

**DEPARTMENT OF
CANNABIS REGULATION**

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March 31, 2021

The Honorable City Council
City of Los Angeles
City Hall, Room 395
Los Angeles, California 90012

Attention: Planning and Land Use Management Committee

SOCIAL EQUITY GRANT ACCEPTANCE, EXPENDITURE PROGRAM, AND RELATED CODE AMENDMENTS

Dear Honorable Members:

The Los Angeles Department of Cannabis Regulation (DCR) seeks authorization to: (1) accept a \$2,030,997 grant award for the 2021 Cannabis Equity Act Grant from the State of California Governor's Office of Business and Economic Development, adopt the grant resolution, execute the associated grant agreement, and submit any necessary documents to the State to finalize acceptance of the grant award; (2) adopt additional Rules and Regulations in support of Section 104.20(c)(4)(ii) and Section 104.20(c)(4)(iv) within Article 4 of Chapter X of the Los Angeles Municipal Code (LAMC) to add Regulation No. 14 to implement a financial grant program and Regulation No. 15 to implement a fee deferral and fee waiver program for Social Equity Individual Applicants; (3) expend awarded grant monies in accordance with executed grant agreements; (4) adopt a pro-forma Social Equity Grant Agreement, subject to the approval of the Office of the City Attorney for form, to disburse grant monies directly to eligible Social Equity Individual Applicants in accordance with the grant agreements; (5) amend LAMC Sec. 104.06.1(b) to eliminate "proof of deposit" as a standalone application requirement; and (6) amend LAMC 104.12(a)(3) to grant an extension of time to July 31, 2021 for commercial cannabis businesses to submit a late 2019, 2020, and/or 2021 renewal application and/or make late renewal fee payments for 2019, 2020 and/or 2021 renewal applications on or before July 31, 2021.

The recommendations in this report comply with the City's Financial Policies as the recommended actions authorize DCR to accept new grant monies, which do not require a City match, and authorize DCR to utilize Special Fund revenues and balances to pay for current operations and associated grant programs. The recommendations in this report are cost neutral and do not create a General Fund impact.

RECOMMENDATIONS:

That the City Council, subject to approval by the Mayor:

1. Adopt the Grant Resolution (Attachment 1) authorizing the Executive Director of the Department of Cannabis Regulation of the City of Los Angeles (DCR) to execute on behalf of the City of Los Angeles the Grant Agreement (Attachment 2) with the Governor's Office of Business and

Economic Development for the period of April 15, 2021 through October 31, 2022, including any extensions or amendments thereof;

2. Adopt additional Rules and Regulations (Attachment 3) in support of Article 4 of Chapter X of the Los Angeles Municipal Code to add Regulation No. 14 to implement a financial grant program, hereinafter referred to as the Social Equity Entrepreneur Development Grant Program (“SEED Grant Program”) for Social Equity Individual Applicants, and Regulation No. 15 to implement a fee deferral or fee waiver program for Social Equity Individual Applicants;
3. Authorize the Executive Director of DCR, or their designee, to:
 - a. Accept and execute a Grant Agreement (Attachment 2) in the amount of \$2,030,997 from the State of California Governor’s Office of Business and Economic Development (State) to be used in support of the Social Equity Entrepreneur Development (SEED) Grant Program (\$1,624,997), Business, Licensing & Compliance Technical Assistance (\$203,000), and administrative costs (\$203,000) to benefit the City’s commercial cannabis Social Equity Program and Social Equity applicants and licensees;
 - b. Deposit these funds into a new Account in Fund No. 60E (Department No. 13), entitled “2021 CANNABIS EQUITY ACT GRANT;”
 - c. Approve the pro-forma Social Equity Grant Agreement (Attachment 4) for use between the City and Social Equity Applicants eligible to participate in the Financial Grant Program;
 - d. Execute the attached pro-forma Social Equity Grant Agreement between the DCR and Social Equity Applicants SEIAs (Attachment 4).
 - e. Expend \$9,907,167 in accordance with Attachments 5 and 6 (Grant expenditure Table Nos. 1 and 2 respectively);
4. Request the Office of the City Attorney to prepare and present an ordinance to achieve the following amendments (Attachment 7):
 - a. Amend LAMC 104.06.1(b)(4) to eliminate “proof of deposit” as an application requirement:

