



**BERKELEY CITY COUNCIL BUDGET & FINANCE COMMITTEE
REGULAR MEETING**

**Thursday, February 13, 2020
10:00 AM**

2180 Milvia Street, 6th Floor – Redwood Room

Committee Members:

Mayor Jesse Arreguin, Councilmembers Cheryl Davila and Lori Droste
Alternate: Councilmember Kate Harrison

AGENDA

Roll Call

Public Comment on Non-Agenda Matters

Minutes for Approval

Draft minutes for the Committee's consideration and approval.

1. Minutes - January 23, 2020

Committee Action Items

The public may comment on each item listed on the agenda for action as the item is taken up. The Chair will determine the number of persons interested in speaking on each item. Up to ten (10) speakers may speak for two minutes. If there are more than ten persons interested in speaking, the Chair may limit the public comment for all speakers to one minute per speaker. Speakers are permitted to yield their time to one other speaker, however no one speaker shall have more than four minutes.

Following review and discussion of the items listed below, the Committee may continue an item to a future committee meeting, or refer the item to the City Council.

2. Election of a Chair

Committee Action Items

3. **Cannabis Cryptocurrency Tax**
From: Councilmembers Bartlett and Robinson
Referred: November 4, 2019
Due: May 3, 2020
Recommendation: Adopt an ordinance adding a new Chapter to the Berkeley Municipal Code to allow the City to implement a method for acceptance of stablecoin tax remittance for certain industries pending City approval of each industry.
Financial Implications: See report
Contact: Ben Bartlett, Councilmember, District 3, (510) 981-7130
4. **Review of Council's Fiscal Policies**
From: City Manager
Contact: Teresa Berkeley-Simmons, Budget Manager, (510) 981-7000
5. **Utilize Substantial Portion of Cannabis Tax Proceeds to Fund Subsidies under 1000 Person Plan**
From: Homeless Commission
Referred: February 4, 2020
Due: June 23, 2020
Recommendation: Utilize Substantial Portion of Cannabis Tax Proceeds to Fund Subsidies under 1000 Person Plan
Financial Implications: See report
Contact: Brittany Carnegie, Commission Secretary, (510) 981-5400

Unscheduled Items

These items are not scheduled for discussion or action at this meeting. The Committee may schedule these items to the Action Calendar of a future Committee meeting.

- None

Items for Future Agendas

- Discussion of items to be added to future agendas

Adjournment

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*Written communications addressed to the Budget & Finance Committee and submitted to the City Clerk Department will be distributed to the Committee prior to the meeting.*

*This meeting will be conducted in accordance with the Brown Act, Government Code Section 54953. Members of the City Council who are not members of the standing committee may attend a standing committee meeting even if it results in a quorum being present, provided that the non-members only act as observers and do not participate in the meeting. If only one member of the Council who is not a member of the committee is present for the meeting, the member may participate in the meeting because less than a quorum of the full Council is present. Any member of the public may attend this meeting. Questions regarding this matter may be addressed to Mark Numainville, City Clerk, (510) 981-6900.*



**COMMUNICATION ACCESS INFORMATION:**

This meeting is being held in a wheelchair accessible location. To request a disability-related accommodation(s) to participate in the meeting, including auxiliary aids or services, please contact the Disability Services specialist at (510) 981-6418 (V) or (510) 981-6347 (TDD) at least three business days before the meeting date. Attendees at public meetings are reminded that other attendees may be sensitive to various scents, whether natural or manufactured, in products and materials. Please help the City respect these needs.

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I hereby certify that the agenda for this meeting of the Standing Committee of the Berkeley City Council was posted at the display case located near the walkway in front of the Maudelle Shirek Building, 2134 Martin Luther King Jr. Way, as well as on the City's website, on February 6, 2020.

A handwritten signature in black ink that reads "Mark Numainville".

Mark Numainville, City Clerk

Communications

Communications submitted to City Council Policy Committees are on file in the City Clerk Department at 2180 Milvia Street, 1st Floor, Berkeley, CA.

