



LOS ANGELES COUNTY

CONSUMER & BUSINESS AFFAIRS

Board of Supervisors

December 20, 2021

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First District

Holly J. Mitchell
Second District

Sheila Kuehl
Third District

Janice Hahn
Fourth District

Kathryn Barger
Fifth District

To: Supervisor Holly J. Mitchell, Chair
Supervisor Hilda L. Solis
Supervisor Sheila Kuehl
Supervisor Janice Hahn
Supervisor Kathryn Barger

From: Rafael Carbajal
Director

Director

Rafael Carbajal

Chief of Staff
Joel Ayala

UPDATED FRAMEWORK AND RECOMMENDATIONS FOR REGULATING COMMERCIAL CANNABIS IN UNINCORPORATED LOS ANGELES COUNTY (ITEM NO. 2, AGENDA OF JULY 13, 2021)

On July 13, 2021, your Board instructed the Director of Department of Consumer and Business Affairs (DCBA) and its Office of Cannabis Management (OCM), in consultation with relevant departments, to revisit the 2017 report titled "Recommendations Report: Los Angeles County Advisory working Group on Cannabis Regulations" and report back with updated recommendations for cannabis retail, manufacture, distribution, growth, testing, regulation, and enforcement in Los Angeles County (County). The updated recommendations were to be rooted in an equity framework and consider environmental impacts to biological, ecological and water resources.

Since this motion was passed, OCM reconstituted its staff which included onboarding a new policy analyst and Program Chief. In addition, OCM convened County departments and partners, and met with various jurisdictions across the County, industry stakeholders, and subject matter experts. The attached report is the result of extensive research and policy analysis, which also takes into account the significant commitments the County has made since 2017 to promote anti-racist and equitable practices.

RECOMMENDATIONS

Our recommendations seek to create an equitable program by addressing both the administrative infrastructure barriers that create inequitable outcomes, and the gap in educational, technical, and financial resources caused by systemic racism and exacerbated by the War on Drugs.



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Thus, we highlight the need for a centralized and simplified licensing program that removes administrative barriers, and a strong and supportive compliance infrastructure through a streamlined Cannabis Licensing and Equity Approval Review (CLEAR) Process. CLEAR includes a Cannabis Business Concierge to provide technical assistance, system navigation, compliance support, and a review process based on a comprehensive look at its equity and community impact.

Our recommendations for a robust Equity Program provide real investments into education, job training, technical assistance, and capital for qualified candidates. This would be coupled with a Cannabis Working Group of subject matter experts and County Departments to track equity data, impacts of these regulations, and promote data-driven decision making.

In addition, we recommend launching the commercial cannabis program with a relatively low number of initial licenses with priority for Equity and Equity-building applicants with up to 25 retail, 25 delivery, 10 cultivation, 10 manufacturing, 10 distribution, and 10 testing licenses. This would allow the County to lead the program with equity, monitor and assess community impacts and efficacy of regulations, and build appropriate infrastructure to support expansion in the following years.

To prevent overconcentration of these businesses in low-income neighborhoods and a de facto ban throughout most of the County, we also recommend aligning zoning and buffering limits with State law and the County's alcohol outlet zoning ordinances. This would allow retail in C-2, C-3, and manufacturing zones, and create a buffer of 600 feet for all sensitive uses. As research indicates, a well-regulated and compliant cannabis business can mitigate crime rates in its vicinity; therefore, we recommend these zoning ordinances be combined with strict security requirements, a strong compliance infrastructure, and a robust equity and/or community reinvestment plan.

Currently, unregulated cannabis businesses continue to proliferate and operate illegally within the unincorporated County. Despite widespread commercialization, cannabis is not a benign drug, and these unregulated businesses can and have created real harm to our communities. Through our recommendations, we hope to build a strong infrastructure upon which to create a healthy, sustainable, and responsible market that can disrupt the perpetuation of public health and safety disparities. This work will be challenging and requires a critical rethinking of the County's administrative infrastructure, systems of care, the cannabis industry as a whole, and the County's role therein. OCM is committed to participating in this process with the Board and our partners to create a healthier alternative.

NEXT STEPS

Should your Board decide to remove the ban on prohibition and allow a commercial cannabis market, DCBA is prepared to work with all affected Departments and

appropriate partners to provide an implementation and budget plan. Immediate next steps include onboarding a tax consultant to update projected revenue and help develop a tax structure; convening stakeholder and collaborative partners; development of appropriate ordinances and expanding OCM's capacity to implement this work.

Considering the complexity of the work and multiple moving parts, quarterly reports will be provided to your Board, with interim updates, as appropriate and necessary. This report will be consolidated with the biannual report regarding Cannabis Legalization (Items No. 3 and 9, Agenda of February 7, 2017) and the Implementation of the Unlicensed Cannabis Business Closure Plan (Item No. 20, Agenda of May 21, 2019), in order to update your Board on these overlapping issues in one comprehensive report.