During the 14-calendar-day application period, an Applicant shall submit, in a form and manner determined by DCR, an application that includes the following: (1) a copy of an executed lease agreement or property deed for its Business Premises; (2) an ownership and financial interest holder form; (3) a financial information form; (4) a Business Premises diagram; (5) proposed staffing and security plans; (6) a dated radius map including horizontal lines and labeling of any sensitive uses relative to a Type 10 License; (7) a labor peace agreement attestation form; (8) an indemnification agreement provided by DCR; and (9) all business records and agreements necessary to demonstrate that a Tier 1 or Tier 2 Social Equity Applicant owns the minimum Equity Share in the Applicant required under LAMC Section 104.20;
 - b. Amend LAMC 104.06.1(b)(7) to authorize DCR to review Applications that were deemed ineligible for further processing due to failures such as the failure to submit proof of deposit and deem those Applications eligible for further processing under LAMC 104.06.1(b)(7) if all other requirements are met:

DCR shall, subject to review of any applications previously deemed ineligible as described below, process Applications up to and including DCR Record No. LA-C-19-310245-R-APP

from the list published by DCR titled "Phase 3 Retail Round 1 Submissions (09/03/19, 10 am to 09/17/2019 10 am)", dated September 26, 2019. Notwithstanding any prior notice and/or action by DCR, Applicants that were deemed ineligible for further processing due to a Community Plan Area having reached Undue Concentration on or after September 3, 2019 or the failure to submit proof of deposit may be deemed eligible for further processing if all other requirements are met. Applications deemed eligible for further processing under Section 104.06.1(b)(6) as of January 1, 2020 and Applications deemed eligible for further processing under Section 104.06.1(b)(7) after January 1, 2021 shall not be included in the calculation of Undue Concentration, as defined in Section 104.01(a)(48).

- c. Amend LAMC 104.12(a)(3) to read:

One-Time Extension Due to COVID-19. Due to the COVID-19 pandemic and the Mayor's emergency orders relating to COVID-19,, Licensees may submit a late 2019, 2020, and/or 2021 renewal application and/or make late renewal fee payments for 2019, 2020 and/or 2021 renewal applications on or before July 31, 2021. All renewal applications and/or renewal fees submitted pursuant to this one-time extension shall be subject to the Expedited Services Fees (Double Time Rate), provided in Section 104.19(h), which shall be due at the time of renewal fee payment. Expired licenses may be reinstated if all applicable renewal fees and/or Expedited Services Fees are timely paid.

- 5. Authorize the DCR and City Attorney to make any corrections or clarifications to the above instructions in order to effectuate the intent of City Council.

ATTACHMENTS

1. Cannabis Equity Grants Program for Local Jurisdictions Grant Resolution
2. Cannabis Equity Grants Program for Local Jurisdictions Grant Agreement
3. Department of Cannabis Regulation Rules and Regulations
4. Pro-Forma Grant Agreement between the City and the Social Equity Applicant
5. Department of Cannabis Regulation Grant Expenditure Plan by Grant Award
6. Department of Cannabis Regulation Grant Expenditure Plan by Program
7. Draft Los Angeles Municipal Code Section 104 Language (Red-Lined)

BACKGROUND

The mission of the Social Equity Program (SEP) is “to promote equitable ownership and employment opportunities in the cannabis industry in order to decrease disparities in life outcomes for marginalized communities, and to address the disproportionate impacts of the War on Drugs in those communities.” The City of Los Angeles seeks to address the impacts of past cannabis policies and their inequities by developing and implementing cannabis policies that center equity in cannabis policy reform. The SEP is one tool the City of Los Angeles is using to begin to acknowledge and repair the harm caused by the War on Drugs and the disparate enforcement of cannabis prohibition. By offering priority application processing, Business, Licensing and Compliance Assistance and access to programs such as a Fee Deferral Program and a Financial Grant Program the SEP seeks to reduce barriers to entering the legal cannabis market for individuals who are low-income, have resided in Disproportionately Impacted Areas or who have past cannabis arrests or convictions.