**BERKELEY CITY COUNCIL BUDGET & FINANCE COMMITTEE
REGULAR MEETING MINUTES**

**Thursday, January 23, 2020
2:00 PM**

2180 Milvia Street, 6th Floor - Redwood Room

Committee Members:

Mayor Jesse Arreguin, Councilmembers Rashi Kesarwani and Lori Droste

Roll Call: 2:04 p.m. All Present.

Public Comment on Non-Agenda Matters – 1 speaker

Meeting Schedule – The committee discussed the need for a new meeting time due schedule conflicts. They moved the meetings to 10:00 a.m. on the second and fourth Thursdays of the month.

Minutes for Approval

Draft minutes for the Committee's consideration and approval.

1. Minutes - November 22, 2019

Action: M/S/C (Arreguin/Kesarwani) to approve the minutes of November 22, 2019.

Vote: All Ayes.

Committee Action Items

The public may comment on each item listed on the agenda for action as the item is taken up. The Chair will determine the number of persons interested in speaking on each item. Up to ten (10) speakers may speak for two minutes. If there are more than ten persons interested in speaking, the Chair may limit the public comment for all speakers to one minute per speaker. Speakers are permitted to yield their time to one other speaker, however no one speaker shall have more than four minutes.

Following review and discussion of the items listed below, the Committee may continue an item to a future committee meeting, or refer the item to the City Council.

Committee Action Items

2. Review of Council's Fiscal Policies

From: City Manager

Contact: Teresa Berkeley-Simmons, Budget Manager, (510) 981-7000

Action: 1 speaker. Discussion held. The committee will continue to review and revise specific policies, pending information from staff, and added the following items to a future agenda:

1. Transfer tax revenue policy amendment for Measure P
2. Provide more flexible language in policy that new programs need to pay for themselves
3. Change CIP to longer-term (possibly 5 years)
4. Short-term rental distribution – no longer use percentages for distribution; set priorities and prioritize programs
5. Community agency funding process overview – what role can the Budget & Finance committee play in this process?
6. 115 Pension Trust funding

Item continued to next meeting on February 13, 2020.

3. Cannabis Cryptocurrency Tax

From: Councilmembers Bartlett and Robinson

Referred: November 4, 2019

Due: May 3, 2020

Recommendation: Adopt an ordinance adding a new Chapter to the Berkeley Municipal Code to allow the City to implement a method for acceptance of stablecoin tax remittance for certain industries pending City approval of each industry.

Financial Implications: See report

Contact: Ben Bartlett, Councilmember, District 3, (510) 981-7130

Action: 1 speaker. Discussion held. The committee asked for the following information from staff:

1. What are other cities/agencies doing? How did they implement similar programs? (Berkeley would be the first city to implement electronic currency acceptance. The State of Ohio accepts electronic currency – Finance will contact them)
2. How would this program be operationalized?
3. Is an Ordinance the best way to implement this type of program?
4. What is the verification/collateralization process for depositing money into a bank account?

Item continued to next meeting on February 13, 2020.

Mayor Arreguin absent at 3:37 p.m.

Unscheduled Items

These items are not scheduled for discussion or action at this meeting. The Committee may schedule these items to the Action Calendar of a future Committee meeting.

- None

Items for Future Agendas

- Discussion of items to be added to future agendas

Adjournment

Action: M/S/C (Kesarwani/Droste) to adjourn the meeting.

Vote: Ayes – Kesarwani, Droste; Noes – None; Abstain – None; Absent – Arreguin.

Adjourned at 3:47 p.m.

I hereby certify that this is a true and correct record of the Budget & Finance Committee meeting held on January 23, 2020.

April Richardson, Assistant City Clerk

Communications

Communications submitted to City Council Policy Committees are on file in the City Clerk Department at 2180 Milvia Street, 1st Floor, Berkeley, CA.



Councilmember Ben Bartlett

City of Berkeley, District 3
2180 Milvia Street, 5th Floor
Berkeley, CA 94704
PHONE 510-981-7130
EMAIL: bbartlett@cityofberkeley.info

CONSENT CALENDAR

November 19, 2019

To: Honorable Mayor and Members of the City Council
From: Councilmembers Ben Bartlett and Rigel Robinson
Subject: Cannabis Cryptocurrency Tax

RECOMMENDATION

Adopt an ordinance adding a new Chapter to the Berkeley Municipal Code to allow the City to implement a method for acceptance of stablecoin tax remittance for certain industries pending City approval of each industry.

