finance and Planning Director
July 18, 2017

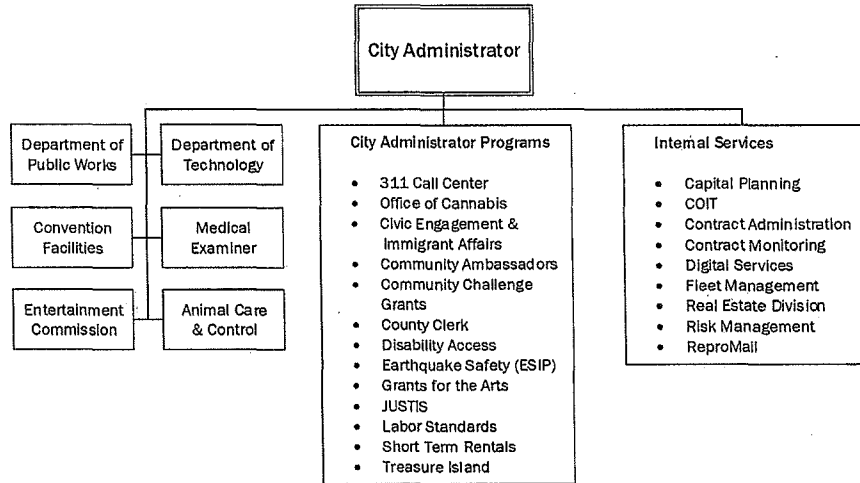


OFFICE OF THE
CITY ADMINISTRATOR

Agenda

1. Proposed scope of responsibilities for the Office of Cannabis
2. Proposed budget

Overview of City Administrator's Office



Proposed Scope of Responsibilities

- Centralized resource for information for public and businesses
- Facilitate licensing process
 - Develop application system
 - Coordinate interdepartmental workflows
 - Manage final operating licenses
- Complaint resolution
- Point of contact for State regulators
- Policy analysis and development
- Reporting

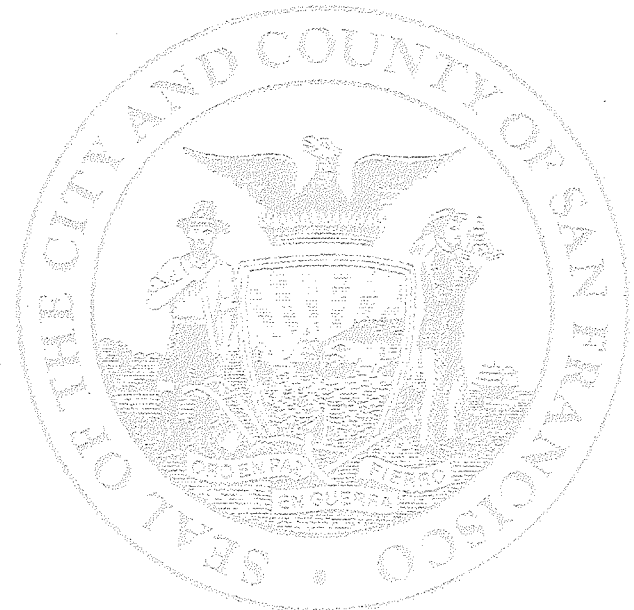
Proposed Budget

- Mayor's Budget included \$700k project budget in FY17-18
 - Three positions: Manager, Principal Analyst, Management Assistant
 - \$225k for website development, public outreach, and overhead
- Program budget will be reevaluated for future fiscal years