Should you have any questions concerning this matter, please contact me or Hyunhye Seo, Chief of Office of Cannabis Management, at (213) 550-3971 or hseo@dcba.lacounty.gov.

RC:JA
HS:ev

Attachment

c:

Executive Office, Board of Supervisors
Chief Executive Office
County Counsel
Sheriff
District Attorney
Agricultural Commissioner/ Weights & Measures
Fire
Public Health
Public Works
Regional Planning
Treasurer and Tax Collector
Workforce Development Aging and Community Services

INTRODUCTION

On July 13, 2021, your Board directed the Department of Consumer and Business Affairs (DCBA) and its Office of Cannabis Management (OCM) to revisit the 2017 report titled [*“Recommendations Report: Los Angeles County Advisory Working Group on Cannabis Regulations”*](#)¹ (“2017 Report”) and report back with updated recommendations that are rooted in an equity framework.

Following your Board’s directives, OCM convened meetings and worked with the Departments of Agricultural Commissioner/Weights & Measures (Ag), District Attorney (DA), Public Health (DPH), Treasurer & Tax Collector (TTC), Regional Planning (Planning), Fire, Sheriff, Public Works (DPW), and the Chief Executive Office (CEO) to discuss topics including equity, cultivation, enforcement, public safety, licensing, planning, and taxation. To gather best practices from other jurisdictions, OCM conducted extensive discussions with other jurisdictions licensing commercial cannabis including the State of California Department of Cannabis Control, City of Los Angeles, Long Beach, Sacramento, San Jose, Oakland, and Massachusetts. Furthermore, OCM also met with various industry stakeholders and subject matter experts, including the United Cannabis Business Association, Asian Americans for Cannabis, University of California Los Angeles Cannabis Research Initiative, and the Long Beach Collective Association.

In addition to the 2017 Report, we also referenced the following recommendations that were previously presented to your Board, including:

- June 19, 2018 OCM report, [*“Report and Analysis on Options to Implement a Policy Framework for Regulating Commercial Medical and Adult-Use Cannabis in Unincorporated Areas”*](#)² (“2018 Recommendations”) which presented a policy framework and incorporated both Advisory Working Group Recommendations and community feedback from multiple public listening sessions.
- July 2019 Department of Public Health report, [*“Health Equity Implications of Retail Cannabis Regulations in Los Angeles County: Health Impact Assessment,”*](#)³ (“Health Impact Assessment”) which included policy recommendations that would promote public health and health equity.

These previous recommendations, rooted in public safety and health equity, remain salient and appropriate. Nonetheless, since 2018, the Los Angeles County (County) has further strengthened its commitment to pursuing Countywide policies that are rooted in anti-racism and address the complex intersectional issues of equity. Additionally, we have

¹<https://dcba.lacounty.gov/wp-content/uploads/2019/06/2017-10-24-FINAL-AWG-Recommendations-Report-2.pdf>

² https://file.lacounty.gov/SDSInter/bos/bc/1039228_2017-06-19CannabisReceiveandFileReportSIGNEDforBOS.pdf

³ http://publichealth.lacounty.gov/chie/reports/Cannabis_HIA_Final_7_15.pdf

gleaned lessons learned from many other jurisdictions that have implemented Social Equity programs over the last few years.

As a result, this report builds upon these previous reports and best practices to recommend significant infrastructure and program development that would create not simply an Equity Program, but an equitable program.

REGULATORY FRAMEWORK

Should the Board allow and regulate all or some types of medical and adult-use commercial cannabis activities, it may put into place an equitable framework that would provide a strong licensing and compliance infrastructure, priority licensing of Equity and Equity-building businesses (See Framework Component No. 2), and opportunities to create wealth for those that have been disproportionately impacted by the overcriminalization and over-commercialization of cannabis.

- **Framework Component No. 1:** Prepare appropriate ordinance amendments in the County Code to license and regulate commercial medical and adult-use cannabis businesses, including cannabis stores, delivery services, indoor and mixed-light cultivation, manufacturing, distribution, and testing laboratories in unincorporated areas; outdoor commercial cultivation will remain prohibited.

Ordinance amendments may include, but not be limited to, Title 8 - Consumer Protection, Business and Wage Regulations of the County Code for commercial cannabis facility public health permitting, and Title 7 - Business Licenses of the County Code to add a cannabis operator business license. This is consistent with 2017 recommendations, with the additional allowance of fully enclosed and secure structure cultivation that allows the use of mixed light, which would permit the use of natural light to offset high energy consumption typically associated with artificial lights. Microbusinesses and small-scale permits are also allowed.

