

City of Los Angeles

CALIFORNIA



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DEPARTMENT OF CANNABIS REGULATION

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April 20, 2022

Honorable Members of the City Council
Budget and Finance Committee
c/o Office of the City Clerk
City Hall, Room 395
Los Angeles, California 90012

Attention: Andrew Suh, Legislative Assistant

FY 2022-23 PROPOSED BUDGET - DEPARTMENT OF CANNABIS REGULATION

Dear Honorable Members:

Thank you for the opportunity to respond to the Mayor's proposed budget for Fiscal Year (FY) 2022-23. The Department's proposed budget maintains current service levels and continues 21 interim resolution authorities authorized during FY 2021-22. The Department appreciates the Mayor's support and the \$3 million appropriation in the Unappropriated Balance (UB) to develop additional Business, Licensing, and Compliance (BLC) Assistance programming for Social Equity Applicants.

The Department kindly appreciates the Budget and Finance Committee's consideration of two requests not included in the Mayor's proposed budget, which include a \$7 million General Fund appropriation to establish a much needed financial assistance program to support Social Equity Applicants as they move through our licensing process, and a \$10 million General Fund appropriation to expand funding for the City's enforcement efforts against unlicensed commercial cannabis activity. The Department proposes to offset the cost of these General Fund appropriations by increasing anticipated General Fund commercial cannabis tax revenue.

Since its establishment in 2017, the Department has become a national leader in the development and implementation of local cannabis policy and programming designed to provide safe access to cannabis through local licensing and regulation of commercial cannabis activity. The Department administers the largest licensed municipal Social Equity Program in the country. Currently, one-third of the City's licensed locations are Social Equity Applicants.

Social Equity Program

Through the DCR's Social Equity Program, the City seeks 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. By definition, Social Equity Applicants must have a qualifying individual owner that meets two of the following criteria: 1) residence in an area disproportionately impacted by the War on Drugs, 2) low income and 3) a cannabis arrest or conviction. Moreover, due to federal prohibition, cannabis businesses lack access to the federal, state and local financial resources and services that are available to entrepreneurs in virtually every other industry within the City.

When surveyed on the greatest barriers to entering the licensed cannabis market, equity entrepreneurs consistently ranked access to capital, assistance with commercial leasing, and access to legal services as the top three impediments. The Department seeks to prioritize the implementation of resources to remove these financial barriers for Social Equity Applicants in their efforts to start businesses, and facilitate their ability to receive local licenses and operate in compliance with the City's laws and regulations.

As such, DCR requests \$7 million (General Fund) to support the development of a financial assistance program to respond directly to the number one need of Social Equity Applicants: access to capital. DCR will expend these funds to remove financial barriers for approximately 400 Social Equity Applicants by providing a combination of loans and fee deferrals. This approach will help ease the financial burden Social Equity Individual Applicants face when entering the commercial cannabis market and help insulate them from business arrangements that may be predatory or one-sided in favor of an investor.. Furthermore, by establishing a \$7 million financial assistance program that provides loans and fee deferrals rather than grants and fee waivers, the City creates a revolving fund that would continue to make economic returns to the City and future participants in the Social Equity Program.

Unlicensed Cannabis Business Enforcement Strategy

Currently, unlicensed commercial cannabis activity is addressed through the enforcement of both administrative and criminal codes by several agencies. Additionally, the Mayor's Office of Public Safety has led a Cannabis Enforcement Task Force composed of representatives from the City Attorney's Office, Los Angeles Police Department (LAPD), Los Angeles Fire Department (LAFD), Department of Building and Safety (DBS), and the Department of Water and Power (DWP) in an effort to improve coordination of the City's unlicensed cannabis enforcement efforts.

In order to institutionalize the City's efforts to implement a well-coordinated enforcement strategy to address the City's unlicensed cannabis industry, DCR recommends increasing the cannabis enforcement line item in the UB to \$10 million (General Fund) to address unlicensed cannabis business enforcement strategies not funded or underfunded in the proposed budget. This new funding will allow LAPD, DWP, DBS and the City Attorney's Office to implement new enforcement strategies or expand existing strategies associated with unlicensed cannabis businesses, including costs incurred by other agencies which contribute to enforcement functions.

Licensing and Regulation

The City has collected more than \$320 million in commercial cannabis related fees and taxes since 2018. The Department regulates over 1,400 licensed commercial cannabis activities associated with 692 licensed business locations. Thirty-six percent (a total of 106) of the City's existing retail licenses, including 53 retail storefront and 53 delivery, have been issued to Social Equity Applicants.

Conclusion

On behalf of the entire Department, I appreciate your consideration of our proposed budget. Through this budget request, we strive to continue to provide safe access to cannabis through local licensing of commercial cannabis activity and promote equitable ownership and employment opportunities in the cannabis industry through the City's Social Equity Program. This proposed budget will ensure that the Department is able to keep pace as the City's cannabis related responsibilities and priorities expand and maintain the City's status as a national leader in municipal cannabis management.

For any questions regarding the department's budget, please email Jason Killeen at jason.killeen@lacity.org.

Sincerely,

A handwritten signature in black ink, appearing to read "Michelle Garakian", with a horizontal line extending to the right.

MICHELLE GARAKIAN
Acting Executive Director