Although the SEP was unfunded at the time it became effective, subsequent resources have been made available through the City's General Fund and through grants from the State of California to support the various programs established within the Los Angeles Department of Cannabis Regulation's (DCR) SEP. However, in order to administer certain programs within the SEP, the City Council must first approve the City's acceptance of new grant resources (Attachments 1 and 2), adopt

related Rules and Regulations pursuant to LAMC Sec. 104.20(c)(4)(ii) and 104.20(c)(4)(iv) (Attachment 3), establish a mechanism for DCR to disburse grant funds directly to verified Social Equity Applicants (Attachment 4), and approve DCR's expenditure of existing and new grant resources (Attachments 5 and 6).

2021 Cannabis Equity Grant Resolution

The California Cannabis Equity Act of 2018 established by Senate Bill 1294 (Equity Act) and the Budget Act of 2019, Item 1111-490 – Reappropriation (Budget Act of 2019) appropriated funding for the state to provide to local jurisdictions to develop and operate local cannabis equity programs that focus on the inclusion and support of individuals in California's legal cannabis marketplace who are from communities negatively or disproportionately impacted by cannabis criminalization.

Earlier this year, the City of Los Angeles was awarded \$2,030,997 from the Governor's Office of Business and Economic Development - pursuant to California Assembly Bill 97. In order to accept these funds, the City Council must first adopt a resolution (Attachment 1) authorizing DCR's Executive Director to execute by electronic signature on behalf of the City of Los Angeles the grant agreement with the Governor's Office of Business and Economic Development, including any extensions or amendments thereof and any subsequent grant agreement with the Governor's Office of Business and Economic Development.

Social Equity Program Grant Expenditure Plan

In order to effectively and efficiently administer certain programs established under LAMC 104.20 DCR has developed and intends to expend grant allocated program resources according to its SEP Grant Expenditure Plan (Attachments 5 and 6).

Inclusive of the additional \$2,030,997 grant award referenced in this report, the State has awarded DCR a total of \$9,907,167 to support the SEP, as follows:

- \$7,624,997 for the Social Equity Entrepreneur Development Grant Program ("SEED Grant Program");
- \$1,042,754 for Social Equity Individual Applicant Eligibility Verification Application Fee Waivers (SE Verification Waivers Program);
- \$203,000 for contractual services to provide Direct Technical Assistance to Social Equity Individual Applicants and/or Social Equity Applicants;
- \$375,000 for contractual services associated with the Elevate Impact LA contract supporting the administration of the SEED Grant Program; and,
- \$661,416 for direct and indirect costs associated with DCR personnel (Principal Project Coordinator, Senior Project Coordinator, and support personnel). This funding covers salaries and related cost reimbursements across multiple fiscal years.

Financial Grant Program (SEED Grant Program)

DCR is working to establish the SEED Grant Program, which will distribute up to \$7,624,997 in grants to local Social Equity Applicants and Social Equity Licensees. To date, DCR has identified and contracted with Elevate Impact LA to administer the SEED Grant Program. DCR is currently finalizing plans to launch this program, which include working with the Office of Finance and other relevant parties to determine how the funds will be disbursed to grantees. DCR anticipates launching this program in April 2021. DCR will utilize the pro forma contract (Attachment 4), subject to revisions by the Office of the City Attorney, to ensure grant funds are distributed to eligible Social Equity Individual Applicants or Licensees. Up to \$5 million in grant funds may be disbursed to Social Equity Individual Applicants with Storefront Retail Applications deemed eligible for further processing under LAMC Section 104.06.1(b) in a \$25,000 lump sum payment. Up to \$1 million in grant funds may be disbursed to Social Equity Individual Applicants with a non-retail storefront Application deemed eligible for further processing on a first come, first

served basis. Any remaining funds not awarded before the end of the applicable grant term may be disbursed on a pro rata basis to persons in accordance with the DCR's Rules and Regulations (Regulation No. 14).