OFFICE OF THE
CITY ADMINISTRATOR

Proposed Office of Cannabis

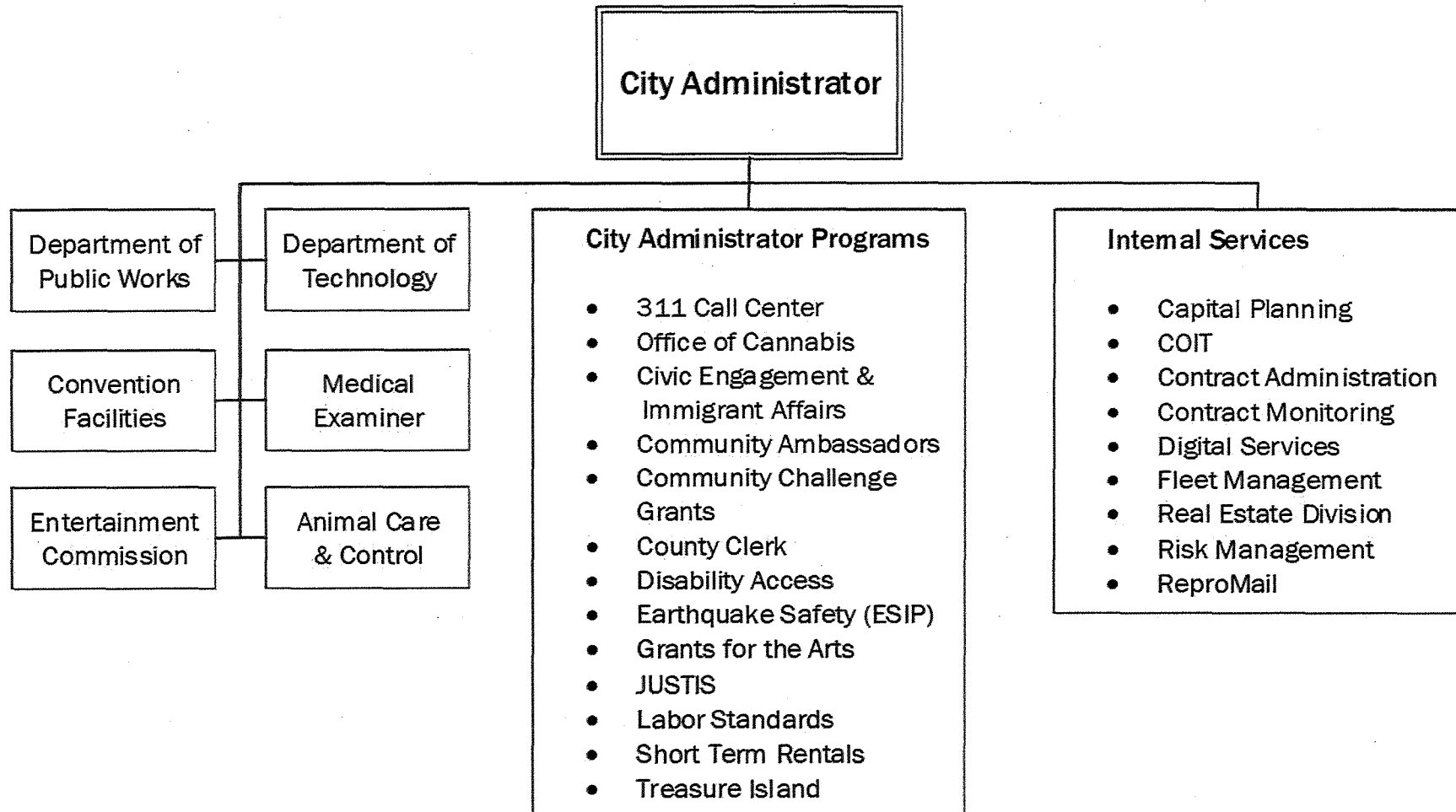
Adam Nguyen
Finance and Planning Director
July 12, 2017



Agenda

1. Overview of City Administrator's Office
2. Proposed scope of responsibilities for the Office of Cannabis
3. Proposed budget

Overview of City Administrator's Office



Proposed Scope of Responsibilities

- Centralized resource for information for public and businesses
- Facilitate licensing process
 - Develop application system
 - Coordinate interdepartmental workflows
 - Manage final operating licenses
- Complaint resolution
- Point of contact for State regulators
- Policy analysis and development
- Reporting

Proposed Budget

- Mayor's Budget included \$700k project budget in FY17-18
 - Three positions: Manager, Principal Analyst, Management Assistant
 - \$225k for website development, public outreach, and overhead
 - Amount does not include proposals from other City departments (e.g. DPH)
- Program budget will be reevaluated for future fiscal years



SAN
FRANCISCO
**CHAMBER OF
COMMERCE**

July 17, 2017

The Honorable Malia Cohen
Chair, San Francisco Board of Supervisors Budget and Finance Sub-Committee
1 Dr. Carlton B. Goodlett Place, Room 244
San Francisco, CA 94102

RE: File Number 170275, Establishing an Office of Cannabis and Extending the Term of the Cannabis State Legalization Task Force (Sheehy)

Dear Supervisor Cohen:

The San Francisco Chamber of Commerce, representing 2,500 businesses and their 200,000 employees, urges the Board of Supervisors Budget and Finance Sub-Committee to recommend that the Board of Supervisors approve file 170275, which establishes an Office of Cannabis and extends the term of the Cannabis State Legalization Task Force.