CURRENT SITUATION

As it stands, 70% of the cannabis industry is unbanked. Thus, the majority of cannabis transactions are handled in cash, which causes several significant issues for businesses and cities both in terms of the risk of handling large cash deposits and navigating through complex financial institutions.

Dispensaries collect large sums of money from customers, and then must pay the appropriate taxes to the city and state through the use of armored car services and other methods involving staff time. State and local governments are forced to process hundreds of millions of dollars in cash annually, which is both expensive and a public safety risk. This process is inefficient and requires money to pass through many hands before it ends up at the city or state.

The fragmented nature of payment collection has led to a host of problems, including an increase in burglaries. The Berkeley Police Department indicated that there have been a host of robberies at dispensaries from 2016 - 2019. In 2019, one Berkeley cannabis dispensary was the victim of a \$93,000 heist. Furthermore, there have been around a half dozen auto burglaries of marijuana delivery vehicles.

BACKGROUND:

There have been repeated attempts and failures to create better financial services for this industry. The Cannabis Banking Feasibility Study released on December 27th, 2018 was unable to establish credible alternatives for the industry to paying taxes via armored vehicle. SB 930 in 2018, reincarnated as SB 51 in 2019 which sought to create a cannabis depository failed twice. Attempts to create public banks in Oakland, San

Francisco and Los Angeles are ongoing but have not yet come to fruition and are likely to take many years to fully implement.

This is where California should innovate. By embracing emerging technology like blockchain -- which is very effective at securely transferring value- we can eliminate the cash problems of the cannabis industry without creating capital-intensive institutions. AB 953- which the city of Berkeley has supported- would enable the state to accept stablecoins from cannabis businesses for tax remittance. Berkeley has a proud history of innovation and a local cannabis industry that needs solutions.

FISCAL IMPACTS OF RECOMMENDATION

The current cost of accepting cash include the following:

- Armored vehicle services
- Staff time
- Police time in responding to break ins

By allowing the city to implement a method for acceptance of stablecoin tax remittance for the cannabis industry, we can provide a cash-free direct method of cannabis tax collections that will reduce barriers and costs for the City and these businesses. In turn, the City can reasonably expect to increase cannabis tax revenue.

ENVIRONMENTAL SUSTAINABILITY

When concerns are raised about the energy consumption of virtual currency, they are typically in relation to Bitcoin and without the context of how much energy the current banking system requires.

The amount of energy used in the creation or transfer of virtual currency is reliant on the underlying blockchain protocol. Stablecoins are a type of virtual currency that are not native to one particular protocol. However, most major stablecoins are run on the Ethereum blockchain. Ethereum's annual energy consumption is estimated to be around 8 (TWh) compared with Bitcoin's 73 (TWh). Ethereum is in the process of shifting from a Proof of Work system- what's commonly referred to as mining- to a Proof of Stake system. This switch is estimated to reduce energy consumption by 99%. Much like solar power this is an emerging technology rapidly becoming more efficient.

RATIONALE FOR RECOMMENDATION

There is both a fiscal and public safety imperative to reduce cash use in the cannabis industry. Implementing a cash-free method of tax collection in the municipal code, the City can reduce the amount of funding allocated towards armored car services, staff time, and police time in responding to break-ins. In turn, this will cut costs from the City.

In addition, allowing the use of cryptocurrency to purchase items from cannabis industries will alleviate the epidemic of dispensary break-ins. Typically, individuals target the cannabis industry because of the amount of cash dispensaries hold in one place. As a result, cities with dispensaries face a public safety risk. The City should adopt an amendment to the Finance, Revenue, and Tax Code that allows the city to determine

and implement a method for acceptance of stablecoin tax remittance for certain industries pending city approval of each industry.

ALTERNATIVES CONSIDERED

Cannabis depository institutions, public banking, Ohio's method of accepting virtual currency, and continuing to operate in cash are all alternative options which are less optimal than the proposal.

