Government & Fiscal Affairs Council Meeting
August 9, 2018
10 – 11:30 a.m.

1. Welcome & Introductions

2. Action Items

   a. City Ballot Measures:
      i. Prop B: Municipal Financial Institution, Charter Amendment
      ii. Prop E: Realign City and State Election Dates, Charter Amendment
      iii. Prop EE: Realign LAUSD and State Election Dates, Charter Amendment
   b. State Ballot Measures:
      i. Prop 5: Property Tax Transfer Initiative
   c. State Bills:
      i. SB 930
      ii. AB 2980
      iii. AB 1863

Next Council Meeting:
TBD
Chamber Committee
Government and Fiscal Affairs

Summary

July 2017, Council president Wesson and Council member Krekorian introduced a motion asking the City Administrative Officer and the Chief Legislative Analyst, with the assistance of the Office of Finance and the City Attorney to report on the feasibility, requirements, legislative barriers and any other relevant aspects of creating a state-chartered public bank, or other similar such financial institution, names “Bank of Los Angeles” that would provide banking services to reinvest in the communities, neighborhoods and rehabilitation of affordable housing and workforce housing, utilizing deposits and providing financial services and products to local businesses, including the cannabis industry.

This City ballot initiative is a LA City Charter amendment that would allow the City to begin the process of looking into the possibility of a City Municipal Bank.

Overview
The City’s charter currently does not allow for the formation of a municipal bank so this ballot measure will amend that portion and allow the City to begin their initial research.

After this is completed, the City will have the option to move forward with the creation of a municipal bank. However, the Ad Hoc Jobs Creation Committee has tasked the City Departments with three key tasks:

1. Through the Community Reinvestment Acts, look at what banks are reporting as their community services and analyze whether those services are sufficient or can be redirected to more efficient programs.
2. What services are lacking within those services and how can the City supplement them without the creation of a bank?
3. What services are lacking within those services and which ones cannot be without the creation of a Municipal Bank?

There are many barriers to the creation of a City Municipal Bank. Currently there is no path to such a bank through the State process, who provides the licenses. The State only provides licenses to two types of institutions: commercial banks or credit unions.

The current federal administration has rescinded the Cole Memorandum that provided cover to banks to do business with Cannabis businesses, which would mean no protection for the municipal bank.

Fiscal Impact

There would be a huge impact at the City level, but no analysis has been done yet.
The City Council has approved the placement of four ballot measures on the State of California General Election to be held on November 6, 2018. In accordance with City Election Code 603, it is the responsibility of the City Council to designate the order that the ballot measures are to appear on the ballot, as well as request the number or letter designation. As this election is consolidated with a State General Election, it is the responsibility of the County Registrar-Recorder to designate the letter designation of various ballot measures. However, the City Council may request specific letter designations and, subject to availability, the County Registrar-Recorder may grant the request.

I THEREFORE MOVE that the City Council adopt the following order and letter designation requests for the four ballot measures to be placed on the November 6, 2018 State of California General Election.

1st Measure: MUNICIPAL FINANCIAL INSTITUTION. CHARTER AMENDMENT _B_.

2nd Measure: REALIGN CITY AND STATE ELECTION DATES. CHARTER AMENDMENT _E_.

3rd Measure: REALIGN LOS ANGELES UNIFIED SCHOOL DISTRICT (LAUSD) AND STATE ELECTION DATES. CHARTER AMENDMENT _EE_.

I FURTHER MOVE that the City Council direct the City Clerk to transmit the ballot order and letter request designation adopted by this Motion to the County Registrar-Recorder without delay.

I FURTHER MOVE that the City Council authorize the Council President to propose alternate letter designations to the County Registrar-Recorder in the event that the requested designations are not available.

PRESENTED BY: HERB J. WESSON, JR.
Councilmember, 10th District

SECONDED BY:

JUL 3 1 2018.
**LOS ANGELES CHAMBER CANNABIS POLICY PRINCIPLES**

*Strong Enforcement Principles*

The Chamber will be an advocate for strict and timely enforcement of unlicensed cannabis businesses in the City of Los Angeles. The illegal market creates an environment of uncertainty and brings with it negative impacts on legal businesses, the community and the consumers of product. Strong enforcement principles will ensure safe product is sold to the public for consumption and the licensed industry members will be in a fair and equitable market.

*Fair and Consistent Tax Policies*

The state of California is known for its difficult business environment and the Chamber will work to ensure this new industry is not overly taxed from multiple levels of government. The existing tax rate at the state, county and city levels (and lack of enforcement) are incentivizing the illegal cannabis market, and driving up the illegal market.

The Chamber will work to advocate for fair and consistent tax reductions that allow the Cannabis industry to thrive and be successful.

*Effective and Robust Public Education*

With the recent legalization of recreational and medical Cannabis in the state of California, it is vital to create a public education campaign for consumers and the general public about safe cannabis use, current regulations, testing, driving under the influence and possible side effects.