Commercial Cannabis Facility Types		
Activity	Permit Types	Description
Cultivation	Cultivation–Indoor/Mixed Light	Authorizes the cultivation of cannabis in a fully enclosed facility that uses artificial, natural, or mixed light.
Manufacturing	Manufacturer–General	Authorizes extractions using volatile or nonvolatile solvents and mechanical means, infusion operations, and the packaging and labeling of cannabis products.

	Manufacturer –Processor	Authorizes the packaging, repackaging, labeling, and relabeling of cannabis products only.
Distribution	Distributor–General	Authorizes the transportation of cannabis and cannabis products between permitted cannabis businesses, storage of cannabis and cannabis products, packaging and labeling of cannabis, and quality control practices, including arranging for the sampling and testing of cannabis and cannabis products by an authorized cannabis testing laboratory.
	Distributor–Transporter	Authorizes the transportation of cannabis products between permitted cannabis businesses, except that Distribution-Transporter permittees may not transport cannabis products to retailers other than immature plants and seeds from a cannabis nursery licensed by the State.
Retail	Retail–Store	Authorizes the sale of cannabis and cannabis products to consumers at a retail store.
	Retail–Delivery	Authorizes the delivery of cannabis and cannabis products to consumers only. Permittees must maintain a physical location from which all deliveries will originate, which may be in conjunction with a retail store or may be operated independently as a delivery-only retailer.
Laboratory Testing	Laboratory	Authorizes the testing of cannabis and cannabis products for quality and potency, as well as the sampling of cannabis and cannabis products at a distributor’s premises and the transportation of the samples to the testing facility.

- **Framework Component No. 2:** Prepare ordinance amendments in the County Code to permit up to 25 cannabis store permits, 25 cannabis delivery permits, 10 cultivation permits, 10 manufacturing permits, 10 distribution permits, and 10 testing laboratory permits in the first two years of program launch, with priority given to Equity and Equity-building applicants (e.g. incubators, cooperatives, non-profit mutual benefit corporations, and businesses that incorporate robust community reinvestment models, employee stock option plans and/or other equity promoting practices)

The number of permits is low in comparison to the number of current illegal businesses in unincorporated County and licensed cannabis businesses currently operating in neighboring jurisdictions. For further comparison, the [2019 Health Impact Assessment](#) recommended a limit of no more than one retail outlet per 10,000-15,000 residents, or 66-100 in unincorporated County. However, per your Board's directive in November 2017 and consistent with the [2018 Recommendations](#), a strategic phased-in approach would allow the County to monitor and assess community impacts and efficacy of regulations. Additionally, it would give the County time to build its licensing infrastructure and implement its Equity Program to support a better equipped pool of applicants.

The first set of permits would be reserved exclusively for Equity and Equity-building applicants. **Equity-building applicants** are applicants that may not qualify as an Equity Applicant but have robust equity-promoting practices that can lay the groundwork for an equitable cannabis market.

- **Framework Component No. 3:** Prepare an ordinance amending Title 22 – Planning and Zoning of the County Code to allow cannabis retailers, delivery, and testing laboratories in C-2 and C-3 commercial and manufacturing zones, and allow all other cannabis businesses in manufacturing zones only; and require cannabis retailers to be located not less than 600 feet from schools (K-12), day cares, public parks, and public libraries; and requires all other commercial cannabis business activity to be located not less than 600 feet from schools, day cares, public parks, and public libraries.

The zoning and buffering recommendations from 2018 limited businesses to industrial and industrial-adjacent areas, which tend to be lower income neighborhoods in the First and Second Supervisorial Districts, and in the Antelope Valley in the Fifth Supervisorial District. While this was designed to address community concerns about cannabis retail outlets, it creates a de facto ban in most parts of the County and a concentration of businesses in very limited areas of the County, particularly if the Board chooses to expand the number of permits beyond Year 2.

To address these issues, OCM recommends updating these zoning and buffering limits to align with State law and the County's alcohol outlet zoning ordinances. This would allow cannabis businesses in C-2 and C-3 zones and create buffers of 600 feet for all listed sensitive uses. These recommendations should be combined with strict security requirements for all licensed businesses, a strong compliance infrastructure, and a robust equity/community plan that would benefit the local community as various research⁴ have

⁴ Chang T, Jacobson M. Going to Pot? The Impact of Dispensary Closures on Crime. J Urban Econ. 2017 Jul;100:120-136.; William J. Zakrzewski Jr., Andrew P. Wheeler & Andrew J. Thompson (2020) Cannabis in the capital: exploring the spatial association between medical marijuana dispensaries and crime, Journal of Crime and Justice;

shown that a well-regulated and compliant cannabis business can mitigate and even improve crime rates in its neighborhood.

