

Proposed Amendments to the Cannabis Business License Renewal Fee

ISSUE

Prior to the federal legalization of recreational cannabis, City Council resolved to amend Bylaw No. 8770, the Zoning Bylaw, as well as adopt Bylaw No. 9525, the Cannabis Business License Bylaw, 2018, to guide the establishment of cannabis-related businesses and mitigate possible adverse impacts on neighbourhoods and business districts. For the past two years, Administration tracked the time spent developing and implementing regulations related to the cannabis industry to determine the cost to the City of Saskatoon of regulating this industry and to identify an appropriate fee structure to ensure cost recovery for this business type, as permitted under *The Cities Act*.

BACKGROUND

History

City Council, at its Regular Business meeting on June 25, 2018, resolved to adopt the Cannabis Business License Bylaw (Bylaw), prior to the federal legalization of recreational cannabis on October 17, 2018. Due to the significant costs associated with preparing for the federal legalization and provincial regulation of cannabis, as well as the anticipated costs of administering, regulating, and enforcing the Bylaw, an initial license fee of \$20,000 and a renewal fee of \$10,000 was established. At this meeting, City Council resolved “that, before a renewal fee is charged to cannabis-related businesses, the Administration report further including a rationale for the proposed annual renewal costs”.

At this meeting City Council also resolved, “that the Administration review the City's business licensing to consider other industries that may warrant a unique business licensing fee due to greater or less draw on City administrative resources under a cost-recovery model.”

Current Status

At the time the Bylaw was written, the actual costs of updating regulations, administering, and enforcing the Bylaw were unknown but were anticipated to be high. Proposed fees were established to ensure cost-recovery was maintained on an ongoing basis. The Bylaw currently sets the initial license fee for a cannabis retail store or cannabis production facility at \$20,000, with an annual renewal fee of \$10,000. The first cannabis retail store was established in Saskatoon in October 2018 and their business license will be due for renewal in October 2019. Although no cannabis production facility licenses have been issued at the time of preparing this report, two applications were recently received and are currently under review.

It is noted that the fee for a change of location for a cannabis-related business was not outlined in the initial Bylaw. This is proposed to be addressed as part of the recommended Bylaw amendments outlined in this report.

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Public Engagement

Engagement with the cannabis retail industry took place from June 25 to 27, 2019. Discussion primarily centred on the licensing fee structure, including how the initial license fee was established and some proposed options for a reduced renewal fee. Illegal cannabis sales in Saskatoon were also identified as a primary concern for the participants involved. This has been the focus of enforcement, and the Administration works closely with the Saskatoon Police Service to address unlicensed cannabis-related businesses. All parties were in agreement that ongoing dialogue between the industry and the City will be beneficial as the industry continues to develop.

City of Saskatoon's Current Approach

The costs associated with licensing and regulating businesses in Saskatoon, including cannabis-related businesses, are not subsidized by the mill rate and are recovered through the generation of business license fees.

Extensive work by the Administration was expended in the past two years in developing the cannabis-related regulations and assisting the industry in establishing in Saskatoon. This included working closely with individual retail permit holders to identify appropriate locations, guiding applicants through the development permit process, working with SLGA to ensure necessary permits were obtained and communicating with the public about the regulations. Staff also received many inquiries from prospective business owners, interested stakeholders and other municipalities and agencies. In addition, significant administrative resources have been required to enforce the Bylaw and prosecute unlicensed cannabis retail store owners.

While substantial staff resources were expended in developing and implementing the cannabis regulations, the costs associated with business license renewals have not been as significant. However, the need for staffing resources to address future anticipated enforcement related to unlicensed illegal cannabis operations will continue. As a result, costs associated with regulating the industry as a whole, including enforcement, will be ongoing and unpredictable.

The table located on page three indicates the costs associated with regulating the cannabis industry to date, as well as the expected business license fees received to recover those costs. It is anticipated that a portion of the license fees collected will be transferred to the Office of the City Solicitor to recover the expenses they have incurred.

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Staffing Resources	Estimate of Initial Start-Up Costs (June 2017 - June 2018)	Estimate of First Year Costs (June 2018 – June 2019)	Total (June 2017 – June 2019)
Community Standards	(\$47,450)	(\$23,200)	(\$70,650)
Solicitors	(\$71,600)	(\$9,300)	(\$80,900)
Other costs (e.g., ads, surveys, communications,)	(\$13,000)	(\$3,200)	(\$16,200)
Total costs	(\$132,050)	(\$35,700)	(\$167,750)
Revenue to date: Business License Fees (7 businesses at \$20,000)			\$140,000
Expenses in excess of Revenue			(\$27,750)

Approaches in Other Jurisdictions

The municipal regulation of cannabis-related businesses varies widely across Canada; some municipalities do not have a business licensing program and therefore charge no fees, while others charge in excess of \$30,000 annually. In addition to a business licensing fee, some municipalities require rezoning applications and additional permits to process cannabis retail store applications.

While there does not appear to be a consistent approach for licensing cannabis-related businesses across Canada, business license fees for cannabis retail stores tend to be higher than business licenses for other business types. A comparison of approaches in different municipalities is shown in Appendix 1.