The Chamber believes a strong and effective education campaign is key to the success of the Cannabis industry and the seamless transition to a safe legal market. We will work to advocate for strategic funding for youth development and drug prevention programming.

It will also be critical to have in place a robust education campaign for residents and stakeholders to be able to identify legal and safe cannabis establishments.
People’s Initiative to Protect Proposition 13 Savings—SUPPORT

The initiative allows homeowners over 55 years old to sell their homes, move, and transfer their property tax basis to the new residence.

Proposition 13, passed by California voters in 1978, generally limits ad valorem property taxes to 1% of the full cash value of the property plus a maximum increase of 2% per year. The full cash value is the value of the property in 1975–1976 or “the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment.” Selling a home and buying a different home creates a new tax basis. Since 1978, voters have twice tweaked the portability of the Proposition 13 tax basis:

- Proposition 60 (1988) allowed homeowners over the age of 55 to transfer the assessed value of their present home to a replacement home if the replacement home is located in the same county, is of equal or lesser value, and purchased within 2 years of sale.
- Proposition 90 (1988) extended that transfer to out of county purchases provided that the incoming county allowed the transfer.

The proposed initiative further extends the portability of Proposition 13 property tax basis by removing the geographic restrictions in Proposition 60 and Proposition 90.

California is facing a massive housing shortage and needs at least 100,000 additional new units a year to meet demand. The CalChamber Board voted to support this measure because it could help ease the shortage by freeing up modest-priced and move-up housing for young families.

The change is important because seniors, who often are on a fixed income, fear they will not be able to afford a big property tax increase if they sell their existing home and buy another one, discouraging them from ever moving. As a result of this “moving penalty,” almost three-quarters of homeowners 55 and older haven’t moved since 2000. In addition, a recent estimate from the Legislative Analyst’s Office found that this initiative would increase home sales in the tens of thousands per year.
Issue Brief

“The People’s Initiative to Protect Proposition 13 Savings”

Background

The California Association of Realtors is the lead proponent on an initiative, eligible for the November 2018 ballot, which seeks to expand the use of base year value transfers—a property tax break afforded to homeowners who are 55 years and older or severely disabled. Under current law, those individuals are able to sell their homes, and keep the same low property tax bill if they move to a new home of equal or lesser value and within the same county (or one of the 13 counties that accept intercounty transfers). El Dorado County decided to end their intercounty program in 2018 because of revenue losses totaling over half a million dollars annually.

The “People’s Initiative to Protect Proposition 13 Savings” seeks to expand the current parameters in three important ways. (1) It allows for unlimited transfer opportunities, meaning that eligible homeowners would be able to move multiple times and still keep their low property tax bills. (2) It removes the “equal or lesser assessed value” requirement, meaning that eligible homeowners would still have a reduced tax bill if they purchase a new home of greater value. And, (3) it repeals the local approval requirement for intercounty transfers, meaning that eligible homeowners could take their existing tax bill and move to anywhere in the state, despite detrimental impacts to local service funding.

The Legislative Analyst’s Office (LAO) estimates the initiative would result in an annual loss of hundreds of millions of dollars to counties, cities, special districts, and state in the first year, growing to $1 billion or more over time.

Key Points

• **California State Association of Counties (CSAC) opposes this measure.** The multi-million dollar annual hit would severely undermine local government’s ability to provide adequate services and infrastructure to California’s residents and visitors.

• Contrary to the claims of the proponents, **this initiative will not improve housing opportunities.** It does not create one new unit of housing, nor does it lower housing prices. Instead, it will let a subgroup of people purchase more expensive homes, **doing nothing to help the people who are currently priced out of the market and cannot afford to buy even their first home.**

• This measure is **not revenue neutral** despite the proponents’ fiscal analysis. It takes a statewide view and includes one-time fees to offset a permanent lowering of the local revenue base.

• The State Legislature has already voted down previous similar and narrower proposals due to major revenue losses. The non-partisan LAO also estimates significant losses for a proposal that **helps certain people buy more expensive homes and will jeopardize services and infrastructure serving residents and businesses in local communities.**

• Homeowners who are age 55 and older, have a disability, or are victims of disaster or property contamination can already transfer their property tax bill under existing law.
Chamber Committee  
Government and Fiscal Affairs

Summary  
SB 930 (Hertzberg) allows cannabis-related businesses to open accounts and deposit income in banks that hold a limited purpose state charter created under this bill. SB 930 can help eliminate the barrier and facilitate the growth of good paying jobs with benefits across the state. Despite broad support for several congressional attempts to liberalize federal banking and banking-related laws, Congress has failed to act. As such, rural counties cannot continue to wait for revisions at the federal level.

Status  
Passed Senate and sent to the Assembly, currently referred to committee on Appropriations.

Overview  
Existing law, the Financial Institutions Law, regulated the activities of various financial entities

This bill would create the Cannabis Limited charter Banking and Credit Union Law that would create a Board to ensure that this law functions in a safe and efficient way.

