Agenda – Executive Policy Committee – September 12, 2018

REPORTS

Item No. 1 Financial Implications to the City of Winnipeg Resulting from the Legalization of Cannabis

WINNIPEG PUBLIC SERVICE RECOMMENDATION:

1. That this report be received as information.

DECISION MAKING HISTORY:

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On July 11, 2018, the Executive Policy Committee passed the following motion:

WHEREAS on September 27, 2017 the Public Service was asked, in consultation with the Winnipeg Police Service as appropriate, to review and report back on the financial implications of Bill C-45, the federal Cannabis Act, for the City of Winnipeg;

AND WHEREAS the Public Service has not yet produced a report on the financial impact of the legalization of cannabis consumption but continues to work toward providing this information;

AND WHEREAS cannabis consumption will be legal in Canada on October 17, 2018;

AND WHEREAS it is important to continue ongoing discussions with the Province of Manitoba about equitable revenue sharing;

AND WHEREAS the cost of the impact of legalizing cannabis consumption should not be borne by City of Winnipeg residents through increased property taxes;

THEREFORE BE IT RESOLVED that the Public Service report back within 30 days with:

1. An estimate for the anticipated costs, broken down by department, that the City of Winnipeg will incur as a result of the legalization of cannabis consumption, including but not limited to regulation, training, and enforcement; and

2. Options available to the City of Winnipeg for recouping costs it will incur as a result of the legalization of cannabis consumption including but not limited to a sliding scale business licence, and/or a differential business tax, and/or occupancy permit for cannabis producers and retailers.

ADMINISTRATIVE REPORT

Title: Financial Implications of Cannabis Legalization

Critical Path: Executive Policy Committee

AUTHORIZATION

Author	Department Head	CFO	CAO
M. Jack	M. Jack	M. Ruta	D. McNeil

EXECUTIVE SUMMARY

On June 19, 2018, the Government of Canada passed the *Cannabis Act*, providing a framework to control the production, distribution, sale, and possession of cannabis across Canada (subject to provincial/territorial and municipal restrictions). The *Cannabis Act* will come into effect as of October 17, 2018. The sale of cannabis for recreational purposes remains illegal until this time.

The Federation of Canadian Municipalities estimates that municipalities will be responsible for $3 - 4.75 million (per 500,000 population) of incremental expenses. The Public Service has conducted a review of expected costs, which are roughly estimated at $1,760,000.

This report outlines the best available estimates for the additional costs expected to be incurred by the City, as well as a discussion of possible options for revenue generation in an attempt to offset these additional costs.

RECOMMENDATIONS

1. That this report be received as information.

REASON FOR THE REPORT

On September 27, 2017, Council concurred in the recommendation of the Executive Policy Committee and adopted the following:

1. That the Public Service, in consultation with the Winnipeg Police Service as appropriate, review and report back on the financial implications of Bill C-45, the proposed Cannabis Act, for the City of Winnipeg.

IMPLICATIONS OF THE RECOMMENDATIONS

There are no implications to receiving this report as information.

HISTORY/DISCUSSION

History

On April 13, 2017, the *Cannabis Act* (Bill C-45) was introduced to Parliament. This Act is intended to provide legal access to cannabis, and to regulate its production, distribution and sale. The Act is also intended to reduce the burden on the criminal justice system in relation to cannabis.

On June 19, 2018, the Government of Canada passed the *Cannabis Act*, which will come into effect October 17, 2018. The sale of cannabis for recreational purposes remains illegal until this time.

Discussion

After the introduction of Bill C-45, the Federation of Canadian Municipalities published a report, titled *Municipal Guide to Cannabis Legalization: A roadmap for Canadian local governments*, as an initial assessment of the impact the legislation may have on areas of municipal responsibility. These areas include, but are not limited to:

- land use (e.g. bylaws and zoning);
- business licensing;
- administrative enforcement (e.g. nuisance complaints related to cultivation and public consumption, enforcement of zoning by-laws, etc.);
- fire prevention (e.g. fire prevention officers, fire inspection for retail and manufacturing/production facilities);
- health and education (e.g. signage, health outcome assessments, harm reduction and prevention);
- ongoing enforcement of illegal activities;
- additional law enforcement training and equipment;
- legal costs related to legalization; and
- public engagement and communications (e.g. public consultations related to zoning).

A copy of the report is attached as Appendix A.

The FCM estimates that municipalities will be responsible for $3 million to 4.75 million (per 500,000 population) of incremental expenses. They acknowledge that these estimates are preliminary, and may change as factors such as outstanding policy decisions at the federal and provincial levels, variations among provinces, and best practices for local implementation emerge.

Based on the FCM's published materials, the Public Service conducted a high-level review of operating budget implications for the City of Winnipeg. This exercise produced results which were below those of the FCM; approximately $1.76 million of incremental expenses to the total tax-supported operating budget.

The departmental break-down of expected expenses is as follows:

Estimated Departmental Expenses & Revenue

Department	Cost	Revenue
Winnipeg Parking Authority	$ -	$ -
Animal Services	$ -	$ -
Transit	$ -	$ -
Assessment and Taxation	$ -	$ 82,000
Winnipeg Fleet Management Agency	$ 120,000	$ -
Community Services	$ 150,000	$ -
Public Works Department	$ -	$ -
Human Resources and Labour Relatic	$ 150,000	$ -
Winnipeg Police Service	$1,190,000	$ -
Property Planning and Development	$ 20,000	$ -
Water and Waste	$ -	$ -
Audit	$ -	$ -
Fire & Paramedic	$ 140,000	$ -
TOTAL	**$1,760,000**	$ -

The following departments and agencies identified potential revenues and expenses:

Assessment and Taxation
No new expenses were identified for Assessment and Taxation; however, it is estimated that up to $82,000 in new revenue may be available through the collection of differential business taxes. This is further detailed in the “Revenue Option” section, below.