Review of Licensing Fees for Other Businesses

In response to City Council's resolution regarding licensing fees for other types of businesses that are more resource intensive, the Administration began tracking time for two types of businesses identified as consistently requiring more than the usual review time: motor vehicle sales establishments and sidewalk cafés.

Most businesses in Saskatoon pay a licensing fee of \$125 for a new license and an annual renewal fee of \$85 thereafter. In 2018, 11,686 Commercial and Home Based Businesses were licensed. Four types of businesses: pawn shops, taxi brokerages, mobile food trucks and trailers and adult service agencies currently pay a higher annual licensing fee, ranging from \$305 to \$500 per year, as there are additional administrative costs related to site inspections, data analysis and annual review requirements for these business types.

With respect to motor vehicle sale establishments and sidewalk cafés, in the past year the Administration spent 43 hours reviewing 12 motor vehicle sales establishment business license applications and 61 hours reviewing 19 sidewalk café license applications and completing inspections and enforcement activities. While application

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reviews for these types of businesses are more time consuming, the Administration has concluded that due to the small number of applications received annually and the additional costs of establishing a differing fee structure for these business types, there would be no net benefit in charging a higher licensing fee.

The need for additional staff time to review license applications is not necessarily dependent on industry type but tends to be specific to individual circumstances. Any business license application has the potential to require additional staff time due to issues with compliance, enforcement, land use, building permits, provincial approvals, incomplete applications or communication challenges. At this time, the Administration is not recommending charging a higher business license fee for any other type of business. The additional time involved in providing this level of staff support where it is needed, is considered to be a value added component of the business licensing process and can help to ensure the successful establishment of a business.

OPTIONS

This section outlines two options for a revised renewal fee for a cannabis business license. The options have been evaluated on their ability to address cost-recovery for licensing and regulating the cannabis industry, with the understanding that the anticipated costs associated with ongoing licensing of already established cannabis-related businesses will not be as significant as the costs incurred up to that point. Both options are based on the premise that the initial license fee of \$20,000 will remain unchanged.

For both options, the Administration is recommending that the change of location fee for a cannabis business license be set at \$500. This fee is consistent with pawn shop regulations, which also requires separation distances to be reviewed, whenever such a business relocates.

Option 1 – Reduce the Renewal Fee to \$85

This option proposes an annual renewal fee of \$85, which is consistent with the renewal fee for a standard business license. An \$85 renewal fee will cover the costs specific to the review of the business license application for that year.

Advantages:

- The renewal fee is consistent with the majority of other business license renewal fees.
- If new applications for cannabis-related businesses are received, the initial \$20,000 license fee may offset costs of enforcing and regulating the industry without requiring a higher renewal fee.

Disadvantages:

- Costs of ongoing regulation and enforcement of the cannabis industry may not be fully recovered and are dependent on additional cannabis-related businesses being licensed.

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Option 2 – Reduce the Renewal Fee to \$500

This option proposes a renewal fee that will recover a larger portion of the ongoing costs of regulation of the cannabis industry. A \$500 annual renewal fee will recover the ongoing cost of renewing the business license (approximately \$85), with the remaining \$415 directed towards ongoing regulation and enforcement.

Advantages:

- The renewal fee will recover the annual cost of license renewal, and a portion of the ongoing costs of regulating the industry, including enforcement of illegal cannabis businesses.

Disadvantages:

- In the event that ongoing enforcement and regulatory costs are not as great as anticipated or a large number of additional cannabis-related businesses are licensed, this higher renewal fee may not be required in the long term.

RECOMMENDATION

That the Standing Policy Committee on Planning, Development and Community Services recommend to City Council that the City Solicitor be requested to amend Bylaw No. 9525, The Cannabis Business License Bylaw, 2018, to:

- 1) Amend the Business License Renewal Fee for a cannabis retail store and a cannabis production facility to \$500, as outlined in Option 2 of this report; and
- 2) Establish a Change of Location Fee for a cannabis retail store and a cannabis production facility of \$500.

RATIONALE

Since summer of 2017, Administration has been preparing for the federal legalization and provincial regulation of cannabis. This required significant staff resources to ensure regulations were in place to accommodate the establishment of cannabis retail stores and cannabis production facilities in Saskatoon. The initial cannabis business license fee of \$20,000 was approved to ensure the costs of developing, administering, regulating and enforcing Bylaw were recovered. Following the first year of implementation, the costs associated with renewing these business licenses were not as large as initially anticipated and as a result, a significantly reduced renewal fee is proposed.

An annual license renewal fee of \$500 for a cannabis-related business will allow for costs incurred in enforcing and regulating the cannabis industry to date to be recovered. This renewal fee amount will also ensure that additional revenue is generated over time to address the unpredictability of future costs of enforcement and regulation.

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ADDITIONAL IMPLICATIONS/CONSIDERATIONS

Public Notice will be provided pursuant to Section 3(p) of Policy No. C01-021, the Public Notice Policy at least seven days in advance of the City Council meeting where the proposed Bylaw changes will be considered.

Following City Council approval, the Administration will communicate directly with the licensed cannabis-related businesses regarding the changes made to the fee structure.

APPENDICES

1. Business Licensing and Development Fees for Cannabis Retail Stores in Canada

Report Approval

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