With the passing of Proposition 64 a multi-billion-dollar industry will come out of the shadows on January 1, 2018. Proposition 64 legalizes the adult use of cannabis by adults and creates a state regulatory and licensing system to govern the commercial cultivation, testing, distribution and sale of cannabis and the manufacturing of cannabis products.

The legalization of cannabis will be a complex process requiring coordination across countless departments and implementation of new regulations, both at the State and Local levels. The establishment of an Office of Cannabis will centralize responsibility and critical functions, ensuring that legalization proceeds as smoothly as possible.

The San Francisco Chamber of Commerce urges the Budget and Finance Sub-Committee to recommend that the Board of Supervisors adopt this legislation.

Sincerely,

Jim Lazarus
Senior Vice President of Public Policy

cc: Clerk of the Board, to be distributed to all members of the Board of Supervisors, Mayor Lee

170275

From: Board of Supervisors, (BOS)
Sent: Thursday, May 18, 2017 1:55 PM
To: BOS-Supervisors; BOS-Legislative Services
Subject: FW: San Francisco Marijuana Department

From: Kevin Reed [mailto:kevinreed@thegreencross.org]
Sent: Thursday, May 18, 2017 12:03 PM
To: Board of Supervisors, (BOS) <board.of.supervisors@sfgov.org>
Subject: San Francisco Marijuana Department

Dear Honorable Members of the Board of Supervisors,

Thank you for your leadership and support of San Francisco's ever-growing cannabis industry. As a local leader in this field for 14+ years and member of the Cannabis State Legalization Task Force, I am writing to share my strong opposition to the proposed creation of a special San Francisco Marijuana Department that will soon come before you for a vote.

Based upon my expertise, I believe the creation of such a department is unnecessary; it increases costs to an already costly and bureaucratic permitting process, burdens the industry, in particular, small business owners, and is poor use of city resources and tax payer funds. Additionally, the task force has yet to come to a consensus on this matter. I respectfully recommend that City leadership consider utilizing and making enhancements to our existing infrastructure to streamline current procedures rather than creating new obstacles and hurdles for business owners.

I appreciate you taking my thoughts into consideration on this matter. If you have any questions or concerns, please feel free to contact me directly at KevinReed@TheGreenCross.org or at (415) 846-7671.

Sincerely,

--

Kevin Reed

Founder & President
The Green Cross
4218 Mission Street
San Francisco, CA 94112

Mobile: 415.846.7671
Office: 415.648.4420
Fax: 415.431.2420
Email: KevinReed@TheGreenCross.org
Web: TheGreenCross.org

BOARD of SUPERVISORS



City Hall
1 Dr. Carlton B. Goodlett Place, Room 244
San Francisco 94102-4689
Tel. No. 554-5184
Fax No. 554-5163
TDD/TTY No. 554-5227

MEMORANDUM

TO: Barbara A. Garcia, Director, Department of Public Health

FROM: *ll*
for Derek Evans, Clerk, Rules Committee
Board of Supervisors

DATE: March 22, 2017

SUBJECT: LEGISLATION INTRODUCED

The Board of Supervisors' Rules Committee has received the following proposed legislation, introduced by Supervisor Sheehy on March 14, 2017:

File No. 170275

Ordinance amending the Administrative Code to establish a Cannabis Commission and Cannabis Department.

If you have comments or reports to be included with the file, please forward them to me at the Board of Supervisors, City Hall, Room 244, 1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94102 or by email at: derek.evans@sfgov.org.

c: Greg Wagner, Department of Public Health
Colleen Chawla, Department of Public Health

BOARD of SUPERVISORS



City Hall
1 Dr. Carlton B. Goodlett Place, Room 244
San Francisco 94102-4689
Tel. No. 554-5184
Fax No. 554-5163
TDD/TTY No. 554-5227

MEMORANDUM

TO: Barbara A. Garcia, Director, Department of Public Health

FROM: Derek Evans, Clerk, Rules Committee
Board of Supervisors

DATE: June 8, 2017

SUBJECT: SUBSTITUTED LEGISLATION

The Board of Supervisors' Rules Committee has received the following proposed legislation, substituted by Supervisor Sheehy on June 6, 2017:

File No. 170275

Ordinance amending the Administrative Code to establish an Office of Cannabis.