CONTACT PERSON

Councilmember Ben Bartlett	510-981-7130
Katie Ly	510-981-7131
Jerry Wong	510-981-7131

ATTACHMENTS

1. Ordinance (7.99 Limited Authority to Accept Tax Payments via Stablecoin)

ORDINANCE NO. –N.S.

ADOPT BERKELEY MUNICIPAL CODE CHAPTER 7.99 LIMITED AUTHORITY TO
ACCEPT TAX PAYMENTS VIA STABLECOIN

BE IT ORDAINED by the Council of the City of Berkeley as follows:

Section 1. That Berkeley Municipal Code Chapter 7.99 is added to read as follows:

Chapter 7.99

Limited Authority to Accept Tax Payments via Stablecoin

The city must determine and implement a method by which businesses in categories approved by the city may remit any taxes or other amounts due to the city using stablecoins. The method approved by the city must allow the acceptance of stablecoins directly into a city-controlled digital wallet or allow the city to contract with a third-party digital asset payment processor that would allow for the immediate conversion of any payments made by stablecoins into United States dollars and deposit those funds into a city-owned bank account. The city must approve one or more specific stablecoins as suitable for inclusion in the approved payment method. The city may designate a city official to make the determinations and to grant the approvals required under this ordinance. Any stablecoins approved by the city must satisfy the following minimum standards: (1) the stablecoin is backed 1:1 with US Dollars, (2) the USD backing is verified by an independent third party auditor, and (3) the US Dollars backing the stablecoin are held in an FDIC-insured bank in the United States.

Section 2. Copies of this Ordinance shall be posted for two days prior to adoption in the display case located near the walkway in front of Council Chambers, 2134 Martin Luther King Jr. Way. Within 15 days of adoption, copies of this Ordinance shall be filed at each branch of the Berkeley Public Library and the title shall be published in a newspaper of general circulation.

Council's Fiscal Policies

The fiscal policies adopted by the Council include:

- ❖ Focusing on the long-term fiscal health of the City by adopting a two-year budget and conducting multi-year planning;
- ❖ Building a prudent reserve;
- ❖ Developing long-term strategies to reduce unfunded liabilities;
- ❖ Controlling labor costs while minimizing layoffs;
- ❖ Allocating one-time revenue for one-time expenses;
- ❖ Requiring enterprise and grant funds to balance and new programs to pay for themselves; and
- ❖ Any new expenditure requires new revenue or expenditure reductions.
- ❖ Transfer Tax in excess of \$12.5 million will be treated as one-time revenue to be used for the City's capital infrastructure needs (Fund 501).
- ❖ As the General Fund subsidy to the Safety Members Pension Fund declines over the next several years, the amount of the annual decrease will be used to help fund the new Police Employee Retiree Health Plan (Fund 731).
- ❖ Starting in FY 2019, staff costs as approved by the City Council that exceed the enforcement fees and penalties shall be appropriated from the short term rental taxes collected pursuant to BMC Section 23C.22.050, Section H, with the primary allocation of the rental tax to the purposes listed below:
 - Two thirds (66.7%) allocated to the Affordable Housing Trust Fund.
 - One third (33.3%) allocated to the Civic Arts Grant Fund.

Proposed new policy:

- ❖ Funding the 115 Pension Trust

Additional Information

At the meeting on January 23, 2020, the Committee stated it will continue to review and revise specific policies and added the following items to future agendas:

1. Transfer tax revenue policy amendment for Measure P
2. Provide more flexible language in policy that new programs need to pay for themselves
3. Change CIP to longer-term (possibly 5 years)
4. Short-term rental distribution – no longer use percentages for distribution; set priorities and prioritize programs
5. Community agency funding process overview – what role can the Budget & Finance committee play in this process?
6. 115 Pension Trust funding



ACTION CALENDAR
February 4, 2020

To: Honorable Mayor and Members of the City Council
From: Homeless Commission
Submitted by: Carole Marasovic, Chairperson, Homeless Commission
Subject: Utilize Substantial Portion of Cannabis Tax Proceeds to Fund Subsidies under 1000 Person Plan

RECOMMENDATION

That Council direct a substantial portion of the incoming cannabis tax proceeds to fund subsidies under the 1000 Person Plan.

SUMMARY

In November, 2019, the City of Berkeley will begin receiving revenue from cannabis tax proceeds.

As the numbers of homeless persons continue to grow in Berkeley and Measure P monies may not be sufficient, Council should consider allocating a substantial amount of the cannabis tax proceeds towards funding subsidies under the 1000 Person Plan.

FISCAL IMPACTS OF RECOMMENDATION

Cannabis tax monies would provide partial funding of the 1000 Person Plan subsidies.

CURRENT SITUATION AND ITS EFFECTS

The numbers of homeless persons continue to grow in Berkeley with no end in sight.

On April 30, 2019, Council heard the City of Berkeley Homeless Services Coordinator present the 1000 Person Plan proposing that over 570 subsidies be funded by the City over 5 years to house the growing homeless population.

The numbers of homeless persons, based on the Homeless Count, has increased in Alameda County by 43% from 2017 to 2019. Berkeley is waiting for the Berkeley-specific numbers to be released from the County. In the interim, it has been estimated that as many as 2,000 persons experience homelessness in Berkeley in a year.

In order to house people under the 1000 Person Plan, monies need to be allocated. The only perceived current source of possible revenue is Measure P monies which either may not be wholly granted for this purpose and/or may not be substantial enough for the 1000 Person Plan to begin fulfilling its purpose.

BACKGROUND

The Homeless Commission voted at its July 10, 2019 meeting as follows:

Action: M/S/C Mulligan/ Hirpara that the Homeless Commission recommends that a substantial amount of the proceeds from the cannabis tax be allocated towards funding subsidies under the 1000 Person Plan.

Vote: Ayes: Hill, Mulligan, Marasovic, Hirpara, Kealoha-Blake.
Noes: None. *Abstain:* None. *Absent:* Behm-Steinberg.

ENVIRONMENTAL SUSTAINABILITY

There are no identifiable environmental effects.

RATIONALE FOR RECOMMENDATION

Monies are needed to fund the over 570 subsidies recommended under the 1000 Person Plan. Measure P monies may not be sufficient and additional funding may be needed to fulfill the mission.

ALTERNATIVE ACTIONS CONSIDERED

The only alternative is to rely only on Measure P monies.

CITY MANAGER

The City Manager does not recommend that the City Council take action on this item at this point in time. This recommendation is based on the following:

- Measures O, U1, and P, which were passed in 2016 and 2018, provide significant resources to address homelessness. Measure O provides for the sale of bonds to increase the supply of affordable housing. City staff anticipates selling \$35 million in bonds towards the end of 2019 / early 2020 that will be used to fund the Berkeley Way Project and other affordable housing projects. Measures U1 and P are both general taxes that are deposited into the City's General Fund. As such, revenues from Measure U1 and P could be allocated to implement programs that address homelessness as discussed in the 1000 Person Plan. In addition to the new revenue streams that have been recently adopted by Berkeley voters, the State continues to allocate funding to address homelessness. For example, the \$4.0 million Homeless Emergency Aid Program (HEAP) allocation to Berkeley is being used to fund the STAIR Center, Dorothy Day House shelter, sanitation and trash services to encampments, and other City priorities. City staff will continue to track the various programs created by the state and will pursue opportunities as they arise.
- There are a number of commissions (i.e. Community Health, Cannabis, and Civic Arts Commission) that are preparing recommendations for City Council as to how cannabis revenues could be deployed to support education, arts and equity

programs. By not taking action at this time, City Council would be able to consider feedback from other commissions.

- The Health, Housing and Community Services Department and Planning and Development Department are working on a number of cannabis related initiatives that pertain to education and enforcement. As the programs take shape, it is likely that resources will be needed for implementation. Delaying action on this item will provide City Council with an opportunity to consider recommendations from city staff.

CONTACT PERSON

Kristen S. Lee, Housing & Community Services Manager, HHCS, (510) 981-5427.