- **Framework Component No. 4:** Direct relevant County departments, including DCBA, DPH, TTC, Fire, Planning, Ag, Sheriff and DPW to create an efficient and streamlined licensing and permitting process (“Cannabis Licensing and Equity Approval Review (CLEAR) Process”) and a “Cannabis Business Concierge” that minimizes administrative barriers and response time, works in alignment with State and other licensing agencies, and creates a supportive compliance infrastructure that fosters healthy and responsible market in Los Angeles County.

A burdensome and prolonged licensing process is a widespread challenge that is particularly detrimental to Equity Applicants and small business owners and favors businesses with large financial and economic capital. Framework Component No. 4 includes the creation of a streamlined interdepartmental administrative review process that would certify that an applicant has met all minimum requirements, including public health permits and business license application requirements. To help navigate through the multiple requirement processes, a Cannabis Business Concierge may be appointed to applicants. Additionally, CLEAR Process may include a quasi-judicial panel with the delegated authority necessary to approve cannabis business applications that meet basic licensing requirements, taking into account various Equity-building and environmental impact considerations.

The CLEAR Process will be guided by predetermined standards and a grading system that rates the applicant’s impact on its neighborhood as well as its equity-building impact, such as local or equitable hiring, workforce training, mentoring, equity ownership, community reinvestment plans, and more. The CLEAR Process does not replace the existing authority and responsibility of the Business License Commission, the Public Health Officer, or any other departmental responsibilities in approving and ensuring code compliance. OCM will work closely with all impacted departments to ensure the County can build on existing processes and resources to create a process that can produce licensing decisions within a reasonable period, coordinate with State and other licensing agencies, and reduce redundancies.

OCM and the Cannabis Working Group (See Framework Component No. 6), will continuously monitor and provide feedback to ensure that this process is not unduly burdensome, delayed, or otherwise obstructive for the establishment of a legal and responsible market. Accordingly, the CLEAR Process and governance should be designed with vested authority to respond to this feedback and be adjusted according to best practices after initial implementation.

Additionally, due to the highly regulated nature of cannabis business activities, a robust compliance infrastructure is necessary to incorporate licensing decisions, conditions,

notices and appeals to facilitate and promote compliance. This includes the ability to respond quickly to complaints, investigate, and enforce code violations. This system should also be able to quickly adapt to changing State law and federal guidelines, respond to community and stakeholder feedback, and make expedited referrals to technical assistance, enforcement, or other resources as appropriate.

- **Framework Component No. 5:** Develop a robust Cannabis Equity Program that provides training, education, pro bono legal assistance, technical assistance, referrals and other potential pathways to jobs, ownerships, and ancillary economic opportunities within and outside of the cannabis industry as appropriate; convene a public workshop and elicit stakeholder feedback; work with local nonprofits, philanthropy, colleges and universities, and other public and private partners to leverage and expand equitable commercial cannabis business opportunities.

Since the widespread legalization and commercialization of cannabis, many jurisdictions have implemented “Social Equity Programs” that offer priority licensing opportunities for those that have been disproportionately impacted by the War on Drugs. Analyses of these programs have consistently shown that an expansive range of technical, legal, and financial assistance programs are also necessary to help these applicants succeed in one of the most highly regulated and variable industries. While OCM will work closely with all relevant departments and jurisdictions (including Workforce Development, Aging and Community Services (WDACS), ATI, etc.) and partners (nonprofits, philanthropy, bar associations, trade and industry organizations) to leverage existing opportunities, significant investment into a robust Equity Program is necessary to promote an equitable, diverse, and inclusive cannabis marketplace that builds pathways to jobs, entrepreneurship, and wealth in these communities.

- **Framework Component No. 6:** Create a Cannabis Working Group of appropriate County Departments (including, but not limited to, DPH, Planning, ARDI, Public Defender, District Attorney, OCM), subject matter experts, and other relevant stakeholders, with the authority to collect and track appropriate data, and issue periodic public reports evaluating the effectiveness of the County’s Cannabis Licensing and Equity Program, the impacts of cannabis legalization on health equity and County neighborhoods, disparities in the civil and criminal enforcement of cannabis laws, environmental and sustainability impact of cannabis businesses; and make recommendations on the permitting and licensing of commercial cannabis activities for Year 2 and beyond.

The Cannabis Working Group will consist of subject matter experts to monitor, advise, and publicly report on the health, economic, social, and environmental equity impacts of the County’s programs and policies. This includes partnerships with universities, philanthropic partners, researchers, and other external subject matter experts. Data collection infrastructure and authority should be funded and built-in as early as possible.

The Cannabis Working Group may make recommendations on the phased-in expansion of cannabis licenses beyond Year 2 by incorporating this analysis.

BUILDING AN EQUITABLE PROGRAM

For equity participants to succeed in the legal cannabis market, both the individual and the industry must be allowed to succeed. Strong and adaptive regulatory infrastructure with low barriers, robust education and assistance programs, and other supportive resources are necessary. Furthermore, the creation of a prosperous market must be balanced against public health and safety considerations to mitigate further health and social disparities which can be exacerbated by the over-commercialization of cannabis. An equitable program promotes entrance into and sustainability of a healthy and responsible cannabis industry.

High barriers and costs of entry into the cannabis market perpetuate disparities within the industry. Although accurate ownership data is difficult to measure, a 2021 report by Leafly, “Seeds of Change”⁵ notes that only two percent of cannabis companies are owned or co-owned by Black Americans.

A cannabis licensing program that is rooted in an equity framework should offer education, training, and access to networks that increase pathways to majority participation, ownership, and opportunities to build generational wealth.

Eligibility Requirements and Equity Assessment

Equity programs around the country often use one or a combination of the following criteria as a minimum eligibility requirement: residency in an area of disproportionate impact for a predetermined number of years, low-income status, a prior cannabis conviction, or a prior cannabis conviction of an immediate family member. The County also has opportunities to build upon the work of ARDI, DPH Healthy Places Index, and other programs to align with the ongoing work of the County.

To inform the creation of an Equity Program and identify which individuals and communities have been most adversely impacted by cannabis prohibition, many local governments have conducted an “Equity Assessment.” Per the State of California Cannabis Equity Grant Program, an Equity Assessment may include:

- Reference to local historical rates of arrests or convictions for cannabis law violations;
- Identification of the impacts that cannabis-related policies have had historically on communities and populations within that local jurisdiction; and

⁵ <https://leafly-cms-production.imgix.net/wp-content/uploads/2021/06/25091621/Leafly-2021-white-paper-Seeds-Of-Change-by-Janessa-Bailey-1.pdf>

- Other information that demonstrates how individuals and communities within the local jurisdiction have been disproportionately or negatively impacted by the War on Drugs.

Should your Board choose to implement, OCM will work with your Board and relevant stakeholders to determine the scope of the Equity Assessment and identify optimal eligibility criteria for the Program.

Key Components

Below is a summary of key components the County may incorporate into an effective Equity Program to reduce the most persistent barriers for Equity Applicants:

1. Priority Licensing

Considering the relatively low number of licenses at the onset of the program, it is recommended that these licenses are reserved exclusively for Equity and Equity-building Applicants.

Equity-building Applicants are applicants who may or may not qualify individually as Equity Applicants but can provide substantial resources and commitment to support equity. These may include incubation programs that provide space, training and/or funding for a significant number of Equity Applicants, cooperatives or companies with Employee Stock Ownership Plans, nonprofits, and other entities that have a robust community-first reinvestment plan.

Because many Equity Applicants may lack immediate access to resources to apply in Year 1, providing licenses to Equity-building applicants will allow the County to start developing the infrastructure to educate and build the next rounds of competitive applicants.

2. Business Development and Technical and Legal Assistance

Jurisdictions which have implemented cannabis social equity programs have regularly encountered a gap between their eligible priority population and its access to the education, training or experience necessary to operate a successful business. Accordingly, the County should provide these applicants access to business development education to enhance their chances of success. These resources can provide Equity Applicants a foundational knowledge of business principles such as strategic planning, developing a business plan, financial management, marketing, and labor issues that can be utilized beyond the cannabis industry.

In addition, the cannabis industry is highly regulated by constantly evolving State and local laws. As a result, effectively navigating the permitting and licensing process and remaining in compliance requires specialized knowledge and experience most applicants are unlikely to possess. This also puts them at risk of predatory practices. Accordingly, many jurisdictions provide pro bono technical and legal assistance, including contract review, business plan development, and financial planning.

The County may expand many of its existing small business development and consumer protection/fraud prevention services to these Applicants. Additionally, OCM can partner with local community colleges, bar associations, and other nonprofit partners to expand available resources.

3. Job Training and Workforce Development

The economic opportunities expand beyond business ownership. There is no official data for the number of people working in the cannabis industry; however, one industry source⁶ estimates that this industry supports 321,000 full-time jobs in the US, and this number is expected to increase to as much as 575,000 by 2024.⁷ These jobs include a wide range of expertise and skills, including cultivation technicians, trimmers/packers, delivery drivers and logistic coordinators, digital marketing and e-commerce, lab technicians, and directors of Human Resources. These figures also do not include ancillary opportunities associated with the growing cannabis industry, such as contractors and technicians.

Nonetheless, disparities persist within these employment opportunities as well. For example, in a Massachusetts survey, only 13.7 percent of cannabis employees who responded was identified as African American or Hispanic/Latino.⁸ This compares to the State's general population which is 21.4 percent Black/African American and Hispanic/Latino.⁹ Furthermore, despite the prevalence of Social Equity programs in many jurisdictions, a recent survey of cannabis workers showed that only about 7.5 percent of respondents self-reported as a Social Equity job candidate.¹⁰

The County can seek to increase workforce diversity and employment opportunities in communities disproportionately impacted by cannabis prohibition by funding and targeting recruitment efforts and job training programs in these areas. Cannabis vocational programs, such as educational and scholarship opportunities for those interested in cannabis business, law, agriculture, or research can help these applicants build valuable job skills. Such programs, in combinations with licensing requirements that

⁶ <https://leafly-cms-production.imgix.net/wp-content/uploads/2021/06/25091621/Leafly-2021-white-paper-Seeds-Of-Change-by-Janessa-Bailey-1.pdf>

⁷ <https://mjbizdaily.com/chart-us-cannabis-employment-could-climb-nearly-50-in-2020-surpassing-computer-programmers/>

⁸ <https://opendata.mass-cannabis-control.com/stories/s/Agent-and-Owner-Registration/49ku-9nf3>

⁹ <https://www.census.gov/quickfacts/MA>

¹⁰ Vangst Cannabis Industry Salary Guide, 2020

incentivize internships, mentorships, and equitable hiring, could help right-size the disparities within the industry.

Should your Board decide to move forward, it is recommended that OCM work closely with WDACS and other appropriate Departments, community colleges and other partners to create a robust job training and workforce development programs.

4. Financial Assistance/Access to Capital

According to the Long Beach Collective Association¹¹ cannabis business start-up costs run between approximately \$690,000 to \$2.1 million with a Manufacture Type 6¹² start-up being the least expensive and cultivation the most expensive. Generally, limited access to capital is the greatest barrier to market entry for disadvantaged businesses in any industry; this is especially true in the cannabis industry where banks are reluctant to lend money because of the drug's Schedule I status with the federal government.

Financial assistance for Equity Applicants may include reduced permitting and licensing fees, low-or no interest loans, and grants. (As other jurisdictions have seen considerable challenges collecting loan repayments, grants are preferable.) Funding for these programs is often a combination of special tax revenues, State grants, and allocations from the general budget; potential philanthropic and public/private partnerships can also be explored.

Additionally, OCM will continue to track legislation and industry actions related to banking for cannabis businesses and provide recommendations as appropriate. A growing number of banks and credit unions currently offer banking services for cannabis industries with legal safeguards provided by the State,¹³ and potential federal action could further broaden the availability of banking services for the cannabis industry.¹⁴

5. Incubation Opportunities

Incubators provide an array of services such as workspace, mentorship, education, and access to investor capital to support startups through the critical growth stages of an enterprise. Incubators allow entrepreneurs to develop their idea and business model while operating at a lower cost.

Some local governments have implemented incubator programs as an additional tool to help reduce barriers for fledgling Equity Applicants. The city of Oakland's incubator

¹¹ <https://thelbca.com/long-beach-equity-information-and-resources/>

¹² A license type for non-volatile solvent manufacturing or mechanical extraction

¹³ California Business and Professions Code section 26260 affirms that banks that serve cannabis businesses have not committed a crime under California law

¹⁴ SAFE Banking Act of 2021 (H.R. 1996) would prohibit federal banking regulators from restricting financial institutions from providing banking services to legitimate cannabis businesses. Currently passed in House.

program requires incubators to provide Equity Applicants a minimum of 1,000 square feet of rent-free space to conduct its business operations for three years. San Francisco requires incubators to offer Equity Applicants either rent free space or technical assistance for a minimum of three years. Oakland cited the incubation program as their most effective tool for supporting Equity Applicants because it eliminates one of the most prohibitive barriers: acquiring commercial or industrial space.

County may provide a range of incentives for these programs, and/or take an active role in providing space and opportunities for incubation.

Should your Board move forward to develop a robust Equity program, OCM will convene stakeholders for program development and explore how County may leverage its existing small business development and job training programs, apply for State and other grant funding, and partner with philanthropic and educational partners.

TAXATION

Proposition 64 imposes new State taxes on cannabis. The measure also allows local governments to establish their own taxes on cannabis consistent with existing State law. Explicit authority is granted to counties to levy a tax on cultivating, manufacturing, producing, processing, preparing, selling, or distributing cannabis, pursuant to existing voter-approval requirements. Under these voter approval requirements, general taxes, which are taxes imposed for general governmental purposes, must be submitted to the electorate, and approved by a majority vote. A special tax, which is any tax imposed for specific purposes, must also be submitted to the electorate, and approved by a two-thirds vote. The governing body of the local government must propose by resolution or ordinance proposing a tax, which must include the type of tax and rate of tax to be levied, the method of collection, the date upon which an election shall be held, and, if a special tax, the purpose or service for which its imposition is sought.

In the [2018 Recommendations](#) an analysis conducted by the Marijuana Policy Group estimated cannabis tax revenues of approximately \$18.3M in 2019 (first year of legalization) increasing up to \$33.9M by 2023 or year four of legalization. However, these projections make several assumptions: a countywide tax on cannabis sales up to 0.5 percent and 10 percent in the unincorporated areas; a quick rollout of 40 retail licenses that captures about 62 percent of the market in the unincorporated areas; and follow the sales growth trends of the legal cannabis markets in Colorado and Washington.

These projections need reconsideration for several reasons: the difficulty of instituting substantial additional taxes on an already highly-taxed industry; the complexities of implementing a Countywide tax; limited number of initial licenses; and a thriving illicit and competitive legal market in neighboring jurisdictions.

Therefore, OCM recommends that a tax consultant is brought onboard within 60 days to conduct a new study to derive updated revenue projections and develop a Countywide cannabis tax scheme.

Revenue Allocation

The [2018 Recommendations](#) proposed a tax revenue allocation that would require a special tax and two-thirds majority vote for approval:

- 50% to science-based youth and young adult access prevention, intervention, and treatment
- 15% to an “Equity Fund” to support Equity Applicants
- 10% to Los Angeles based community colleges and nonprofit vocational schools for job training, workforce development, and workforce programs
- 5% to programs in communities where licensed and unlicensed cannabis businesses are located

While these recommendations may be maintained once a certain revenue threshold is reached, studies of other jurisdictions show the critical need to reinvest revenue to expand a strong administrative and compliance infrastructure and cannabis licensing program within the first five years. Furthermore, the recommendations contained in this report require greater Equity and needs-based investment into resources for applicants, small businesses, and communities, particularly for those disadvantaged by cannabis-related outcomes. OCM recommends that this revenue allocation is reconsidered in a stakeholder process that accounts for the programming and service needs identified in this report and updated equity priorities.

UNLICENSED BUSINESSES ENFORCEMENT

Since the 2016 establishment of the Medical Marijuana Dispensary Enforcement Team (MMDDET) and the multi-departmental collaborations of the Cannabis Crime Abatement Team (C-CAT) Nuisance Abatement Team (NAT), recently renamed as the Cannabis Consumer Health & Safety Taskforce (CCHST), continuous effort has been put towards combating the illicit cannabis market, particularly illegal grows and nuisance retailers that create significant safety and quality-of-life harm to communities. Nonetheless, a “whack-a-mole” cycle of noncompliance continues, and the number of reported retailers has only increased since the 2017 Report (75 to 152 today).

Strategies since have included public education, outreach, increased enforcement, legislative advocacy, and pilot programs to address repeat offenders. However, these have had a limited impact. County departments, including County Counsel and Sheriff, have limited resources dedicated to illicit cannabis enforcement; the public and political appetite for criminal enforcement strategies has increasingly waned; and perhaps most

importantly, the amount of profit that illicit businesses make far outweigh the potential risks.

While the County's establishment of legal cannabis businesses will not immediately eradicate unlicensed businesses, it will allow the County to access additional State funding for enforcement, expand strategies to shift consumer demand to the licensed market and its safer products, and develop a consistent compliance and enforcement strategy more aligned with the public demand to end the criminalization of cannabis and related activities. Additionally, the County is pursuing several civil and administrative enforcement strategies, such as an expanded nuisance abatement ordinance, to expand its enforcement options.

Furthermore, if your Board chooses to implement a robust Equity Program, OCM will work with the District Attorney, Public Defender, Alternatives to Incarceration, Office of Diversion and Reentry and other stakeholders to find diversion and reentry opportunities to certain low-level, non-repeat offenders (such as budtenders, delivery drivers, etc.), and promote entry into the legal workforce and market.

Both public safety and the sustainability of a legal market necessitates enhanced enforcement against unlicensed businesses. More consistent and targeted resources are needed to effectively address this issue. OCM will continue to work closely with relevant stakeholders to develop holistic strategies and opportunities that align with the priorities of your Board.

PUBLIC HEALTH, EDUCATION AND OUTREACH

The public safety and wellbeing of our community remains a focal point in establishing an equitable transition to the legal market. Despite widespread legalization and utilization, cannabis is not a benign drug and the science lags greatly behind its use. Additional outreach programs will be needed to educate the public about responsible medical and recreational use, the difference between licensed and unlicensed cannabis businesses, and other cannabis related questions. Other public health measures will also include components such as clear graphic warnings for packaging and labeling, age verification by a third-party independent entity to prevent youth access, and the prohibition of billboard advertising that make false public health claims. Additionally, expansion of prevention, treatment, and recovery options for substance use disorders, including cannabis use disorders, are necessary to mitigate potential harms from commercialization of cannabis activities.

OCM and DPH will also expand its efforts to work with incorporated cities and support policies Countywide that promote cannabis retailer compatibility with existing neighborhoods, safer products, health equity, and responsible adult use. This would include further expansion of the Emblem Program, wherein incorporated cities can

contract with the County to inspect cannabis retailers and provide signage indicating passing inspection.¹⁵

OCM will work closely with appropriate County departments, research institutions and other partners to promote public education and outreach, and develop data tools such as cannabis density reports for measuring cannabis metrics, continuous improvement, and effective implementation of retailer programs.

CANNABIS CULTIVATION AND ENVIRONMENTAL IMPACT

A key piece in considering cannabis cultivation is its impact on the environment. Large-scale illegal cultivation in the Antelope Valley and other rural areas have created significant environmental harm. Even legal cultivation can involve substantial amounts of energy, water, and waste.

Nonetheless, there are many legal and established cultivators that incorporate responsible practices to reduce the harmful impact on the environment and the community. Best practices for environmental sustainability in the cannabis field also continue to be developed by well-established researchers and institutions like the University of California, Berkeley. Additionally, many jurisdictions across the State that have allowed wide-scale cultivation have started to advocate for regulating cannabis plants like other agricultural products, which would facilitate administrative and regulatory ease in controlling waste management, pesticide use, and other agricultural standards.

While OCM continues to monitor these developments, we recommend that up to 10 cultivation licenses are issued for only those businesses that can show significant experience and knowledge in sustainable and responsible cultivation. Ongoing monitoring of cannabis cultivation's environmental impact and an assessment of need will inform future expansion.

BUDGET AND FUNDING

These goals will require extensive cross-collaboration with various County departments, and partnership with local and regional nonprofits and institutions, private industry partners, and community stakeholders. Should your Board decide to lift the ban on commercial cannabis, OCM will work to leverage existing County programs and resources, and access available grants and philanthropic funding; however, creating an equitable program would require significant investment of resources. Some immediate funding needs include the following:

¹⁵ Currently LA County contracts with the cities of Lancaster, Culver City, and El Monte. Contracts are pending with cities of Malibu, Baldwin Park, and Los Angeles.

- Additional staffing in the DCBA Office of Cannabis Management to develop Equity Programming, implement regulatory framework, conduct public meetings, respond to public requests, coordinate CLEAR Process and Cannabis Concierge, accept and review applications, and enforce the cannabis regulatory framework.
- Upgraded case processing and tracking software for the Treasurer and Tax Collector.
- Dedicated staff for cannabis programs at County Counsel and other impacted departments, including compliance and enforcement units.
- Funding and staffing for Equity Program components, such as job training, technical assistance, and grant administration.

If your Board decides to allow and regulate commercial cannabis, OCM will work with CEO and all affected departments and stakeholders to provide your Board with detailed budgetary impacts.

NEXT STEPS

Upon Board direction, OCM is prepared to move forward immediately with necessary next steps, including, but not limited to:

Short term (30-180 days):

- Work with CEO to onboard tax consultant and return with tax scheme recommendations incorporating consultant study and community feedback.
- Work with CEO to identify immediate staffing and funding plan for OCM to implement next steps.
- Convene partners to conduct Equity Assessment, determine eligibility criteria.
- Work with partners to develop robust Equity Program, including implementation and budget plan.

Mid term (6 months—1 year)

- Work with County Counsel, CEO, and other departments to return to your Board with appropriate amendment language, budget and plan to implement Regulatory Framework Components.
- Convene regular stakeholder meetings and launch ongoing community engagement to ensure public education and outreach.
- Solidify Year 1 licensing infrastructure, including interdepartmental Cannabis Concierge and CLEAR Process, licensing requirements and standards.
- Launch Equity Programming upon Board approval of budget and implementation plan.
- Implement appropriate steps to institute recommended and Board-approved taxation structure.

Long term (Year 1 and beyond)

- Launch Year 1 Cannabis application program.
- Continue stakeholder and community engagement.
- Expand Emblem program.
- Launch Cannabis Working Group, and track and monitor data to inform next-step expansion of cannabis licensing and programming.
- Continued monitoring and expansion of Equity Program.

Considering the complexity of the work and multiple moving parts, OCM will provide quarterly reports back to your Board, with interim updates as appropriate and necessary. This report will be consolidated with the biannual report regarding Cannabis Legalization (Items No. 3 and 9, Agenda of February 7, 2017) and the Implementation of the Unlicensed Cannabis Business Closure Plan (Item No. 20, Agenda of May 21, 2019), to update your Board on these overlapping issues in one comprehensive report.