Community Services
Community Services has identified costs related to increased complaints to be handled by Community By-law Enforcement (estimated at 2-4%), and the direct costs of administering licensing, which will require additional staff (FTEs).

Human Resources and Labour Relations
Human Resources identified additional training which may be required to prepare its staff for issues related to cannabis legalization. This would mean the utilization of both internal and external resources, including new temporary FTEs.

Planning Property & Development
City buildings and properties may require updated signage regarding pertinent enforceable regulations.

Winnipeg Fleet Management Agency
Fleet Management identified potential expenses related to the revision of Administrative Standards and practices, employee training and orientation, and increased insurance costs. Fleet costs would be recouped through direct billing of City departments.

Winnipeg Police Service (WPS)
The WPS identified cannabis legalization as a budgetary risk in its 2019 Operating Budget submission. Based on the FCM estimates, an estimate of $1.2 million was determined by the Public Service, and the WPS has no revisions to that amount at this time.

Winnipeg Fire Paramedic Service (WFPS)
The WFPS identified a potential increase in service requests related to medical and fire rescue responses. There is also the potential for increased inspection activity related to fire and injury prevention, though inspections are charged per-hour and therefore costs would be recovered just like any other inspection.

Revenue Options

As noted above, it appears certain that the City will be faced with incremental expenses as a result of the legalization of cannabis. As of the date of submitting this report, neither the federal nor provincial governments have agreed to, or announced, any measures intended to address these incremental municipal expenses.

Recreational cannabis sales in Manitoba will be exempt from the Provincial Sales Tax. However, a 6% social responsibility fee on total annual revenue will be collected, and Manitoba Liquor and Lotteries will levy a 9% tax on the wholesale price of cannabis purchased by retailers. As of the writing of this report, the Province has made no indication that any portion of those incremental revenues will be shared with, or apportioned to, the municipalities in which the revenue is actually generated. By contrast, in March, 2018, the Province of Ontario pledged to transfer $40 million in funding to municipalities for cannabis-related expenses.

As a result, the Public Service has examined what other possible sources of revenue may exist in order to deal with the anticipated additional expenses. At the municipal level, there are (two) main potential revenue streams: licence fees and differential business tax rates.

1. Licence Fees

The City has not yet introduced any new business licences associated with the production, distribution or retail sale of cannabis. Such a licensing regime could conceivably be created and instituted at any time, whether before or after October 17, 2018.

However, for any such licensing regime to be valid, licence fees charged to the licensee must bear some relationship to a valid regulatory scheme. In other words, in order to impose a licence fee, the City would need to regulate cannabis production, distribution or retail sale in some way, including elements like operating hours, reporting requirements, operational restrictions, etc. At present, the City has not enacted any such regulatory regime, but the City does possess the ability to implement such a regime, if it chooses to do so, as long as no elements of the regulatory regime conflict with the existing rules established at either the federal or provincial levels of government.

Under *The City of Winnipeg Charter* ("the *Charter*"), the City has fairly broad authority to regulate the carrying on of business, including:

(a)Age of admittance;
(b)Standards re: exhibiting and selling goods;
(c)Record keeping requirements;
(d)Hours of operation; and
(e)Location

2. Differential Business Tax Rate

Section 334(1) of the *Charter* grants the City broad authority to impose different business tax rates for different classes of business, and classes may be differentiated "in any way and on any basis that council considers appropriate".

Further, section 334(1)(b) of the *Charter* caps the amount of any business tax rate at 15% of the business assessment of any premises.

In addition, the City of Winnipeg currently offers the Small Business Tax Credit (SBTC) for all businesses with a business assessment (Annual Rental Value) of $33,300 or less. Should any retail cannabis locations occupy smaller retail spaces that would apply under the SBTC threshold they would pay no business taxes to the City.

If a 15% business tax was established specifically for cannabis retailers, each store with an Annual Rental Value of $35,000 would generate $5,250 in tax revenue. It is anticipated that 12-16 cannabis retail shops will be opened in the initial period following legalization, generating $63,000-$84,000 in potential tax revenue.

Financial Impact Statement

Date: September 11, 2018

Project Name:

Financial Implications of Cannabis Legalization

Comments:

1. There is no financial impact associated with receiving this report for information.

2. Legalization of cannabis could potentially result in incremental expense to the City, estimated at $1,760,000. Any projected revenue would not be material. New revenue and expenditures relating to this initiative are not included in the City's operating budget.

(Original signed by F. Dela Cruz for T. Yanchishyn)

Tanis Yanchishyn
Manager of Finance (Campus)
Corporate Finance Department

CONSULTATION

This Report has been prepared in consultation with:

Assessment & Taxation
Community Services
Infrastructure Planning Office
Legal Services (as to legal issues)
Office of the Chief Innovation Officer
Property, Planning and Development
Public Works
Winnipeg Fire Paramedic Service
Winnipeg Police Service

OURWINNIPEG POLICY ALIGNMENT

N/A

SUBMITTED BY

Department: Office of the Chief Administrative Officer
Division: N/A
Prepared by: M. Jack
Date: September 10, 2018

Attachments:

Appendix A: *Municipal Guide to Cannabis Legalization: A roadmap for Canadian local governments*