The bill would provide for the licensure and regulation of cannabis limited charter banks and credit unions for the purpose of providing limited banking services, as defined, to cannabis businesses. The bill would require a person who desires to be licensed as a cannabis limited charter bank or credit union to submit an application to the department, and would require that person to elect to form under either the Banking Law or the California Credit Union Law. The bill would authorize the department to charge an applicant for a cannabis limited charter bank or credit union license a reasonable fee. The bill would require a licensee to comply with all requirements in the Financial Institutions Law, and either the Banking Law or the California Credit Union Law, as applicable, except to the extent that any requirement of those laws are inconsistent with a provision of the Cannabis Limited Charter Banking and Union Law. By expanding the application of the California Credit Union Law, a willful violation of which is a crime, the bill would impose a state-mandated local program.

Fiscal Impact  
As provided by the Senate Committee on Appropriations:

- This bill would create costs to the Department of Business Oversight for the chartering of new banks and credit unions. The overall cost is dependent on the number of new banks and credit unions created. An estimated $190,000 per year for every two new banks or credit unions would be needed for conducting field examinations on the new banks and
credit unions. These costs may potentially be offset by revenue from any application fees that DBO implements.

- Potentially minor and absorbable costs to DBO for adopting regulations and enforcement.
- Unknown, potentially significant costs to the State Treasurer’s Office, the State Controller’s Office, the Bureau of Cannabis Control, and the Department of Finance for additional workload to prepare for the annual advisory board meeting and to travel to and attend that meeting.

Supporters: California State Board of Equalization, United Cannabis Business Association, City and County of San Francisco, Cannabis Distributors Association, Rural Counties Representatives of California
Chamber Committee
Government and Fiscal Affairs

Summary
Assembly Bill 2980 (Gipson) will allow two or more cannabis businesses to reside in the same building, and to share common areas such as break rooms, hallways and bathrooms.

Status
Passed Assembly and waiting for second reading in the Senate.

Overview
MAUCRSA requires an applicant for a cannabis license to provide a detailed diagram of the proposed premises wherein the license privileges will be exercised, including showing common or shared entryways. MAUCRSA defines premises for the purposes of the act to mean the designated structure or structures and land specified in the application for the license, as provided.

This bill would define premises as the area specified in the application wherein the license privileges are, or will be, exercised, as provided. The bill would require that provisions of MAUCRSA not be construed to prohibit two or more licensed premises from sharing common use areas wherein no license privileges will be exercised so long as all licensees comply with the requirements of the act, as specified.

Fiscal Impact
According to the Assembly Appropriations Committee analysis dated May 9, 2018, this bill has negligible costs.

Supporters: United Cannabis Business Association, Assembly member Mike Gipson (D-64), Long Beach Collectives Association, California Asian Pacific Chamber of Commerce, Drug Policy Alliance

Opposition: CMG/Caliva
Chamber Committee  
Government and Fiscal Affairs

Summary  
The cannabis industry has multiple barriers to entry – limited access to banking, compliance with complex state regulations and a high tax burden. In addition to those challenges, the federal government continues to treat this state-legalized industry as criminal activity. The Internal Revenue Code Section 280E prohibits cannabis businesses from deducting ordinary business expenses from their federal taxes resulting in higher taxes compared to other industries. At the state level, the tax laws conform to the Section 280E and disallow cannabis businesses from deducting business expenses from their state taxes as well. AB 1863 will allow cannabis businesses to be taxed in the same manner as businesses in other industries, for the purpose of state taxes.

Status  
Passed Assembly, referred to Committee on Government and Finance

Overview  
When the state passed the Medicinal and Adult-Use Cannabis Regulation and Safety Act, there were many issues that still needed to be addressed. The Personal Income Tax Law and the Corporation Tax Law allow various deductions in computing the income that is subject to the taxes imposed by those laws. The Personal Income Tax Law conforms as of a specified date to federal income tax laws with respect to itemized deductions, including business deductions and items not deductible, except as specifically provided. The Corporation Tax Law does not conform to those federal income tax provisions, but specifically provides for deductions for purposes of that law. The Personal Income Tax Law, by conformity to federal income tax laws, disallows a deduction or credit for business expenses of a trade or business whose activities consist of trafficking specified controlled substances, including marijuana.

This bill, for each taxable year beginning on and after January 1, 2018, would specifically provide in the Personal Income Tax Law for nonconformity to that federal law disallowing a deduction or credit for business expenses of a trade or business whose activities consist of trafficking specified controlled substances, only for commercial cannabis activity, as defined under MAUCRSA, by a licensee under MAUCRSA, thus allowing deduction of business expenses for a cannabis trade or business under the Personal Income Tax Law, as provided.

Fiscal Impact  
According to the Assembly Appropriations Committee, significant General Fund revenue loss, likely in the tens of millions of dollars, each year.