Additionally, \$1,624,997 from the 2021 Cannabis Equity Act Grant will support the SEED Grant Program. DCR will prepare and present an expenditure plan to identify the Social Equity Individual Applicants eligible to apply for those grant monies after the funds have been received from the State.

Social Equity Individual Applicants (SEIA) Eligibility Verification Fee Waivers

DCR may expend, up to, \$1,042,754 in grant monies to grant SEIA Eligibility Verification (Section 104.06.1) fee waivers in the amount of \$597 to, up to, 1,747 applicants applying to be verified as Social Equity Individual Applicants. Fee waivers will be granted on a first come, first served basis to Social Equity Individual Applicants who submit a completed eligibility verification application. This program is funded by the 2019 California Bureau of Cannabis Control grant (\$650,740) and the 2020 Governor's Office of Business and Economic Development (GO-Biz) Cannabis Equity Grant for Local Jurisdictions (\$392,014).

Social Equity Program Rules and Regulations

Currently, LAMC Section 104.20(c) requires that certain programs established under the City's SEP, namely the Financial Grant Program and the Fee Deferral Program, be administered according to requirements and restrictions established in the Rules and Regulations. Subject to Council's approval of draft Regulations 14 and 15 (Attachment 3), DCR may apply LAMC Section 104.16 to promulgate technical changes and/or amendments as necessary to implement LAMC Section 104 *et seq.*, a grant resolution, or other actions adopted by the City Council regarding the Financial Grant Program and Fee Deferral Program.

Proposed Amendments to LAMC 104.00 et seq.

DCR proposes amendments to LAMC Sections 104.06.1 and 104.12, represented as Attachment 6, to: (1) extend the 2019, 2020, and 2021 renewal period to July 31, 2021; (2) eliminate "proof of deposit" as a standalone application requirement; and (3) allow DCR to re-review Applications previously deemed ineligible for further processing due to the failure to submit "proof of deposit."

A further extension of time for Applicants and Licensees to pay 2020-2021 renewal fees, and a new extension for 2019 renewal fees, will support existing retail businesses and permit their continued operation. As of March 30, 2021, two businesses have not submitted a 2021 Renewal Record through the DCR Licensing Portal, 39 businesses have not paid their late renewal fees, and 14 businesses have not submitted a 2021 Renewal Record or paid their late renewal fees. In total, 55 of the commercial cannabis businesses eligible to submit late renewal applications have not submitted their 2021 renewal applications. During DCR's identification of records eligible to submit late renewal applications, DCR identified three businesses that did not pay and/or submit their 2019 renewal applications. These three businesses were not allowed to submit late applications pursuant to Ordinance No. 186919 because the adopted language does not expressly allow a business to submit a late 2019 renewal application. The failure to timely submit a renewal application and/or pay applicable fees may permanently prevent these businesses from lawfully operating after the renewal period. The public health and economic crisis from the COVID-19 pandemic has made it more difficult for commercial cannabis businesses to timely pay fees and maintain good standing with DCR. The closure of these essential businesses, especially during the COVID-19 pandemic, may have a negative impact on the public health and welfare by reducing access to safe and tested cannabis products from licensed locations, and may drive consumers instead to unlicensed locations. An extension would also further the City's interest in avoiding the expenditure of unnecessary cost, time,

and City resources to license and inspect new retail businesses when and if any existing licensed businesses must close.

The removal of the independent “proof of deposit” requirement in LAMC 104.06.1(b)(4) would align DCR’s licensing requirements with contract law. Generally, a fully executed lease that includes a designation of the parties, description of the premises, rent amount, time and manner of payment, and the term of the lease is a binding contract on the parties to the lease. DCR may presume any requirement contained therein is carried out pursuant to the terms of the lease. DCR seeks an amendment to LAMC 104.06.1(b)(7) to allow for a second review of Applications previously deemed ineligible for further processing due to the “proof of deposit” requirement, and to allow those Applications to be deemed eligible for further processing if all other requirements are met.

If you have any questions or concerns, please contact Dr. Imani Brown at (213) 978-0738.

Sincerely,

A handwritten signature in cursive script that reads "Cat Packer".

CAT PACKER
Executive Director