If you have comments or reports to be included with the file, please forward them to me at the Board of Supervisors, City Hall, Room 244, 1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94102 or by email at: derek.evans@sfgov.org.

c: Greg Wagner, Department of Public Health
Colleen Chawla, Department of Public Health

President, District 5
BOARD of SUPERVISORS



City Hall
1 Dr. Carlton B. Goodlett Place, Room 244
San Francisco 94102-4689
Tel. No. 554-7630
Fax No. 554-7634
TDD/TTY No. 544-5227

London Breed

PRESIDENTIAL ACTION

Date: 7/18/17

To: Angela Calvillo, Clerk of the Board of Supervisors

Madam Clerk,
Pursuant to Board Rules, I am hereby:

Waiving 30-Day Rule (Board Rule No. 3.23)

File No. _____ (Primary Sponsor)
Title. _____

Transferring (Board Rule No 3.3)

File No. _____ (Primary Sponsor)
Title. _____

From: _____ Committee

To: _____ Committee

Assigning Temporary Committee Appointment (Board Rule No. 3.1)

Supervisor Sheehy *beginning at 11:07 AM (m)*

Replacing Supervisor Tang

For: 7/18/17 Budget & Finance Sub Committee Meeting
(Date) (Committee)

London Breed

London Breed, President
Board of Supervisors

RECEIVED
BOARD OF SUPERVISORS
SAN FRANCISCO
2017 JUL 18 AM 11:10

Print Form

Introduction Form

By a Member of the Board of Supervisors or Mayor

RECEIVED
BOARD OF SUPERVISORS
SAN FRANCISCO

2017 JUN -6 PM 4:23 Time stamp
or meeting date

I hereby submit the following item for introduction (select only one): BY _____

- 1. For reference to Committee. (An Ordinance, Resolution, Motion or Charter Amendment).
- 2. Request for next printed agenda Without Reference to Committee.
- 3. Request for hearing on a subject matter at Committee.
- 4. Request for letter beginning : "Supervisor [redacted] inquiries"
- 5. City Attorney Request.
- 6. Call File No. [redacted] from Committee.
- 7. Budget Analyst request (attached written motion).
- 8. Substitute Legislation File No. [170275]
- 9. Reactivate File No. [redacted]
- 10. Question(s) submitted for Mayoral Appearance before the BOS on [redacted]

Please check the appropriate boxes. The proposed legislation should be forwarded to the following:

- Small Business Commission
- Youth Commission
- Ethics Commission
- Planning Commission
- Building Inspection Commission

Note: For the Imperative Agenda (a resolution not on the printed agenda), use the Imperative Form.

Sponsor(s):

[Sheehy, Cohen]

Subject:

[Office of Cannabis]

The text is listed:

[Please see attached ordinance.]

Signature of Sponsoring Supervisor:

For Clerk's Use Only

Introduction Form

By a Member of the Board of Supervisors or the Mayor

RECEIVED
BOARD OF SUPERVISORS
SAN FRANCISCO
Time stamp
or meeting date
2017 MAR 16 11:47:30

I hereby submit the following item for introduction (select only one):

- 1. For reference to Committee. (An Ordinance, Resolution, Motion, or Charter Amendment)
- 2. Request for next printed agenda Without Reference to Committee.
- 3. Request for hearing on a subject matter at Committee.
- 4. Request for letter beginning "Supervisor [] inquires"
- 5. City Attorney request.
- 6. Call File No. [] from Committee.
- 7. Budget Analyst request (attach written motion).
- 8. Substitute Legislation File No. []
- 9. Reactivate File No. []
- 10. Question(s) submitted for Mayoral Appearance before the BOS on []

Please check the appropriate boxes. The proposed legislation should be forwarded to the following:

- Small Business Commission Youth Commission Ethics Commission
- Planning Commission Building Inspection Commission

Note: For the Imperative Agenda (a resolution not on the printed agenda), use a Imperative Form.

Sponsor(s):

Supervisor Sheehy

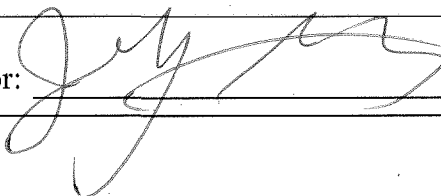
Subject:

Non-Medical Cannabis Regulation

The text is listed below or attached:

Ordinance amending the Administrative Code to establish a Cannabis Commission and Cannabis Department.

Signature of Sponsoring Supervisor:



For Clerk's Use Only: