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Chief Executive Officer

Board of Supervisors
HILDA L. SOLIS
First District

HOLLY J. MITCHELL
Second District

SHEILA KUEHL
Third District

JANICE HAHN
Fourth District

KATHRYN BARGER
Fifth District

March 16, 2022

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

From: Fesia A. Davenport
Chief Executive Officer

REPORT BACK ON IMPLEMENTING AN EQUITABLE COMMERCIAL CANNABIS REGULATORY FRAMEWORK (ITEM NO 6, AGENDA OF FEBRUARY 15, 2022)

On February 15, 2022, the Board of Supervisors (Board) adopted a motion directing the Chief Executive Officer (CEO), in consultation with the Department of Consumer and Business Affairs (DCBA) to report back in 30 days on necessary bridge funding to support the immediate staffing and fiscal needs for implementing an equitable commercial cannabis regulatory framework (framework) within the County.

The County currently prohibits commercial cannabis activities, including sale, manufacturing, testing, and cultivation. There are over 150 unlicensed cannabis "pop-ups" operating within the unincorporated County areas without testing, oversight, or other regulations. As a result, the Board approved the implementation of the framework, as outlined in DCBA's December 20, 2021 report,[1] proposing an equitable cannabis program, among other things, to ensure compliance with health and safety standards set by the State and industry.

Presently, DCBA has 2.0 budgeted positions dedicated to the Office of Cannabis Management (OCM) and has identified the immediate need of $2.0 million for an additional 6.0 positions and services and supplies to develop the framework. The additional staff will help lead the programmatic, administrative, and regulatory development of the framework and its implementation as specified below.

The leadership positions will provide overall strategic planning, program design and development, and oversee the implementation of a new licensing process and the equity program. These efforts will require significant engagement and coordination with State and local municipal partners, multiple County departments, and community stakeholders to create a new system infrastructure. They will also lead the identification and coordination of equity programming resources, including job training, legal assistance, access to capital (potential

[1] http://file.lacounty.gov/SDSInter/bos/supdocs/166359.pdf

new loan/grant program), and incubation programs, while tracking and monitoring policy, programmatic, and financial impact.

The remaining positions will provide administrative and technical support that includes community outreach and stakeholder engagement and building out of critical information technology (IT) and data collection infrastructure needed to support the program. Front end building of data and IT infrastructure will be necessary to ensure appropriate technical capacity building. Licensing will require a new online application portal that includes capabilities to ensure minimum qualifications are met, accept and process applications, collect fees, process referrals to the concierge, and communicate with applicants. A new website will be built to host equity programming resources that are offered to applicants, including online learning modules and referrals to other programs. Additionally, this public-facing website will allow OCM to share public communications, data, and information regarding commercial cannabis. It will show a list of licensed businesses, compliance tracking, policy impacts, and other appropriate public information.

Funding is also needed for a tax consultant to outline the sales tax requirements and implications, as well as conduct a financial analysis from the implementation of the proposed framework and develop a voter tax measure for the November 2022 ballot. In addition, support from the Department of Regional Planning is required for their expertise with zoning map updates and potential land use regulation zoning enforcement operations.

As indicated above, the initial framework development and start-up cost is estimated at $2.0 million. The CEO is currently reviewing the levels and corresponding responsibilities associated with the 6.0 positions identified by DCBA. Upon completion of this review and the development of a phased-in staffing plan, the CEO will return with a recommendation to provide one-time funding for positions and services and supplies in the second Fiscal Year (FY) 2021-22 mid-year budget adjustment. In addition, CEO will provide hiring authority necessary to allow DCBA to expedite the hiring process. As further directed by the motion, CEO will include funding recommendations as part of the FY 2022-23 Supplemental Changes Budget phase. Approval of the voter tax measure for commercial cannabis production and sales is essential to provide adequate funding for enforcement activities whose costs are not recoverable through permitting and licensing fees. DCBA will include the hiring status and progress of the tax consultant in their quarterly reports to your Board.

Should you have any questions concerning this matter, please contact me or Sheila Williams at (213) 974-1155 or swilliams@ceo.lacounty.gov.

FAD:JMN:MM
SW:AB:BM:ae

c: Executive Office, Board of Supervisors
County Counsel
Consumer and Business Affairs

LOS ANGELES COUNTY
CONSUMER & BUSINESS AFFAIRS

Board of Supervisors

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First District

Holly J. Mitchell
Second District

Sheila Kuehl
Third District

Janice Hahn
Fourth District

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Fifth District

Director
Rafael Carbajal

Chief of Staff
Joel Ayala

May 16, 2022

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

From: Rafael Carbajal
Director

IMPLEMENTING AN EQUITABLE COMMERCIAL CANNABIS REGULATORY FRAMEWORK (ITEM NO. 6 AGENDA OF FEBRUARY 15, 2022)

On February 15, 2022, your Board directed the Department of Consumer and Business Affairs (DCBA) and its Office of Cannabis Management (OCM), in consultation with relevant departments, to proceed with the implementation of an equitable commercial cannabis regulatory framework as provided in the Updated Framework and Recommendations for Regulating Commercial Cannabis in Unincorporated Los Angeles County report in December 2021.[1] Per this motion, this report provides the first quarterly update on the framework development and implementation, and consolidates other cannabis reports 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)[2] to provide a comprehensive update on various cannabis related efforts by relevant County departments.

Equity

To create a cannabis program rooted in equity, OCM is committed to designing both an efficient permitting process and an "equity program" that promotes opportunities for residents who were disproportionately impacted by the War on Drugs, or "equity applicants." While the number of initial cannabis business permits are limited, the County can create opportunities that reach beyond this

[1] http://file.lacounty.gov/SDSInter/bos/supdocs/166359.pdf
[2] http://file.lacounty.gov/SDSInter/bos/supdocs/111534.pdf

number by providing a range of services and resources that help support equity ownership, workforce development, and training. Such resources should be made available before the launch of the application process to ensure that equity applicants are well positioned to pursue permit opportunities.

Accordingly, OCM is working closely with partners on the following activities to promote equity:

- **Equity Assessment:** OCM applied for and received a $75,000 state grant to produce an Equity Assessment, which includes an analysis of local data to establish program eligibility, identify gaps and opportunities, and make appropriate policy recommendations. Building on the work of the Anti-Racism, Diversity and Inclusion (ARDI) Initiative and the Internal Service Department, the assessment will leverage the Equity Explorer Mapping Tool. Work is underway to add layers to the tool based on relevant data sets that help assess the impact of cannabis criminalization on highly impacted populations or geographic communities. With the addition of these data layers, OCM will be better able to visualize and identify existing inequities across the County to inform the planning and pursuit of resources and ultimately drive investments. Furthermore, OCM will connect with equity partners and researchers to draw cannabis-industry specific data and recommendations. OCM will bring onboard research consultants later this month for co-authorship and anticipates the Equity Assessment to be completed this summer.

- **Exploration of Incubation and Acceleration Opportunities:** In addition to lack of access to capital, some of the biggest barriers for small business owners are a lack of available commercial space (including manufacturing, distribution, and retail), access to the supply chain, hands-on mentoring, and learning opportunities. Equity applicants are also the targets of predatory operators who take advantage of their status to obtain priority permits. Accordingly, there is an increasing demand for collaborative accelerator programs and shared spaces in which equity applicants can safely develop and launch their businesses. Such models exist outside of the cannabis industry, and OCM continues to explore how they may be expanded to serve our equity applicants and small businesses in need.

Permit Process and Development

OCM convened regular workgroup meetings with permitting departments to begin the design and development of the County's cannabis permit approval process. Due to the County's unique position in providing municipal services to various contract cities, the Departments of Public Health (Public Health), Public Works (PW), Fire, and Agricultural Commissioner / Weights & Measures already have established procedures and approval processes for reviewing cannabis business plans, inspecting commercial facilities, and

issuing their respective permits. Leveraging these existing infrastructures, OCM has started to map out a preliminary approval process. Subsequent phases will focus on simplifying and optimizing the requirements by identifying overlaps with State requirements, establishing internal communications standards, refining interdepartmental workflow, and identifying strategies to reduce processing delays.

Below, we describe some broad challenges and opportunities identified during this process:

- **State Alignment:** The dual licensing structure for commercial cannabis which requires both a local and state approval can cause administrative delays and redundancy. Accordingly, OCM is working with the State's Department of Cannabis Control (DCC) in these early phases of development to identify streamlining opportunities, reduce barriers, and improve interagency processes overall. We will continue to explore opportunities to facilitate application processing, data sharing, and other technological and processing solutions.

- **Cannabis Business Approval Process:** Developing an efficient cannabis business approval process is one of the more complex aspects of the program implementation due to the number of requirements a business must meet as well as the number of departments potentially involved. OCM will review cannabis applications and coordinate a business approval program with the Department of Regional Planning (DRP), Public Health, PW, and Fire for their respective permits to operate a cannabis business. Typically, the Treasurer and Tax Collector functions as the coordinating department for most business operations regulated by the County through the Business License Program. Additionally, the Business License Commission may grant, deny, modify, suspend, or revoke certain business licenses. However, given the highly regulated and specialized nature of cannabis, OCM continues to work with County partners to compare approval models that will balance responsible cannabis business operations with a reduction of administrative burdens. While new systems and processes will be necessary, OCM will continue to identify existing County infrastructures that may be leveraged to reduce costs and redundancy.

- **Land Use Approval:** OCM has been working with DRP to explore entitlement options, including a ministerial land use approval process that incorporates compliance with development standards that protect the environment and the community while reducing burdensome administrative processes. When appropriate, these cannabis business development standards will be shared with stakeholders for feedback.

- **California Environmental Quality Act (CEQA):** The need for and timing of CEQA compliance will depend on whether the County implements a ministerial land use approval process for cannabis permits or elects to make its cannabis permit

process subject to discretionary approvals. CEQA applies when the government engages in discretionary decision-making on projects subject to CEQA that have the potential for significant environmental impacts. CEQA does not apply when government decisions are ministerial (without discretion). Nevertheless, the decision itself to implement a ministerial process over a discretionary process is subject to CEQA. To implement a ministerial process, the County will have to comply with CEQA on the front end, when it amends the County Code to incorporate the ministerial process, but each issuance of a permit would be exempt from CEQA as a ministerial project. Conversely, if the County elects to implement a discretionary permit approval process, it could possibly defer a more detailed CEQA analysis until the permit issuance stage and could conduct a more limited CEQA review prior to adopting ordinance amendments incorporating the discretionary approval process. OCM will continue to explore these options and work with partner agencies to find the most balanced and efficient solution forward.

Tax Study

In April, OCM finalized an agreement with a cannabis tax consultant to conduct an economic impact analysis of the legal cannabis market in the unincorporated areas of Los Angeles County to provide a report and draft ordinances by the end of May. The report will analyze benchmarks for tax rates that reflect emerging norms around the State, provide a schedule of revenue projections based on different tax rates, and identify potential fiscal impacts. Within the next couple of months, OCM will work with the Chief Executive Office (CEO), County Counsel, and other appropriate partners to return to the Board with findings and recommendations for a potential commercial cannabis tax ordinance and a ballot resolution. The deadline to adopt a ballot measure for the November 2022 general election without a special meeting is August 9, 2022.

Public Education & Outreach

OCM will continue to work with Public Health and other partners to expand public education efforts and outreach to County of Los Angeles residents and visitors.

- **Emblem Program:** In 2020, the Emblem Program for Authorized Retail Cannabis Stores was implemented. This program included a universal emblem and public outreach campaign in conjunction with Public Health's Cannabis Compliance and Enforcement Program inspections. Public Health currently conducts environmental health and sanitation inspections of commercial cannabis facilities in the following contracted cities: Baldwin Park, Culver City, El Monte, Lancaster, and Malibu.

  On April 19, 2022, your Board approved Public Health to execute an agreement with the City of Los Angeles for Public Health inspection services of licensed commercial cannabis facilities located within the City of Los Angeles. When the contract with the City is finalized, Public Health will provide annual inspections to

more than 900 licensed commercial cannabis facilities located within the City of Los Angeles.[3] Of these 900 commercial cannabis facilities, about 400 retail businesses will be required to post the emblem and provide education to customers. OCM will work closely with partners to expand public campaigns and education around this expansion.

- **The Works App:** OCM is working with PW to add an option for the public to report unlicensed cannabis businesses in the unincorporated areas via "The Works" App.[4] This app is already in use by the public to report community needed repairs such as potholes, illegal dumping, and graffiti. The expansion of the app will help bring added awareness to community services throughout the County and facilitate the reporting of unlicensed cannabis businesses in their communities including exact GPS coordinates and other useful information.

OCM will continue to engage with the Los Angeles County community members, non-profit community-based programs, and local governmental entities in response to cannabis related public inquiries. Any inquiries may be forwarded to cannabis@lacounty.gov.

Enhanced Direct Enforcement

While recognizing the "whack-a-mole" problem and demand influences that allow unpermitted cannabis businesses to proliferate, we are still providing enforcement against unpermitted cannabis businesses in the unincorporated communities most negatively impacted. The Cannabis Consumer Health and Safety Taskforce (CCHST) is exploring enhanced strategies to close high-priority locations.

- **East LA/Florence Firestone/Walnut Park Pilot:** Under a recent pilot program, the CCHST, led by Los Angeles County Sheriff (LASD), executed search warrants of dozens of unpermitted cannabis businesses in unincorporated communities of East Los Angeles, Florence-Firestone, and Walnut Park areas at a rate of two to four warrants per week. Since October 2021, LASD Narcotics Bureau has executed over 122 search warrants, made over 277 arrests, and seized approximately 4,000 pounds of cannabis. These include 3,300 pounds of edibles, 29 pounds of mushrooms, and 1,000 pounds of fentanyl, as well as dozens of firearms.[5] Many of these targeted locations remain closed after this pilot program, and OCM will continue to monitor the long-term impact to assess potential expansion of the enforcement strategy.

[3] http://file.lacounty.gov/SDSInter/bos/supdocs/167972.pdf
[4] https://dpw.lacounty.gov/theworks/
[5] https://lasd.org/multilocation-search-warrant-in-operation-4-20/

- **Commercial Cannabis Nuisance Abatement Ordinance:** A workgroup comprised of DRP, OCM, LASD, and County Counsel is working to implement the Commercial Cannabis Nuisance Abatement Ordinance, which includes drafting notices, enforcement protocols, abatement warrant packages, and recordation documents.[6] The workgroup is also evaluating candidates for enforcement officers, administrative personnel, including hearing officers and contractors to carry out the physical abatement for the cannabis businesses and cultivation sites.

- **3DI Case Management and Data Sharing:** In 2022, DCBA implemented the 3DI platform that provides case management and multi-departmental data exchange capabilities. The system can track, monitor, and share reporting and enforcement data such as unpermitted business closures with County Counsel and other appropriate departments. As OCM continues to expand enforcement efforts, we look forward to enhancing the platform's capabilities to provide public-facing data of tracked business closures.

OCM recognizes that direct enforcement alone will not permanently eliminate unpermitted cannabis businesses in Los Angeles County. OCM will work on broadening outreach paths to reinforce community awareness of responsible cannabis usage to shift consumer demand and expand access to a responsible and regulated market.

Legislative Advocacy

OCM is working with CEO Legislative Affairs and Intergovernmental Relations Branch (CEO-LAIR) and County Counsel on County-sponsored AB 2421 (Rubio), which would amend the State code to provide authority to county counsels and city attorneys to civilly prosecute and enjoin unauthorized water usage and pollution related to unlicensed cannabis grows. This legislation would provide the County another tool to combat the harmful impacts of illegal cannabis grows.

In addition, OCM is working closely with CEO-LAIR and County Counsel to track and monitor legislation related to cannabis, including State and Federal legislation that supports the establishment of a safer cannabis market.

Funding and Staffing

OCM, in collaboration with the CEO, has submitted its 30-day immediate needs report. The first phase of the staffing plan has been approved, and OCM anticipates the initial hiring process to begin this month.[7] OCM will continue to work with the CEO to ensure

[6] http://file.lacounty.gov/SDSInter/bos/supdocs/165815.pdf
[7] http://file.lacounty.gov/SDSInter/bos/supdocs/166488.pdf

that the department is adequately staffed to provide appropriate administrative and technical support for applicants before the program launch.

Broader funding and staffing needs for participating County departments are also necessary before launch in 2023. OCM will continue to report back on system-wide fiscal impact and work with the CEO and other departments to identify needs and appropriate funding.

Public Engagement

OCM has been working on inter-departmental planning and development and holding conversations with stakeholders to build a strong foundation for the Los Angeles County cannabis program. These include conversations with Social Equity workgroups, owners and advocates, small business operators, local public health advocates, non-profits, and service providers. We anticipate engaging in broader stakeholder engagement and public feedback sessions within the next six months as our program becomes more defined and will continue to update the Board on these efforts.

Earlier this year, OCM conducted a virtual information session in English and Spanish for the public. A recording of these events and an updated FAQ is available on our website: cannabis.lacounty.gov.

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
FGN:SB:EV:ph

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

LOS ANGELES COUNTY
CONSUMER & BUSINESS AFFAIRS

Board of Supervisors

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Kathryn Barger
Fifth District

Director
Rafael Carbajal

Chief of Staff
Joel Ayala

August 15, 2022

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

From: Rafael Carbajal
Director

IMPLEMENTING AN EQUITABLE COMMERCIAL CANNABIS REGULATORY FRAMEWORK (ITEM NO. 6 AGENDA OF FEBRUARY 15, 2022)

On February 15, 2022, your Board directed the Department of Consumer and Business Affairs (DCBA) and its Office of Cannabis Management (OCM), in consultation with relevant departments, to proceed with the development of a commercial cannabis regulatory framework and an equity program, as provided in the Updated Framework and Recommendations for Regulating Commercial Cannabis in Unincorporated Los Angeles County report in December 2021.

Per this motion, this report provides the second quarterly update on the following:

- Development of an Equitable Cannabis Program; and
- Regulatory Framework
  - Permitting Process
  - Cannabis Tax Measure
  - Enforcement
  - Legislative Advocacy
  - Public Education and Outreach

Equitable Cannabis Program

Analyses of best practices and lessons learned have consistently shown that an expansive range of technical, legal, and financial assistance programs are necessary to help social equity applicants succeed in this highly regulated and variable industry. Accordingly, our recommendations for a robust Equity

Program include education, job training, technical assistance, and access to capital for qualified candidates. As appropriate, components of the Equity Program may be made available to all residents of Los Angeles County and serve those who can benefit from workforce and economic development resources.

Predatory business practices are a common concern in promoting equity ownership, wherein investors will take advantage of a qualified applicant's priority status to obtain a permit and offer unfavorable or exploitative terms. To address this concern, OCM is dedicated to making the application process transparent and accessible, offering technical resources and business training for eligible applicants, and exploring partnerships with local bar associations and legal services providers; trade groups and organizations; and business development organizations to expand the resources that may be made available.

Equity Assessment

OCM is currently working on finalizing an Equity Assessment, which will inform the Equity Program's criteria and eligibility. The Assessment will leverage the wide range of county-specific equity data readily available through the County's Anti-Racism, Diversity, and Inclusion Initiative's Equity Explorer Mapping Tool and COVID-19 Vulnerability and Recovery Index. Research consultants will also gather focus group feedback and public input to further contextualize this data. This exercise will help identify high priority needs and gaps specific to Los Angeles County, such as available commercial space, incubation, mentorship opportunities and much more. Once this analysis is completed in September 2022, OCM will return to the Board with recommended program framework and needs.

Regulatory Framework

Permitting Process and Development

Ensuring an efficient cannabis business permit process is one of the more complex aspects of implementation due to the number of requirements a business must meet, as well as the number of departments. The process can be just as daunting for applicants trying to navigate the process. To minimize undue administrative burdens and maximize operational efficiency, OCM will administer the issuance of cannabis business permits, manage the County's equity program, and coordinate administration and operational compliance with all appropriate departments. OCM will also serve as the initial touchpoint for those seeking to apply for cannabis business permits and take on a variety of roles during and after the application process.

As part of the equity program, OCM will help prospective cannabis business permit applicants prepare for the application process. Additionally, OCM will verify eligibility of

equity applicants and equity building applicants, notify applicants who move forward in the process or provide technical assistance as appropriate, and coordinate communication among agencies, including other permitting departments. OCM may issue a cannabis business permit when all requirements are met. Finally, once the business starts operating, OCM will work with other County departments to confirm that the business remains in compliance.

Permitting Departments

As discussed in the previous report back[1], the Department of Public Health (DPH), Public Works (PW), Fire, and Agricultural Commissioner/Weights & Measures have established procedures and approval processes for reviewing, inspecting commercial facilities, and issuing permits on behalf of various contract cities already regulating commercial cannabis. OCM continues to work closely with permitting departments to develop the County's cannabis business approval process and a map that delineates an applicant's journey through various phases of this process. This map will also identify key milestones that are meant to trigger engagement between OCM and other County permitting departments to ensure applications effectively progress forward. In addition, OCM is in the process of evaluating software business solutions that can support the permitting process and proactively monitor an applicant's status with other County departments to flag any potential delays as early as possible.

Various factors greatly impact the time and scope of OCM's review. These factors include the size and complexity of the cannabis business seeking a business permit, experience of the contractors and builders, and the approval timeline with the California Department of Cannabis Control (DCC) or other external agencies. OCM will continue working with County departments to develop cost and time estimates, based on common project features, and develop outreach and educational materials that will provide applicants transparency and guidance through the approval process.

Land Use

OCM and the Department of Regional Planning (DRP) continue to collaborate and assess land use entitlement options to support an equity inclusive framework. In our previous update, OCM reported that it was exploring a ministerial land use approval process for cannabis businesses.

A ministerial or "by-right" land use is the best option for small independent businesses with limited resources because it minimizes the amount of time and money spent for the review of certain commercial developments. However, establishing cannabis businesses

[1] Implementing an Equitable Commercial Cannabis Regulatory Framework Microsoft Word - Document1 (lacounty.gov)

and activities as a by-right land use removes DRP's ability to place conditions on the development and operations of the land use outside of the pre-established regulations. This limitation may be offset by incorporating robust development and operational standards in the drafting of a cannabis zoning ordinance to promote responsible business practices and contribute to the surrounding community.

Extensive resources and research will be required to develop a cannabis zoning ordinance that addresses these issues, along with the need to conduct appropriate outreach to impacted communities. As such, DRP has noted that at its current capacity, it might require more than a year to complete this process. As a result, OCM is evaluating the option of onboarding a consultant with extensive experience in land use entitlements for cannabis businesses to develop a zoning ordinance that incorporates strong development and operational standards that protect the environment and the communities where cannabis businesses are located.

California Environmental Quality Act (CEQA)

In order to expedite the cannabis permit application process and remove administrative burdens, the County will conduct a program-level CEQA review to evaluate the potential environmental impacts and benefits of drafting a cannabis zoning ordinance.

Such review can evaluate the effects of a Countywide ordinance that may include subsequent site-specific projects over a long timeframe and across a large geographic area. This review can also identify development standards and operational requirements that will be required of all cannabis operations to mitigate potential environmental effects of the ordinance. Additionally, subsequent site-specific projects undertaken, pursuant to the ordinance, may be able to "tier" off the program level analysis to streamline health and environmental review of the site-specific project. Tiered analysis eliminates the need for redundant and costly technical studies of potential impacts that have already been addressed in the program-level review.

CEQA Request for Information (RFI)

On August 10, 2022, OCM released a Request for Information (RFI) to gauge interest from qualified consultants who can conduct a comprehensive environmental assessment, in accordance with the procedural and substantive requirements of CEQA. Additionally, the RFI will evaluate a firm's capacity to concurrently develop a draft cannabis zoning ordinance that standardizes and incorporates mitigation measures to reduce or eliminate significant adverse impacts. The RFI will enable OCM to gather information on the full array of available options, including their respective time and resource requirements. Once the RFI submissions have been received, OCM will evaluate the responses, conduct a cost-benefit analysis of available options, and report back to your Board with a recommendation.

Cannabis Tax Measure

On August 9, 2022, the Board approved a resolution proposing that the Cannabis Business Tax Ordinance be submitted to the electorate consisting of the entire County. This resolution also called for a special election to be consolidated as a ballot measure on the November 8, 2022 General Election ballot to impose a general business tax on cannabis businesses located within the Unincorporated areas of the County. A simple majority of County voters voting in the November election must approve the measure in order to impose the below tax rates starting July 1, 2023:

Retail	4% of gross receipts
Manufacturing	3% of gross receipts
Distribution	3% of gross receipts
Testing	1% of gross receipts
Cultivation	$7/sf of canopy (indoor artificial light) $4/sf of canopy (mixed light) $2/sf of canopy space (nursery)
Any other type of Cannabis Business	4% of gross receipts

Per the measure, after July 1, 2026, the Board may decrease or increase the tax rates equal to or below the following maximum rates:

Retail	6% of gross receipts
Manufacturing	4% of gross receipts
Distribution	3% of gross receipts
Testing	2% of gross receipts
Cultivation[2]	$10/sf of canopy (indoor artificial light) $7/sf of canopy (mixed light) $4/sf of canopy (outdoor)[3] $2/sf of canopy space (nursery)
Any other type of Cannabis Business	4% of gross receipts

These recommended rates were based on an extensive analysis by OCM, including a report submitted by consultants on the Fiscal Revenue Analysis of the Commercial Cannabis Industry (Attachment A) that analyzed the potential fiscal impacts of the commercial cannabis industry in Los Angeles County. OCM analyzed tax structures and

[2] Tax rates on cultivation will be annually indexed to inflation starting in 2026.
[3] LA County will not be permitting outdoor cultivation during its initial launch of cannabis business permits per its December 2021 report. However, should your Board move to permit outdoor cultivation at a later time, the appropriate rates will apply.

rates from jurisdictions around the country, market patterns and consumer behavior, the impact of high tax rates on the proliferation of the illicit market, the economic impact of the legal cannabis industry in Los Angeles County, public health considerations, and programmatic budgetary needs. These recommended rates were based on the need to set rates that are competitive with other jurisdictions and the unregulated cannabis market. In addition, the rates aim to promote the viability of the legal cannabis market while generating revenue to support County services.

Because the Cannabis Business Tax is a general tax, the revenues must be deposited into the County's general fund and can be used for general governmental purposes. The Board is largely unrestricted in their use of these general fund revenues and through the budget process could fund targeted programs and services. If this general business tax is approved by a majority of the voters, the projected annual revenue for this tax is $10,360,000 to $15,170,000, as outlined in the Fiscal Revenue Analysis of the Commercial Cannabis Industry.

As LA County continues to develop an equity program and regulatory framework for cannabis businesses to operate in the unincorporated County, OCM believes it is critical to reinvest into communities that are disproportionately impacted by historical and current drug policies. Additionally, it is critical to build a strong administrative infrastructure and programmatic framework to support this work, particularly during the program's early phases.

As the needs of the cannabis program and the communities served continue to shift in this emerging and dynamic market, OCM will continue to keep the Board apprised of opportunities to promote the Board's equity-focused priorities and ensure the sustainability and viability of a legal and responsible cannabis market. OCM will work with stakeholders to implement a robust public education campaign on the content and impact of this measure.

Enforcement

The Cannabis Consumer Health and Safety Task Force ("Workgroup"), comprised of DRP, OCM, LASD, and County Counsel has made progress in advancing the Commercial Cannabis Nuisance Abatement Ordinance[4] and continues to work through multiple implementation issues. This includes finalizing logistics and protocols, as well as the coordination of partnering departments in the administration of the cannabis nuisance abatement ordinance. The Workgroup is finalizing the forms and the abatement warrant package that will be used to administer the ordinance. It is also consulting with partner departments to clarify and refine protocols and processes for the management and execution of search and abatement warrants, placing liens against property owners who

[4] http://file.lacounty.gov/SDSInter/bos/supdocs/165815.pdf

fail to abate and pay for abatement of cannabis nuisances, and delineating the specific duties of all partnering departments.

Legislative Advocacy

County-sponsored AB 2421 (Rubio), which amends certain State codes to authorize county counsels and city attorneys to civilly prosecute and enjoin water diversion and pollution related to unlicensed cannabis grows, was incorporated into the state budget trailer bill under AB/SB195 and signed into law by the Governor on June 30, 2022. This legislation provides the County another tool to combat the harmful impacts of illegal cannabis grows.

Public Education and Outreach

Emblem Program

On June 7, 2022, the Los Angeles City Council approved a motion to adopt and implement the County's Emblem Program for Authorized Cannabis Stores throughout the City of Los Angeles administered by the City of Los Angeles Department of Cannabis Regulations (DCR). DPH is working closely with DCR to begin site evaluations by geographical regions, beginning with locations with storefront retail sales on a voluntary application submission basis, with inspections anticipated to start in September 2022.

OCM is coordinating a complementary Public Education Campaign that focuses on the importance of consumers purchasing cannabis products from a properly inspected location. A forthcoming video will highlight local Emblem Program participants in the City of El Monte, Culver City and Malibu, and will raise awareness of DPH's Cannabis Compliance and Enforcement Program. This campaign emphasizes the County's commitment to ensuring a safe cannabis marketplace. The promotional video will air on County Channel LA36 and other county media outlets.

The Works App

As of June 2022, LA County residents are now able to report unlicensed Cannabis businesses via "The Works App". The Works App can be downloaded to any mobile device. A link to bilingual user instructions can be downloaded from the Office of Cannabis Management website at cannabis.lacounty.gov.

OCM will continue to explore other avenues to help broaden and reinforce community awareness of responsible cannabis usage and consumption.

Should you have any questions concerning these matters, please contact me or Hyunhye Seo, Chief of Office of Cannabis Management, at hseo@dcba.lacounty.gov.

RC:JA
HS:FGN:SB

Attachment

c: Executive Office, Board of Supervisors
Chief Executive Office
Acting County Counsel
S
District Attorney
Agricultural Commissioner/ Weights & Measures
E O
Fire
Public Health
Public Works
Regional Planning
Treasurer and Tax Collector

Delivering Revenue, Insight
and Efficiency to Local Government

Fiscal Revenue Analysis of the Commercial Cannabis Industry

Prepared for
the

County of Los Angeles

June 8, 2022

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I. Introduction

The County of Los Angeles[1] currently prohibits any and all commercial cannabis business activities within the unincorporated area. In response to the passage of Proposition 64 in 2016, the Los Angeles County Board of Supervisors established the Office of Cannabis Management (OCM) within the Department of Consumer and Business Affairs. The OCM convened a working group on cannabis regulation to develop recommendations for cannabis regulation in unincorporated Los Angeles County. The Working Group conducted extensive community outreach and held eight public convenings to deliberate on the various components of cannabis legalization.

In June of 2018, the Working Group presented the Board of Supervisors with a set of 64 recommendations that included removing the ban on commercial cannabis businesses and moving forward with a process to legalize and regulate cannabis in the unincorporated areas. After discussion, the Board chose to receive and file the report, but took no action.

In July of 2021, the Board of Supervisors revisited its previous discussion and voted unanimously to direct the Office of Cannabis Management and other relevant county departments to review the 2018 report and bring back updated recommendations for cannabis retail, manufacturing, distribution, growth, testing, regulation, and enforcement in the County of Los Angeles, with a timeframe of 120 days. The Board's direction stated that the updated recommendations should be rooted in an equity framework and should review best practices to take into account lessons learned from other jurisdictions that have already legalized commercial cannabis.

Pursuant to that direction, the County is now considering a cannabis regulatory framework that would allow for 25 storefront retailers, 25 non-storefront (delivery-only) retailers, 10 cultivators, 10 manufacturers and 10 distributors in the unincorporated areas. The County is very concerned with social equity issues and wants to consider ways that its program can benefit small, locally owned businesses that may have a difficult time competing with large, well-financed chains. The County is hoping to develop a program that includes incentives, permit assistance, reduced fees or other tools to reduce barriers to entry for first-time business owners in the cannabis sector.

To assist with this, the County engaged the services of HdL Companies to conduct an economic impact analysis of the potential cannabis industry in unincorporated Los Angeles County. The County is interested in general economic development considerations that may help to guide and inform the Board's decision-making and direction, rather than focusing solely on the potential tax revenues that may be generated. The County is hopeful that this analysis will help inform development of a cannabis tax ordinance and ballot measure to be placed before the voters in November.

The County is mindful of setting realistic expectations about revenues in the initial years as businesses seek to get established and recognizes that tax rates and fee structures must not be prohibitive or

[1] This report at times refers alternately to the unincorporated area, the entire county as a whole, or the governmental entity of the County of Los Angeles. To minimize the inherent confusion, we have herein referred to both the governmental entity and the unincorporated area under its jurisdiction as "the County of Los Angeles" or "the County". When speaking of the geographic county as a whole, we have referred to it as "Los Angeles County". We have also tried to include additional context or clarification on a case-by-case basis.

otherwise serve as a disincentive to business development. The County desires to balance potential revenues with the larger goal of promoting and sustaining a viable legal market, both to provide jobs and business opportunities and to counter the continuing black market. While the County is interested in generating revenue, this interest is viewed as more of a long-term goal that is dependent upon overall business success.

HdL has prepared this economic impact analysis of the potential cannabis industry in unincorporated Los Angeles County to help inform development of a cannabis tax ordinance and associated ballot measure. The analysis considers the County's current target of 25 storefront retailers, 25 non-storefront (delivery-only) retailers, 10 cultivators, 10 manufacturers and 10 distributors, and provides estimates for the total number of each type of commercial cannabis business that may be viable in the unincorporated area based upon market conditions and general economic factors. The analysis also provides estimates for the gross receipts and tax revenue that may be generated from each type of business under a variety of tax structures and rates.

This economic impact analysis includes research regarding the number, type and size of cannabis businesses in the Los Angeles County region. The analysis also discusses cannabis tax rates and structures in nearby jurisdictions and provides benchmarks for cumulative tax rates that reflect emerging norms around the state, as well as best practices for ensuring a healthy and competitive industry. The analysis also includes a discussion of the potential fiscal impacts to the County from staffing needs and other costs associated with the permitting, regulatory monitoring and enforcement of licensed cannabis businesses.

Legalization and regulation of commercial cannabis has exposed this industry to competitive free-market forces from which it was previously shielded due to prohibition. Licensing, permitting, and regulatory costs, combined with State and local taxes, have added significantly to the operational costs of commercial cannabis businesses. The net effect of these forces is that wholesale prices have dropped significantly at the same time that regulatory costs are climbing. High tax rates may have been acceptable to the industry when it enjoyed high profit margins and few regulatory costs, but those same rates become prohibitive for what is now one of the most highly regulated, and most competitive, industries in the State.

Discussion of regulating and taxing the cannabis industry can too often overshadow the larger jobs and economic development issues that typically accompany efforts to attract new industry. Word that a new business or industry is looking to bring hundreds of new jobs to a community is more commonly met with open arms and offers of tax incentives. The cannabis industry is perhaps completely unique in that the inherent jobs and economic development benefits are welcomed more grudgingly and met with the disincentive of special taxes. While the tax revenue potential is attractive to local governments, imposing excessively high rates may reduce the number of businesses that step forward and decrease the likelihood that they will succeed in the regulated market.

Equally important to tax rates is setting clear direction for regulatory policy, which will be subject to a separate development process including review under the California Environmental Quality Act (CEQA). As with any other industry, the cannabis industry desires regulatory certainty. Clear regulations and competitive tax rates will be essential for attracting or holding on to this industry sector, and for helping these businesses to outcompete the persistent illicit market.

Summary and Recommendations

1. The County's best opportunity for developing tax revenue would come from cannabis retailers (both storefront and delivery-only), as there is both the greatest unmet consumer demand and the greatest return in terms of revenue.
2. The County should set its tax rates for cannabis retailers to be competitive with the average of the cities in the region as shown in Figure 5 on page 9. Local rates run from 2.5% up to 10% of gross receipts, with a most common range of 5.0% to 8.0%. HdL generally recommends a range of 4.0% to no more than 6.0%.
3. Some of the more remote, rural parts of the County's unincorporated areas could be attractive for outdoor or mixed-light cultivation. Should the County choose to allow these cultivation types, HdL recommends that the rates for these two activities be kept low to leverage this advantage. These low tax rates should be joined with clear zoning requirements to locate these cultivation types in remote areas, while keeping them away from populated areas. The determination of which types of cultivation activities may or may not be permitted is up to the County's discretion and would be subject to zoning and other requirements to be determined through environmental review.
4. There is a great interest in social equity issues to address the historic harms from the war on drugs, both on the part of the County and on the part of potential cannabis business applicants. Cannabis businesses qualifying for a social equity program would have to be taxed at the same rates as other similar cannabis businesses conducting the same activities.

   Courts have interpreted the equal protection clause of the 14th Amendment as applying to local ordinances including taxes[2]. As with other kinds of taxes, cannabis taxes must be levied and collected equally so as to not advantage one person or business over another conducting the same activities under the same conditions. While taxes and tax rates may distinguish between classifications on a rational basis, this generally applies to differences of business type, size, earnings, number of employees, activities being conducted, transaction methods, or other quantifiable differences. We are unaware of situations where tax rates have been applied unequally based upon the qualifications of the individual owners.

   However, the County could establish a tax rebate program for qualifying social equity businesses (the businesses must first have paid their taxes before qualifying for any rebates). The County could also use cannabis tax revenues to cover permitting costs, provide loans, or offer other kinds of business assistance to help social equity applicants. Any of these actions would have to be separate from and subsequent to placing the tax measure on the ballot.

[2] In Ladd v. State Board of Education the Court held that "*A tax statute or ordinance which distinguishes between parties does not violate the equal protection or due process clause if the distinction rests on a rational basis*" (31 Cal. App. 3d 35, 106 Cal. Rptr. 885 (1973)). Similarly, in Gowens v. City of Bakersfield[2] the Court held that "*If no reasonably justifiable subclassification is or can be made, then the operation of the tax must be such as to place liability therefor equally on all members of the class*" (Gowens v. City of Bakersfield, 179 Cal. App. 2d 282, 285-286 (1960)).

5. The County should not anticipate any cannabis testing laboratories in the unincorporated area, as the region is already well served by 14 laboratories in the cities of Los Angeles, Long Beach, Monrovia and Pasadena.

6. HdL recommends the tax rates for all cannabis business activities be set within the ranges below. We have provided the rates for the City of Los Angeles for reference. For comparison, the square-footage rates shown for cultivation are roughly equivalent to a range of 1.67% to 2.50% of gross receipts. We believe that the County should set its rates to be competitive with other jurisdictions in the County region as shown in Figure 5 on page 9 and to keep the cumulative tax rate at or below 30% (see Appendix B; *State Tax Considerations*).

Figure 1:

Cannabis Business Type	HdL Initial Rate	HdL Maximum Rate	City of Los Angeles
Cultivation (indoors)	$7.00/sf	$10.00/sf	2.0%
Cultivation (mixed-light)	$4.00/sf	$7.00/sf	2.0%
Nurseries	$1.00/sf	$2.00/sf	2.0%
Manufacturing	2.5%	4.0%	2.0%
Distribution	2.0%	3.0%	1.0%
Retail	4.0%	6.0%	5.0% - 10%
Testing	1.0%	2.5%	1.0%

7. Based upon our analysis, we project that licensed cannabis businesses in the unincorporated area of the County could generate between $10 million and $15 million in annual cannabis tax revenue. Our projections below assume the proposed 50 retailers (25 storefront and 25 non-storefront delivery) are located appropriately to serve the majority of the population in the unincorporated area while also capturing some portion of sales from those incorporated cities that disallow cannabis retailers (See discussion in Section IV; *Cannabis Retailers*). Projections for cultivation assume 5 mixed-light cultivators and 5 indoor cultivators as described in Section VII, *Cannabis Cultivation*.

Figure 2:

Business Type	Number	Low Rate	Revenue	Med. Rate	Revenue	High Rate	Revenue
Retailers	50	4.0%	$7,800,000	5.0%	$9,700,000	6.0%	$11,700,0000
Manufacturer	10	2.5%	$625,000	3.0%	$750,000	4.0%	$1,000,000
Distributor	10	2.0%	$400,000	2.5%	$500,000	3.0%	$600,000
Cultivation	10	$4/sf - $7/sf	$1,210,000	$5.50/sf - $8.50/sf	$1,540,000	$7/sf - $10/sf	$1,870,000
Testing	0	1.0%	$0	1.5%	$0	2.0%	$0
Total			**$10,035,000**		**$12,490,000**		**$15,170,000**

II. The Cannabis Industry in the Los Angeles County Region

Los Angeles County is the most populous county in the United States, with an overall population of over 10 million people as of the 2020 census. The County contains 88 incorporated cities with a combined population of roughly 8,918,400 people, leaving around 1,095,600 residents in the unincorporated areas. Roughly 3.9 million people live in the City of Los Angeles, making it the second-largest City in the United States after only New York City. More than 65 percent of the County is in the 2,635 square mile unincorporated area, including 125 unincorporated communities.

The amount of revenue that a city or county may be able to generate from a cannabis business tax depends upon the type, number and size of cannabis businesses that may choose to locate there. Cannabis retailers, cultivators, manufacturers, distributors and testing facilities are each interdependent upon a network of other cannabis businesses, so understanding the extent of the existing industry in the region provides some basis for estimating the number of businesses which may seek to locate in the unincorporated areas of Los Angeles County.

We generally assume that wholesale cannabis businesses such as cultivators, manufacturers and distributors would primarily interact or do business with other cannabis businesses within a one-hour radius. Being the most populous county in the United States, Los Angeles County is large enough that it can sustain a self-sufficient industry that does not depend upon supporting businesses from neighboring counties or from elsewhere in the state.

In addition, Los Angeles County merges into Orange County to the South, with a population of 3.17 million, and Riverside and San Bernardino Counties to the East, with populations of 2.4 million and 2.16 million people, respectively. Combined, the 4 counties form a massive metropolitan region of nearly 18 million people. The combined regional population is greater than the population of the Netherlands, Greece, Portugal, Sweden, the Czech Republic, Ireland, Norway, Hong Kong, Singapore or 167 other countries.

Los Angeles County is home to over a quarter of California's population and, thus, over a quarter of the state's consumers. By extension, it can be assumed that Los Angles County is also home to over a quarter of the state's cannabis consumers. In addition, Los Angeles County is less than 2 hours from Santa Barbara County, which is home to the highest concentration of cannabis cultivation licenses in the state. The close proximity between the area of greatest supply and the area of greatest demand provides makes Los Angeles County a prime location for all other cannabis business types, as well as for other non-cannabis businesses that provide ancillary services to support the cannabis industry.

In conducting an analysis of the cannabis industry for a client city or county, we typically will look at the broader region within which that city or county is located to include businesses in other nearby communities. In the case of Los Angeles County, however, the size of the population and the number of businesses is clearly large enough to be self-sufficient. Though cannabis wholesale and retail businesses within the County undoubtedly buy product from suppliers elsewhere in the state, and sell their wholesale products elsewhere as well, we do not have to look beyond the County's borders to come up with an adequate industry cluster for purposes of our analysis.

Of the 88 incorporated cities and other agencies within Los Angeles County, the Department of Cannabis Control (DCC) lists 20 as currently having licensed cannabis businesses. These numbers are shown in Figure 3 on the next page.

Figure 3:

Active Cannabis Licenses in the Los Angeles County Region as of February 1, 2022								
City	Cultivation	Nursery	Distributor	Manufacturer	Retailer	Microbusiness	Testing Laboratory	Total
Avalon	0	0	0	0	1	0	0	1
Baldwin Park	4	0	1	6	0	0	0	11
Bell Flower	1	0	3	3	4	0	0	11
Commerce	1	0	6	0	5	3	0	15
Cudahy	3	0	1	2	0	1	0	7
Culver City	0	0	4	1	7	1	0	13
El Monte	0	0	1	2	2	0	0	5
Huntington Park	1	0	1	1	1	1	0	5
Lancaster	9	0	3	4	0	0	0	16
Long Beach	19	3	55	58	29	5	5	174
Los Angeles	249	17	247	199	207	77	1	997
Lynwood	1	2	8	6	7	0	0	24
Malibu	0	0	0	0	2	0	0	2
Maywood	1	0	3	4	4	3	0	15
Monrovia	0	0	0	0	0	0	2	2
Montebello	3	0	5	4	7	3	0	22
Pasadena	0	0	0	0	2	0	1	3
Pomona	0	0	0	0	2	0	0	2
Santa Monica	0	0	0	1	0	0	0	1
West Hollywood	0	0	1	1	10	0	0	12
Total	**292**	**22**	**339**	**292**	**290**	**94**	**9**	**1,338**

The number of licenses may not denote the number of businesses, as individual businesses may hold multiple licenses.
The number of State licenses shown here also may not reflect the number of licenses or permits issued by local agencies.

In addition to those cities listed, we are aware that numerous other cities within the County are currently in various stages of exporing, developing or permitting cannabis businesses, including Artesia, Carson, Claremont, El Segundo, Hawthorne, Pico Rivera, Redondo Beach, Signal Hill, South El Monte and others.

The total economic input provided by the cannabis industry in Los Angeles County should be viewed as more important than the tax revenues that can be generated from it. We estimate that the 1,338 cannabis businesses (See Figure 2) in Los Angeles County as a whole likely provide around 17,000 jobs[3], most of which typically pay above-average wages compared with similar jobs in other industries[i]. We estimate total payroll to be over $500 million. In addition, cannabis cultivators and manufacturers can be assumed to sell some portion of their product outside of the County, thus bringing revenue into the County from elsewhere.

This concentration of cannabis businesses shows that the Los Angeles County region already has a strong presence within California's commercial cannabis industry, with a large and diverse industry cluster that can both support and provide competition for additional cannabis businesses. We anticipate that the number of cannabis businesses in the region will continue to increase over time, particularly in the retail sector.

[3] Assumes an average of 24 employees for each retailer, 12 for each cultivator and a conservative estimate of 7 for all other business types. Further discussion is provided in Section IV; Jobs, *Wages and General Economic Impacts*.

III. Common Cannabis Tax Rates

Cannabis tax rates have been settling and stabilizing around the State since the beginning of 2018. Many cities instituted cannabis taxes prior to the implementation of statewide regulations, with a wide range of tax structures and rates as high as $30 per square foot (for cultivation) or 18% of gross receipts. Some of these "early adopter" cities have since reduced their rates to be more competitive with common rates that are now emerging around the State.

The State of California applies two separate taxes to cannabis: a cultivation tax of $10.08 per ounce of dried flower ($3.00 per ounce of dried leaf or trim) and an excise tax of 15% on the purchase of cannabis and cannabis products. These two separate State taxes can add up to 26% to consumer cannabis prices, even before any local taxes are contemplated. This leaves very little room for local jurisdictions to work within if they wish to remain under the total cumulative tax rate of 30%. This is an important benchmark to allow the local industry to compete against the illicit market and against other regulated cannabis businesses from around the State (see Attachment B; *State Tax Considerations*).

Governor Newsome's May Budget Revise proposes significant changes to the way the state's cannabis taxes are applied[ii]. Under the proposal, the cultivation tax rate would be reduced to zero percent, effectively eliminating the tax. The cannabis excise tax would remain at 15%, but the point of collection would be shifted to retail sales, rather than distributors, thereby simplifying the tax structure. The proposal includes an allowance to increase the rate of the excise tax through FY 2024/25 if necessary to maintain minimum levels of funding for certain programs for youth education, intervention and treatment, environmental restoration, and state and local law enforcement programs. If approved, the changes to the cultivation tax rate would be effective July 1. The changes to the method of collection would become effective January 1, 2023.

Figure 4, below, shows the cannabis tax rates or development agreement fees from those cities in Los Angeles County that allow licensed cannabis businesses a number of nearby jurisdictions, as well as the standard tax rates that HdL commonly recommends to those local agencies that we work with. The rates and structures vary greatly among these cities, though the cities of El Monte, Los Angeles and Pasadena are all generally in line with our commonly recommended rates. HdL's recommended initial range of tax rates for cannabis businesses other than cultivation commonly runs from 2% of gross receipts for distributors, to 2.5% for manufacturers and 4% for retailers. These rates may be adjusted up to a maximum of 3%, 4% and 6%, respectively.

We note that a large number of these cities use development agreements as a means for generating revenue to provide agreed-upon community benefits. In some cases the fees are standardized for all cannabis businesses, but in other cases the fees are negotiated separately on a case by case basis. In many such cases, we were only able to find fees for those business types which currently have agreements with the host city. Where a business type is not allowed, where there is no tax or fee, or where we were unable to find any information, we have entered "N/A" for either "Not Allowed", "Not Applicable" or "Not Available".

Figure 4:

Cannabis Taxes in the Los Angeles County Region								
City	**Tax or DA[1]**	**Cultivation**	**Nursery**	**Distributor**	**Manufacturer**	**Retailer**	**Microbusiness**	**Testing Laboratory**
Avalon	None	N/A	N/A	N/A	N/A	None	N/A	N/A
Baldwin Park	DA[2]	N/A	$250K - $350K	$250K - $350K	$250K - $350K	N/A	$250K - $350K	$250K - $350K
Bell Flower	Tax	$20/sf	$5/sf	1.0%	2.0%	8.5%	N/A	N/A
Commerce	DA	12.0% - 14.0%	12.0% - 14.0%	2.0% - 6.0%	4.0% - 6.0%	5.0% - 8.0%	By Activity	1.5% - 5.0%
Cudahy	DA	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Culver City	Tax	$12/sf	N/A	6.0%	6.0%	8% - 10%	N/A	1.50%
El Monte	Tax	3.0%	N/A	2.0%	3.0%	5.0%	N/A	2.0%
Huntington Park	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Lancaster	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Long Beach	Tax	$13.41/sf	$13.41/sf	1.0%	1.0%	6.0% - 8.0%	By Activity	1.0%
Los Angeles	Tax	2.0%	2.0%	1.0%	2.0%	5.0% - 10.0%	2.0%	1.0%
Lynwood	DA	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Malibu	Tax	N/A	N/A	N/A	N/A	2.5%	N/A	N/A
Maywood	Tax	6.0%	6.0%	6.0%	6.0%	10.0%	10.0%	6.0%
Monrovia	None	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Montebello	DA	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Pasadena	Tax	$2/sf - $7/sf	$1/sf	2.0%	2.5%	4.0%	4.0%	1.0%
Pomona	Tax	N/A	N/A	3.0%	4.0%	6.0%	6.0%	2.5%
Santa Monica	None	N/A	N/A	N/A	N/A	N/A	N/A	N/A
West Hollywood	Tax	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
HdL Recommended (Max)	Tax	$7/sf - $10/sf	$2/sf	3.0%	4.0%	6.0%	By Activity	2.0%

N/A indicates Not Applicable where there is no tax, Not Allowed where the activity is prohibted, or Not Available where we were unable to find information.
[1] Development Agreement; also includes community benefits agreements.
[2] HdL is currently working with the City of Baldwin Park to revise their community benefit fee structure.

The development and implementation of a cannabis regulatory program also carries costs for the host jurisdiction. These costs may include staff and consultant time for the development of ordinances, initial permitting for businesses, compliance monitoring, annual permit renewals and regulatory enforcement as necessary. These costs vary depending on the desired level of regulatory oversight, the use of consultants, involvement of law enforcement officers and other considerations.

Annual permit fees commonly range between $6,000 and $30,000, with an average around $16,000. The County's actual costs would all be fully recoverable from the businesses through initial and annual permit fees, leaving all revenues generated by a cannabis tax available for discretionary spending through the General Fund. These permitting fees are discussed in Appendix E; *Fiscal Impacts and Fees*.

IV. Jobs, Wages and General Economic Impacts

Discussion of regulating and taxing the cannabis industry can too often overshadow the larger jobs and economic development issues that typically accompany efforts to attract new industry. Word that a new business or industry is looking to bring hundreds of new jobs to a community is more commonly met with open arms and offers of tax incentives. The cannabis industry is perhaps completely unique in that the inherent jobs and economic development benefits are welcomed more grudgingly and met with the disincentive of special taxes.

As with any other industry, the cannabis industry does not exist in a vacuum. Those businesses that actually grow, process, manufacture, distribute and sell cannabis products support a wide variety of other businesses that may never touch the actual product itself. Cultivators support garden supply stores, green house manufacturers, irrigation suppliers, soil manufacturers, and a wide variety of contractors including building and construction, lighting and electrical, HVAC, permitting, and engineering. Manufacturers support many of these same businesses, plus specialized tooling and equipment manufacturers, and product suppliers for hardware, packaging, and labeling. All of these businesses support, and are supported by, a host of ancillary businesses such as bookkeepers, accountants, tax preparers, parcel services, marketing and advertising agencies, personnel services, attorneys, mechanics, facilities maintenance, security services, and others.

In Figure 5 of this report (page 17), we show that there are 384 licensed cannabis retailers in all of Los Angeles County[4], generating over $1.5 billion in retail sales annually. Analysis of cannabis retailers and retail applicants in other cities shows a range of anywhere from 5 employees to over 60 per retailer, with a projected average of 13 for new retailers and 24 for established businesses[5]. Our analysis also shows that cannabis retailers commonly pay slightly higher than average wages compared with other types of retail sales[6], and often provide employee benefits that are not always common for retail workers.

The County intends to permit up to 50 cannabis retailers (25 storefront and 25 non-storefront delivery) in the unincorporated area. Based on these figures, we anticipate that over time these businesses may create up to 1,200 full-time-equivalent retail jobs, paying up to $48 million in annual wages.

The number of employees for a cannabis cultivation facility varies in proportion to the size and type of operation. Data collected by Marijuana Business Daily[iii] shows that cultivation facilities commonly employ from 3 to 20 full-time employees and 2 to 11 part time employees, with a median of 7 full-time and 5 part-time employees. Employees working in cannabis cultivation are not considered agricultural workers[iv], and so are subject to the requirements of a 40-hour work week, including overtime and regular breaks.

[4] This figure assumes that all 94 microbusinesses conduct retail sales as part of their licensed activities.

[5] This aggregate data comes from review and analysis of confidential information presented in cannabis business applications from a number of cities HdL has worked with.

[6] The Bureau of Labor Statistics shows retail sales workers in California earn a mean hourly wage of $17.46 (https://www.bls.gov/oes/current/oes_ca.htm#41-0000). HdL's analysis of numerous cannabis retail applications shows wages commonly in the range of $18-$20 per hour, with some as high as $24-$26 per hour. We note that this is a general observation only, and not an ex=stablished industry average. We also note that higher-than-average wages and benefits are often a condition of a competitive application process for cannabis retailers.

Cannabis cultivators are increasingly seeking to hire cultivation managers with degrees in botany, horticulture or related fields. These specialized employees can demand professional salaries that are much higher than other cultivation workers. Other full-time workers in the cannabis industry typically enjoy wages that are above that of other, similar occupations, though part-time seasonal workers such as trimmers make a much lower wage.

In Figure 5, below, we have shown a general array of positions, wages and salaries for a hypothetical 22,000 square foot greenhouse operation. These figures are based on data from Marijuana Business Daily's Marijuana Factbook 2018 but are adjusted to reflect relative wages in Los Angeles County[v]. Based upon this, we estimate that an array of 10 cultivation facilities in the unincorporated County may create approximately 40 full-time and 20 part-time jobs, with total payroll of around $2.94 million per year.

Figure 5

Estimated Employees per 22,000 Square-Foot Greenhouse					
Position	**#**	**Rate**	**Hours**	**Salary**	**Combined**
MGR	1	$60	2,000	$120,000	$120,000
FT	3	$24	2,000	$48,000	$144,000
PT	2	$15	1,000	$15,000	$30,000
Total					**$294,000**

The economic benefits are not limited to those in the cannabis industry, itself. Cultivators and manufacturers bring new money into the community by selling their products into a statewide market. Their profits and the salaries they pay move into the general local economy, supporting stores, restaurants, car dealerships, contractors, home sales and other businesses. Research done by HdL for other clients suggests that many cities and counties see economic inputs from this industry in the range of $200 million dollars or more annually.

Because of the emerging nature of this industry, it still attracts many small, independently-owned businesses. Numerous studies have demonstrated that locally-owned, independent businesses recirculate a far higher percentage of every dollar back into the local community than large, corporately-owned businesses do. The same economic development arguments that are used to support other independent, locally-owned businesses apply to this industry, too. Host cities or counties should expect to see typical economic benefits from these new (or newly daylighted) businesses on par with other new businesses, separate from any tax revenue that may be generated.

A number of cities and counties have looked upon the emergence of the legal cannabis industry as an opportunity to address the historic harms from the war on drugs through development of Social Equity Programs (SEP's). These programs are designed to support equal opportunity in the cannabis industry by making legal cannabis business ownership and employment opportunities more accessible to low-income individuals and communities most impacted by the criminalization of cannabis. SEP's commonly look to assist cannabis business applicants from communities that may have been disadvantaged due to the past illegal nature of the industry within which they are now trying to compete. Such communities may have experienced higher incarceration rates, or may lack financial capacity, regulatory experience and business acumen from disproportionate application of the law towards what is now a fully-legal industry.

Cannabis businesses qualifying for a social equity program would have to be taxed at the same rates as other similar cannabis businesses conducting the same activities. Courts have interpreted the equal protection clause of the 14th Amendment as applying to local ordinances including taxes[7]. As with other kinds of taxes, cannabis taxes must be levied and collected equally so as to not advantage one person or business over another conducting the same activities under the same conditions. While taxes and tax rates may distinguish between classifications on a rational basis, this generally applies to differences of business type, size, earnings, number of employees, activities being conducted, transaction methods, or other quantifiable differences. We are unaware of situations where tax rates have been applied unequally based upon the qualifications of the individual owners.

However, the County could establish a tax rebate program for qualifying social equity businesses, or for businesses that meet certain requirements for socially-equitable business practices. The businesses must first have paid their taxes before qualifying for any rebates. The County could also use cannabis tax revenues to cover permitting costs, provide loans, or offer other kinds of business assistance to help social equity applicants. Any of these actions would have to be separate from and subsequent to placing the tax measure on the ballot.

The City of Oakland has developed a tax rebate program for Social Equity businesses that includes rebates in 4 separate categories for local hiring, utilizing other equity businesses in the supply chain, workforce quality of life (wages and benefits) and providing incubation space for other equity businesses. There are a total of 9 subcategories, each offering rebates of 0.25% up to 1.50% off the effective tax rate for the business. These rebates can be cumulative, provide that no cannabis business will pay less than a minimum tax rate of 2.5%. A business will have to have been operating and paying its taxes for a minimum period of 182 days (6 months) to be eligible for any rebates.

We have provided further information about the City of Oakland's rebate program to County staff.

[7] In Ladd v. State Board of Education the Court held that "*A tax statute or ordinance which distinguishes between parties does not violate the equal protection or due process clause if the distinction rests on a rational basis*" (31 Cal. App. 3d 35, 106 Cal. Rptr. 885 (1973)). Similarly, in Gowens v. City of Bakersfield[7] the Court held that "*If no reasonably justifiable subclassification is or can be made, then the operation of the tax must be such as to place liability therefor equally on all members of the class*" (Gowens v. City of Bakersfield, 179 Cal. App. 2d 282, 285-286 (1960)).

V. Cannabis Retailers

Retailers are the only cannabis business type that specifically serves the local community, rather than feeding into the statewide market, and so the number of retailers can be assumed to be somewhat proportional to the local population. Demand is assumed to generally be a constant regardless of its legal status or the availability of retailers, so it's reasonable to expect that more retailers would mean fewer customers for each and, thus, lower gross receipts.

Cannabis retailers address a local market demand which is generally assumed to exist within a given community regardless of whether there is any legal access. Consumer demand for cannabis has existed for many, many decades prior to legalization and evidence suggests that the percentage of the population that uses cannabis on a regular basis is no greater now than it was in the 1970's[vi]. Given this, it is reasonable to assume that allowing licensed cannabis retailers in a community does not increase demand or create new cannabis consumers. Rather, it facilitates a shift in cannabis purchases happening through legal, regulated means rather than through the illicit market.

Eventually, though, any local cannabis market will reach saturation, at which point new licensed retailers will simply cannibalize sales from existing retailers. Essentially, both licensed and unlicensed cannabis retailers all divide the same finite pie.

Under California's regulatory program, consumers have little incentive to purchase cannabis in the medical segment rather than buying in the adult use segment. Both medical and adult use cannabis will pay the State cultivation tax and excise tax, with the only advantage being an exemption from regular sales tax for qualifying patients with a State-issued Medical Marijuana Identification Card (MMIC). Eligibility for this limited sales tax exemption costs consumers approximately $100 per year, plus time and inconvenience, for a savings of 9.50% in unincorporated Los Angeles County. It's anticipated that this provides little or no price advantage for the majority of cannabis consumers.

Currently there are only 3,080 MMIC cardholders in all of California[vii], which is less than half the number of cards as in 2019. The low number of such cards makes their impact inconsequential for purposes of our revenue analysis.

The Bureau of Cannabis Control (now the Department of Cannabis Control) had projected that more than half of the adult use purchases previously in the illicit market would transition to the legal market to avoid the inconvenience, stigma and risks of buying unknown product through an unlicensed seller[viii]. Essentially, the easier, cheaper and more reliable it is for consumers to access quality cannabis legally, the less reason they would have to purchase it through the illicit market. That same study projected that 60% of sales in the legal, medical cannabis market would shift to the adult use market, for the reasons noted above. The availability of legal adult use cannabis was also anticipated to produce a small 9.4% increase in consumer demand.

However, this anticipated transition to the legal market was dependent upon the assumption that the majority of cities and counties in California would take steps to permit and regulate licensed cannabis businesses. This has not been the case. Some 70% of California counties and cities continue to prohibit legal access to cannabis. Not surprisingly, 70% of cannabis sales continue to be in the illicit market.

The shift from medical to adult use sales was not expected to change the overall volume of cannabis sales, only the categories into which they fall. Once the legal, adult use market was properly functioning and available throughout the state, it was anticipated to capture about 61.5% of the overall cannabis market in California. The legal medical cannabis market is projected to decline to just 9% of the overall market, though this projection may change due to the increasing popularity of CBD products. The other 29.5% was expected to remain in the illicit market[ix]. The vast majority of retail licenses issued by the Department of Cannabis Control are for retailers who operate both medical and adult use from the same premises.

HdL generally assumes a standard market concentration of one retailer per every 18,000 to 20,000 people. Data from the Department of Cannabis Control shows 1,205 licensed retailers and around 200 retailing microbusinesses[8] around the state, which works out to roughly one retailer for every 28,000 people based on the state's overall population. However, these retailers are not evenly distributed around the state. Some 70% of California cities do not allow legal cannabis sales, so these licensed retailers are concentrated in the 30% of cities that do.

24 of California's 58 counties have licensed cannabis retailers in the unincorporated area. An additional 23 counties do not allow cannabis businesses in the unincorporated area but contain cities that do allow them.

Figure 5, on the next page, shows the distribution of cannabis retailers throughout the state. The table lists all of the counties[9] that currently have licensed cannabis retailers ("served" counties), whether in the unincorporated area or within cities, providing the population for each county and the number of retailers[10]. Dividing the population by the number of retailers gives us the population per retailer for each county.

Data from the California Department of Tax and Fee Administration (CDTFA) gives the total cannabis retail sales for each county as well as the sales per capita, derived by dividing the total sales by the population. From this, we are able to see the relationship between the retail density (population per retailer) and the sales per capita.

The average retail density for all served counties is 1 retailer per 32,148 residents. The average per capita sales for all served counties is $171 per person per year. For counties that have fewer than I retailer per 40,000 residents, the per-capita sales drop to just $84 per year. For those counties with a higher concentration of retailers, the per-capita sales increase consistent with the retail density. For counties with more than 1 retailer for every 40,000 residents, the per-capita sales go up to $207. For counties with greater than 1 retailer per 20,000 residents, the per-capita sales go up again to $226. For counties with greater than 1 retailer per 10,000 residents, the per-capita sales increase even further to $283. HdL generally recommends a retail density of 1 retailer per 20,000 residents for planning purposes.

[8] Department of Cannabis Control data does not specify what types of business activities are conducted by each microbusiness. HdL analysis indicates approximately 2 out of every 3 cannabis microbusinesses include retail sales.

[9] The table excludes 12 counties that have licensed retailers but have not yet reported a full year of sales.

[10] For purposes of this table, we have assumed that all microbusinesses include a retail component, though we know that a minority of microbusinesses do not. Unfortunately, data from the Department of Cannabis Control does not allow us to accurately determine which cannabis business activities are being conducted by each microbusiness.

Figure 5

Cannabis Retailers, Sales, and Sales per Capita by County					
County; All Agencies	**Population**	**Number of Retailers**	**Population per Retailer**	**Total Retail Sales**	**Sales per Capita**
Alameda	1,656,791	204	8,122	$273,569,272	$165
Calaveras	45,040	4	11,260	$12,423,700	$276
Contra Costa	1,154,158	18	64,120	$120,344,037	$104
El Dorado	195,380	12	16,282	$33,003,661	$169
Humboldt	130,859	41	3,192	$49,077,328	$375
Imperial	186,064	14	13,290	$20,842,841	$112
Kern	915,273	8	114,409	$20,419,736	$22
Lake	63,948	6	10,658	$9,718,775	$152
Los Angeles	10,045,420	384	26,160	$1,554,227,438	$155
Marin	257,879	8	32,235	$14,162,740	$55
Mendocino	86,672	30	2,889	$28,613,877	$330
Merced	284,857	9	31,651	$52,402,374	$184
Mono	13,296	5	2,659	$5,899,438	$444
Monterey	437,347	26	16,821	$77,441,041	$177
Napa	137,689	6	22,948	$11,508,038	$84
Orange	3,154,577	29	108,779	$273,249,465	$87
Riverside	2,454,741	137	17,918	$374,176,140	$152
Sacramento	1,561,232	101	15,458	$304,252,948	$195
San Bernardino	2,177,209	41	53,103	$113,933,330	$52
San Diego	3,316,066	62	53,485	$464,746,668	$140
San Francisco	875,062	74	11,825	$231,270,261	$264
San Joaquin	783,722	8	97,965	$63,426,658	$81
San Luis Obispo	271,190	21	12,914	$55,021,831	$203
San Mateo	765,487	17	45,029	$31,851,931	$42
Santa Barbara	441,224	29	15,215	$72,488,624	$164
Santa Clara	1,934,704	17	113,806	$220,033,935	$114
Santa Cruz	261,131	27	9,672	$62,332,024	$239
Shasta	177,810	12	14,818	$52,694,135	$296
Siskiyou	44,338	8	5,542	$6,371,830	$144
Solano	438,603	23	19,070	$68,154,581	$155
Sonoma	484,238	33	14,674	$106,595,333	$220
Stanislaus	555,985	28	19,857	$161,463,512	$290
Tulare	481,818	10	48,182	$59,822,581	$124
Ventura	835,467	19	43,972	$58,482,685	$70
Yolo	217,531	8	27,191	$35,786,055	$165
Totals:	**36,842,811**	**1,479**		**$5,099,808,823**	
Average Population per Retailer:			**32,148**		
Average Sales per Capita:					
All counties with active cannabis retailers					**$171**
Counties with fewer than 1 retailer per 40,000 residents					**$84**
Counties with more than 1 retailer per 40,000 residents					**$207**
Counties with more than 1 retailer per 20,000 residents					**$226**
Counties with more than 1 retailer per 10,000 residents					**$283**
Note: This data assumes that all microbusinesses include a retail component					

Department of Cannabis Control data shows that there are 384 licensed cannabis retailers (including microbusinesses) within Los Angeles County as a whole, serving a population of just over 10 million people. This works out to one retailer for every 26,160 people, or somewhat lower than the retail density of 1 per 20,000 that we commonly recommend for planning purposes. The sales per capita is $155, which is below the average of $171 for all counties, and well below the average of $207 for counties with more than 1 retailer per 40,000 residents. This suggests that even with a reasonable retail density, cannabis retailers are having difficulty serving their market. The distribution of cannabis retailers in Los Angeles County is shown in Figure 6.

Figure 6:

Cities with Cannabis Retailers			
City	**Population**	**Retailers**	**Population Per Retailer**
Avalon	3,738	1	3,738
Bellflower	77,886	4	19,472
Commerce	13,035	8	1,629
Cudahy	22,811	1	22,811
Culver City	39,528	8	4,941
El Monte	115,356	2	57,678
Huntington Park	59,079	2	29,540
Long Beach	469,893	34	13,820
Los Angeles	3,855,122	284	13,574
Lynwood	70,908	7	10,130
Malibu	12,854	2	6,427
Maywood	27,850	7	3,979
Montebello	63,538	10	6,354
Pasadena	139,382	2	69,691
Pomona	151,511	2	75,756
West Hollywood	34,971	10	3,497
Total Served Cities	5,157,462	384	13,431
Total Unserved Cities	3,792,358	0	
Unincorporated Area	1,095,600	0	
Total County	10,045,420	384	26,160
Figures assume all microbusinesses conduct retail sales			

The 384 existing retailers are located in just 16 of the 88 cities in the County, which combined hold roughly half of the total County population. These “served” cities have a retail density of 1 retailer per 13,431 residents, which is higher than our planning density. This suggests that the retailers located in these cities are also serving other neighboring or nearby “unserved” cities and unincorporated communities.

Figure 7, on the next page, shows the number of retailers that we would generally expect to see at our standard assumed retail density of 1 retailer per 20,000 residents. The 384 retailers in the served cities is 126 more than we would commonly expect based on the population of only those cities. Of course, retailers in these cities are also serving consumers in the unserved cities and unincorporated communities. We estimate that the combined population of these unserved areas could support 244 retailers. Combining the number of existing retailers in the served cities with the vacancy in the unserved areas leaves an unmet capacity of 118 additional retailers.

Figure 7:

Cannabis Retailer Capacity by Population					
City/County	**Population**	**Total Retailers**	**Population per Retailer**	**Capacity at 1 per 20,000**	**Over/Under Capacity**
Served cities	5,157,462	384	13,431	258	**126**
Unserved cities	3,792,358	0	N/A	190	**-190**
Unincorporated area	1,095,600	0	N/A	55	**-55**
Total unserved area	4,887,958	0	N/A	244	**-244**
Total County	10,045,420	384	N/A	502	**-118**
Figures assume all microbusinesses conduct retail sales Projections assume an area is well-served when there is one retailer per every 20,000 residents					

The unincorporated area covers 2,635 square miles, or more than 65 percent of the County. Some 1,268 square miles of this is federal lands, including the Santa Monica Mountains and the Angeles National Forest. While much of it is densely populated, other areas are more isolated and rural in nature, particularly those communities north of the San Gabriel Mountains near Lancaster. Locating cannabis retailers to serve the unincorporated area will need to balance proximity to the most populated areas, including unserved cities, with locations to serve these more remote communities.

Retail studies show that 93% of consumers are willing to travel 15 to 20 minutes to make most routine purchases[x]. This distance is likely somewhat higher in more rural areas. The most populated communities in the unincorporated area of the County are all generally within this distance from cities with existing cannabis retailers, which suggests that the vast majority of the County's population already has some amount of access to legal cannabis, though perhaps not convenient. These travel times may also be exacerbated by traffic.

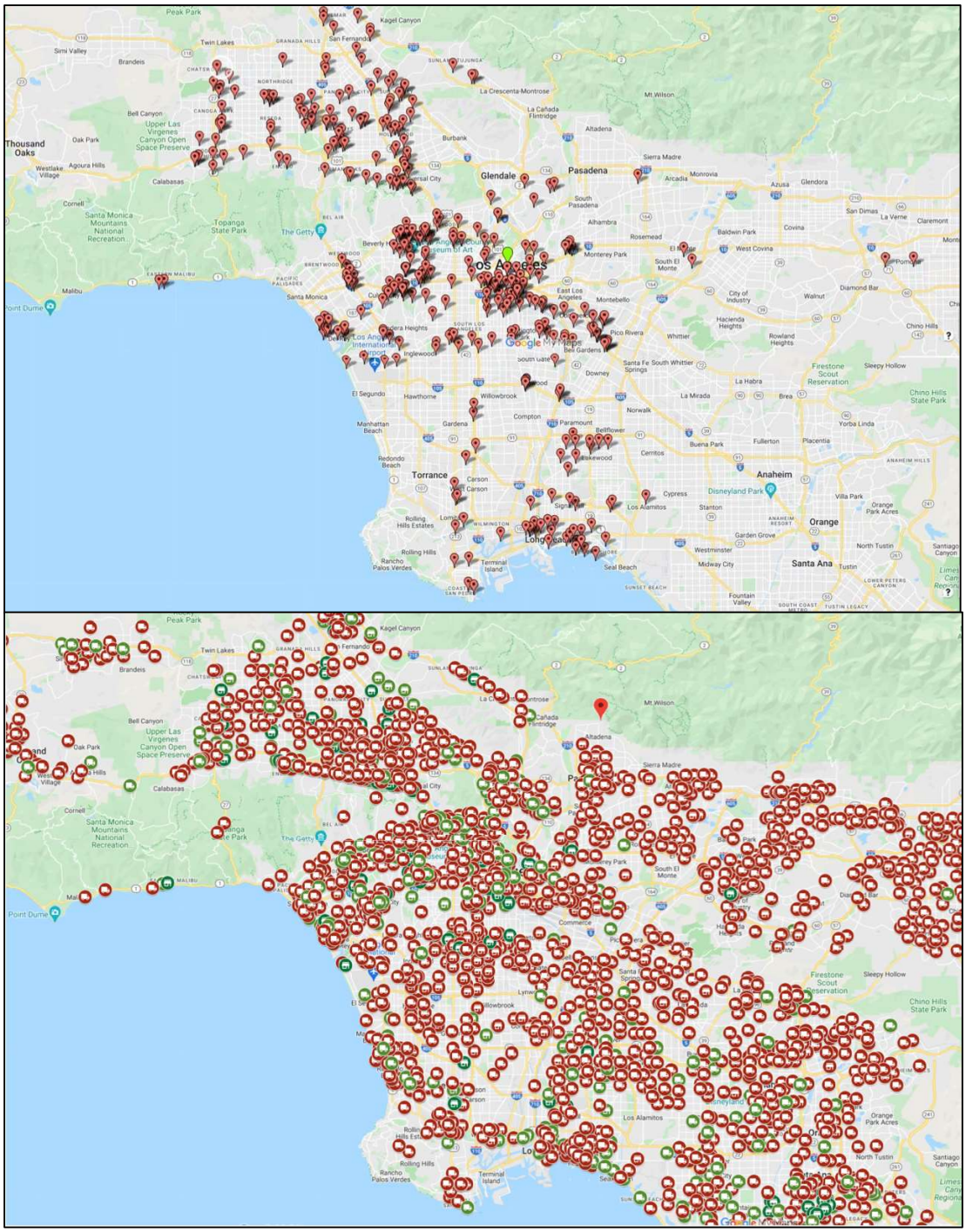
Figure 8 shows the general locations of the 384 existing cannabis retailers in Los Angeles County. The heavy concentration of retailers in central Los Angeles and the San Fernando Valley is clearly evident, as is the lack of retailers in Antelope Valley north of the San Gabriel Mountains. There also appears to be a lack of retailers in the San Gabriel Valley, South Bay, Santa Clarita Valley and Gateway Communities regions.

While all of these areas other than Antelope Valley are generally within 20 minutes of existing retailers, consumers in these locations would likely have to plan a special trip to their nearest cannabis retailer, rather than stopping in on their way to or from the grocery store.

Figure 8

Though Los Angeles County is reasonably well served by licensed retailers, they are still far outnumbered by unlicensed cannabis delivery services. The map at the top of Figure 9 displays the licensed retailers in the County, shown in red. The map at the bottom shows an estimated 1,000 or more unlicensed delivery services[11], shown in red, which far outnumber the licensed retailers in green.

Figure 9



[11] Data derived from Weedmaps. Unlicensed delivery services are shown based on the areas they deliver to, rather than their 'home' location, so a single delivery service may be represented many times on this map.

Figure 10 shows the area and population range of the cities and unincorporated communities in the County[xi]. Figure 11 shows the retail density of those cities that have cannabis retailers, and also shows those cities and the unincorporated area that have no cannabis retailers. As can be seen, the vast majority of the County and its cities are unserved, though most have reasonable access in nearby cities.

Figure 10:

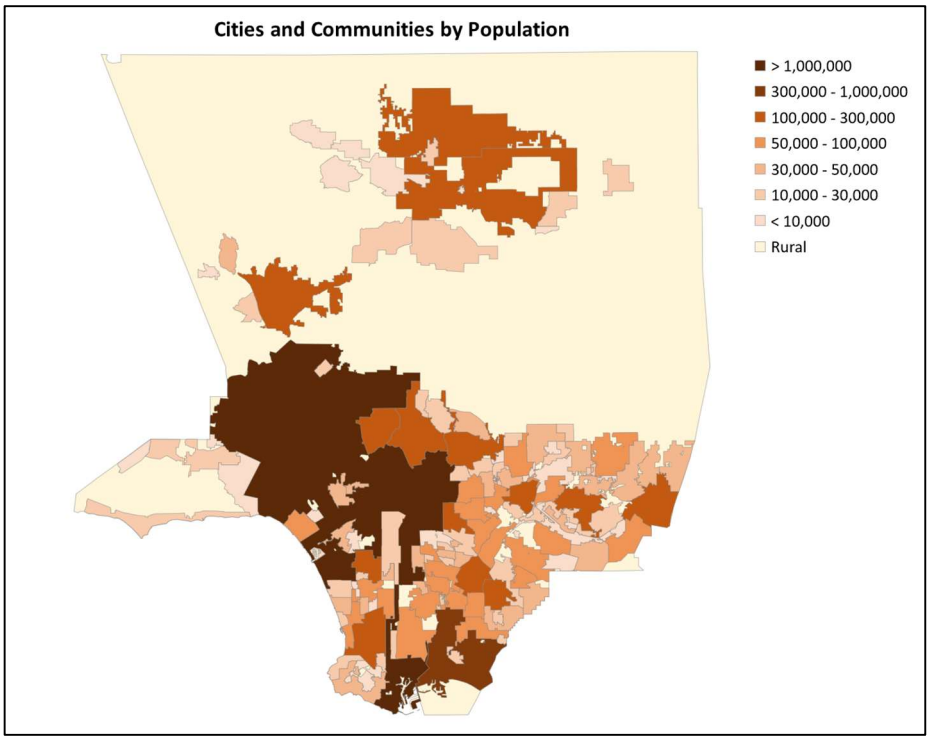
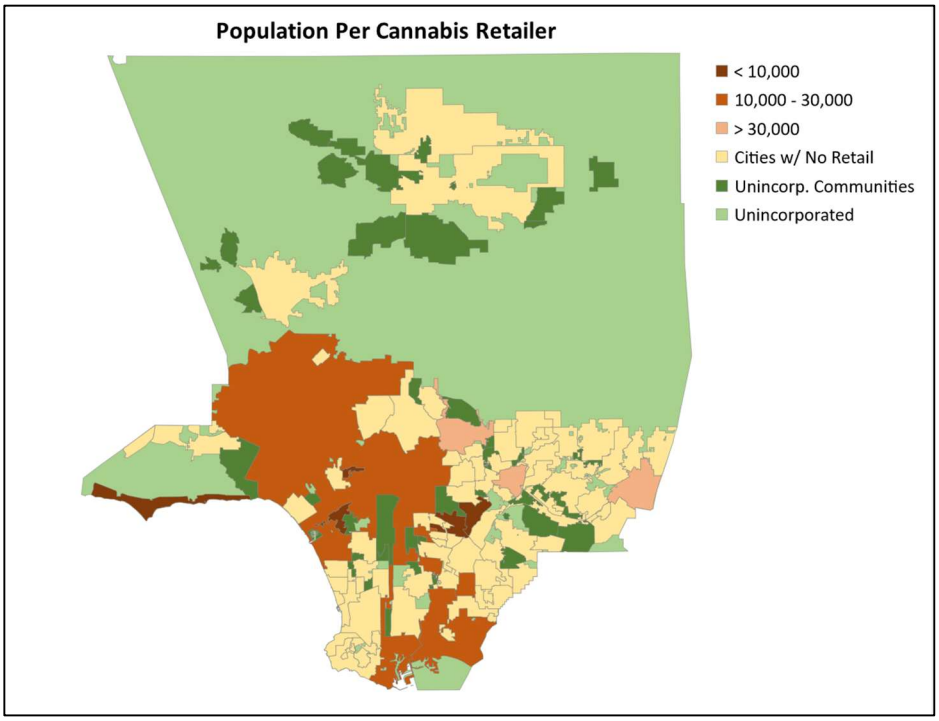


Figure 11:



In Figure 11, on the next page, we have provided a general scenario to estimate a reasonable range of cannabis tax revenues that the County may be able to generate from 50 licensed cannabis retailers (25 storefront and 25 non-storefront delivery) in the unincorporated area. Our analysis here is based on the size of the unserved market, not the number of retailers. However, we have adjusted our estimates to reflect the fact that the 50 retail licenses anticipated by the County is less than one half of the market capacity. Our estimates assume that these 50 retailers are located in a way that allows them to serve both the unincorporated area and unserved cities.

Starting with the overall County population of 10,045,420 people, we then back out the population of those cities already served by licensed retailers. This leaves us with the population of the unserved cities (3,792,358) and the unincorporated area (1,095,600), for a total unserved population of 4,887,958. However, we note that the number of retailers in the incorporated cities is high enough to also serve nearly half of the market in the unincorporated areas. For this reason, we have reduced our estimate of the unserved population by 50%, down to 2,443,979.

Figure 7 (page 15) showed that there is an unmet capacity of 118 additional retailers in the unincorporated area. The County anticipates an initial launch of 50 retail licenses and will potentially increase the number over the following years based on data and impacts of the initial launch. Due to the physical size of the County's unincorporated area, we do not believe that these 50 retailers would be adequate for serving this entire geographic area. For this reason, we have provided an additional 50% reduction to the size of the resident market that we believe will be served by this limited number of retailers. This brings our consumer base down to 1,221,990.

To this figure we apply a range of assumptions for the percentage of the population that uses cannabis on a regular basis. These estimates vary from around 10% to 13%[xii], up to as high as 22%[xiii]. This percentage is influenced by social acceptance of cannabis within the local community. Applying these estimates to our estimated population base of 1,221,990 people in the unincorporated area yields between roughly 122,000 and 269,000 potential cannabis consumers.

Cannabis retailers typically average around 120 customers per day[xiv]. Data shows that a typical cannabis consumer makes a purchase of $73 with an average frequency of twice a month[xv]. Applying this to our range of cannabis consumers yields monthly sales of between $18 million and $39 million, which works out to annual gross receipts of between $214 million and $471 million.

However, as with much of California, the County is still home to a thriving illicit market, with an unknown but significant number of unlicensed cannabis delivery services operating throughout the County. To account for this, we have assumed an additional 30% leakage to these unlicensed retailers. This brings our estimate of total gross receipts down to a range of $150 million to $330 million.

Applying our recommended retail cannabis tax rates to this range of total gross receipts yields a range of revenue projections. Applying HdL's recommended "low" rate of 4.0% would yield between $6 million and $13.2 million in annual cannabis tax revenue for the County, with a best estimate of $7.8 million. Applying a rate of 5.0% would yield between $7.5 million and $16.5 million, with a best estimate of $9.7 million in annual revenue. Applying HdL's recommended "maximum" rate of 6.0% would yield between $9 million and $19.8 million, with a best estimate of $11.7 million in annual cannabis tax revenue for the County.

In addition, retail cannabis sales would also generate between $1.5 million and $3.3 million in Bradley-Burns sales tax revenue for the County. These estimates are all shown in Figure 12, below.

Figure 12:

Revenue Projections for Cannabis Retailers			
	Low Estimate	"Best" Estimate	High Estimate
Total County	10,045,420	10,045,420	10,045,420
Population of served cities	5,157,462	5,157,462	5,157,462
Population of unserved cities	3,792,358	3,792,358	3,792,358
Population of unincorportated area	1,095,600	1,095,600	1,095,600
Total unserved population	4,887,958	4,887,958	4,887,958
Leakage to retailers in incorporated cities	50%	50%	50%
Resident population adjusted for leakage	2,443,979	2,443,979	2,443,979
Reduction for limited number of retailers	50%	50%	50%
Resident population adjusted for number of retailers	1,221,990	1,221,990	1,221,990
Percentage of population that uses cannabis	10%	13%	22%
Number of cannabis users	122,199	158,859	268,838
Average transaction amount	$73	$73	$73
Transaction frequency (per month)	2	2	2
Monthly gross receipts	$17,841,047	$23,193,361	$39,250,303
Annual gross receipts	$214,092,560	$278,320,329	$471,003,633
Leakage to black market (30%)	$64,227,768	$83,496,099	$141,301,090
Adjusted annual gross receipts	$149,864,792	$194,824,230	$329,702,543
Cannabis business tax rate:			
4.00%	$5,994,592	$7,792,969	$13,188,102
5.00%	$7,493,240	$9,741,211	$16,485,127
6.00%	$8,991,888	$11,689,454	$19,782,153
Bradley-Burns 1.0% Local Sales Tax	$1,498,648	$1,948,242	$3,297,025

VI. Cannabis Manufacturers

The manufacturing sector is still evolving and expanding, which presents significant opportunities for innovation, business development and job growth. The range of products being produced includes an ever-increasing variety of edibles such as candies, cookies, dressings, and infused (non-alcoholic) drinks. Manufacturers may produce their own extract on site, or they may buy extract from other Type 6 or Type 7 licensees.

Much like any other industry, cannabis manufacturers often depend upon other businesses to supply them with the various materials or components that go into their final product. These suppliers do not have to be located in or even near the same jurisdiction as the final manufacturer, and may be located anywhere throughout the state. In addition, the non-cannabis components of their products, such as papers, cartridges, packaging and non-cannabis food ingredients can be sourced from other states or even other countries.

Some manufacturers may handle all steps from extraction to packaging the end product in the form of vape pens or other such devices. Others may handle only discrete steps, such as making the raw cannabis concentrate, which is then sold either directly to retailers or to a Type N manufacturer who will package it into vapor cartridges or other end consumer products. Manufacturers also produce a wide variety of tinctures, as well as topicals such as cannabis infused lotions, salves, sprays, balms, and oils.

As of February 1, 2022, the Department of Cannabis Control shows 915 cannabis manufacturing licenses statewide. This is down from 1,029 in 2020, suggesting that the number of such businesses has likely plateaued somewhat. Of these, 476 are for non-volatile extraction, 198 are for volatile extraction, 161 are for non-extraction manufacturing, 36 are for packaging and labeling, and 41 are for manufacturers using a shared-use facility[12]. These 915 businesses are owned by 888 separate companies.

In its 2017 regulatory impact analysis[xvi], the Manufactured Cannabis Safety Branch (MCSB; now absorbed in the Department of Cannabis Control) estimated that there may ultimately be as many as 1,000 cannabis manufacturing businesses in California, employing around 4,140 people. This would indicate an average of 4 new jobs per manufacturer, though this figure likely varies significantly depending on the size and nature of each business.

Though the actual number of cannabis manufacturers in California has generally hovered around this number for the past few years, we believe these figures for both the potential number of cannabis manufacturing businesses and for the average number of employees are both on the low side. HdL is aware of individual manufacturers which have over 100 employees. While this may not be the norm, it demonstrates that individual cannabis manufacturers have the potential to far exceed the MCSB's early predictions.

In addition, some 70% of cities and counties in California continue to ban cannabis businesses outright[xvii], which greatly limits the size of the overall market available to legal businesses. As more jurisdictions allow and permit commercial cannabis businesses, the number of cultivators, manufacturers, distributors and retailers should increase accordingly to supply this growing market. We believe that the number of

[12] These manufacturing license types are all defined in Appendix A; Legal and Regulatory Background for California.

cannabis products manufacturers will continue to grow in parallel and proportion to the size of California's legal and licensed cannabis market.

HdL has reviewed pro-formas for numerous cannabis manufacturers seeking permits in counties and cities throughout California. From our review we have seen a range of gross receipts from around $1 million to well over $20 million, with an average in the range of $2 million to $3 million.

Figure 12, below, shows the range of cannabis tax revenues that could be generated by licensed cannabis manufacturers in the unincorporated area of the County applying HdL's recommended rates of 2.5% to 4.0% of gross receipts. We have provided a scenario that assumes the County allows and permits 10 cannabis manufacturers, each with average gross receipts of $2.5 million. Again, we emphasize that this is an average based on a huge range, with some individual manufacturers showing gross receipts of well over $20 million. We believe the conservative estimates below are more reliable for purposes of revenue projections.

At HdL's recommended initial rate of 2.5%, 2 manufacturers could generate $625,000 in cannabis tax revenue for the County. Applying a tax rate of 3.0%, would generate $750,000 in revenue for the County, and a tax rate of 4.0% would generate $1,000,000 in annual cannabis tax revenue for the County.

Figure 12:

Cannabis Manufacturers; HdL Recommended Rates						
Type 6/7/N/P Manufacturer	**# of Licenses**	**Avg Gross Receipts**	**Total Gross Receipts**	**Revenue @ 2.5% Tax Rate**	**Revenue @ 3.0% Tax Rate**	**Revenue @ 4.0% Tax Rate**
Scenario 1	10	$2,500,000	$25,000,000	$625,000	$750,000	$1,000,000

VII. Cannabis Distributors

Perhaps more than any other part of the cannabis supply chain, distributors are greatly dependent upon the number and variety of other cannabis business types within their service area. Essentially, distributors need a certain "critical mass" of other cannabis businesses for them to serve. Because of this, distributors tend to be located in cities or regions which have an appropriate base of cultivation or manufacturing businesses to work with, as well as a large surrounding customer base.

As a very general figure, the number of cannabis distributors statewide is roughly 20% of the number of all other cannabis businesses, combined, or 1 distributor for every 4 other cannabis businesses. In addition, virtually all licensed microbusinesses in California include distribution as one of their licensed activities[13]. We can reasonably extrapolate from this to assume that a similar ratio of distributors to other businesses is necessary within any defined region.

The business model for distributors is based on a percentage markup on the price paid to their suppliers. This markup commonly averages 20% to 30%, though this depends upon the actual services being provided. However, it is important to note that the distributor category may include a variety of services, not all of which are provided by all licensed distributors. Just over 12% of distributors hold Type 13 licenses that allow self-distribution or transport only. A distributor which is only buying and reselling cannabis at wholesale may make as little as 10% on a transaction, while a distributor which is purchasing raw flower and packaging it as pre-rolls for retail sale may make 50% or more on such a value-added transaction.

Distributors may have annual revenues ranging from less than $1 million to over $70 million. The vast majority of distributors would fall at the lower end of that range, with those at the high end qualifying as outliers. While there is not yet an abundance of data to determine the average gross receipts for distributors, HdL has reviewed a number of pro-formas for distributors seeking licenses in other jurisdictions. These indicate anticipated gross receipts commonly in the range of $2 million to $3 million per year, with an average of $2.5 million.

Data from the Department of Cannabis Control shows that there are currently 339 licensed distributors in the Los Angeles County region and 999 other cannabis businesses, or roughly 1 distributor for every 3 other cannabis businesses, which is significantly higher than the 1-to-4 ratio we commonly see. This suggests that the region is already well served with cannabis distributors, and that there may not be immediate demand for additional such businesses. However, as the County and additional cities begin permitting cannabis businesses in their jurisdictions, we would expect that the number of cannabis distributors would likely increase over time in proportion to the increase other cannabis business types.

Some portion of these new distributors would likely hold a distribution license as an ancillary activity to reduce operating costs for their primary business as a cultivator, manufacturer or retailer and to provide a secondary revenue stream. This would be particularly true in the more remote rural areas of the County, where allowing a mix of business activities may be the key to business viability.

[13] Data as of April 2021. The Department of Cannabis Control has recently changed how it reports this data, which prevents us from being able to determine the specific types of activities being conducted by microbusinesses.

Figure 13, below, shows the range of cannabis tax revenues that could be generated by cannabis distributors in the unincorporated area of the County applying HdL's recommended rates of 2.0% to 3.0% of gross receipts. The County has provided direction to allow up to 10 cannabis distributors in the unincorporated area, which we believe is a reasonable and attainable number. We have estimated average gross receipts of $2.5 million. Again, we emphasize that this is an average based on a huge range, with some outliers showing gross receipts in the tens of millions of dollars. While it is certainly possible such a business may wish to establish itself in the unincorporated area of the County, we believe conservative estimates below are more reliable.

At HdL's recommended initial rate of 2.0%, 10 distributors located in the unincorporated area could generate $600,000 in cannabis tax revenue for the County. As with our projections for other license types, we caution that this the number of businesses and the gross receipts for each will likely take time to develop. The County should not look at this as a first- or second-year projection.

Figure 13:

Cannabis Distributors; HdL Recommended Rates						
Distributors	**# of Licenses**	**Avg Gross Receipts**	**Total Gross Receipts**	**Revenue @ 2.0% Tax Rate**	**Revenue @ 2.5% Tax Rate**	**Revenue @ 3.0% Tax Rate**
Scenario 1	10	$2,000,000	$20,000,000	$400,000	$500,000	$600,000

VIII. Cultivation

The State of California has been issuing licenses for cannabis cultivation since January 1, 2018. These licenses were initially issued by the CalCannabis Division of the California Department of Food and Agriculture (CDFA) but have since transitioned to the newly-formed Department of Cannabis Control (DCC). The Standardized Regulatory Impact Assessment prepared for CDFA as a part of its rule-making process estimated that Californians consume approximately 2.5 million pounds of cannabis per year[xviii].

As of February 1, 2022, data from the DCC shows 8,494 active cultivation licenses statewide, held by 3,392 distinct businesses[14]. These licenses cover nearly 2,000 acres of canopy and are capable of producing over 16 million pounds of cannabis per year. Of these, there are 41 businesses that each hold 20 cultivation licenses or more, and 10 of which hold more than 100 licenses each. The largest of these holds 271 cultivation licenses. Combined, these large cultivators hold 2,840 cultivation licenses, with 657 acres of canopy capable of producing nearly 3.6 million pounds of cannabis per year. These 41 large cultivators alone could supply far more cannabis than is consumed by all Californians, combined.

Despite this cultivation capacity, reporting from the California Department of Tax and Fee Administration (CDTFA) shows that only 2,350,000 pounds of cannabis entered the commercial market in 2020[xix] (the last year for which data is available), which is very close to the CDFA's early estimate. The huge difference between cultivation capacity and the size of the licensed market is difficult to explain. It is believed that some portion of legally cultivated cannabis is being diverted into the illicit market both within California and across the country, but the amount and the mechanism for how it is being diverted are unknown.

The cannabis cultivation market in California has far exceeded its saturation point, which suggests that there is not enough room for those growers already licensed, much less new entrants into the market. More than any other part of the cannabis industry, entry into the highly competitive cultivation sector can be filled with risk and requires ample capitalization and a clear strategy to win shelf space. It is not uncommon for small, independent cannabis producers and manufacturers to have to pay for retail shelf space just to get their product in front of consumers.

Cannabis cultivation taxes are most commonly assessed on a square-footage basis. As with other cannabis business types, HdL recommends the County consider tax rates for cultivation that are consistent with those discussed in Section III; *Common Cannabis Tax Rates*, as shown in Figure 4. Cannabis cultivation taxes may also be assessed on gross receipts or by weight. Any of these methods can be accommodated, and each can be adjusted to generate an equivalent amount of revenue. Each method also has its advantages and disadvantages.

A tax based on square footage can be seen essentially as a tax on area of impact, under the assumption that the greater the size of the operation, the higher the impact on the surrounding neighborhood and County services. The tax is on the privilege of being allowed to cultivate a certain square footage, not upon the amount of cannabis produced or the value of that cannabis.

[14] The actual number of distinct businesses is likely somewhat lower, as minor typos or inconsistencies in how a name is written appear as separate business names in the DCC database.

A square footage tax has the advantage that the amount of annual tax liability is generally known in advance by both the County and the tax-paying business, as it is keyed to the permitted amount of cultivation area. This allows both parties to budget accordingly. Variances in the actual amount of cultivation area being planted per cycle can be accommodated through advance notification, monitoring and regular inspections or audits. The amount of tax paid does not automatically increase with inflation, making it necessary to include a mechanism to adjust the tax rate annually in accordance with the Consumer Price Index (CPI).

Taxing cannabis cultivation by weight is essentially a tax on production. The tax is on the volume of product, rather than on the size of the operation or the profits generated. This method assumes that the volume of cannabis being produced creates a commensurate impact on the community. The State tax rate for cultivation is set by weight at $10.08 per ounce of dried flower or $3.00 per ounce of dried leaf. Because these rates are set by weight, rather than as a percentage of price paid, the tax is the same whether the cultivator is producing commercial-grade cannabis at $300 per pound or top-grade cannabis at $2,000 per pound. Reporting and remittance for a weight-based tax can be tied to the figures being reported to the State. As with the square-footage tax, it is necessary to annually adjust the tax rate to reflect changes in the CPI.

A tax on gross receipts taxes the gross income of the business, not the actual profits. As such, a gross receipts tax is effectively a tax on conducting business, regardless of the physical size of the operation, the volume of cannabis being produced, or the profitability of the business. A gross receipts tax has the advantage of increasing or decreasing in accordance with income and automatically adjusting for inflation. Because the cannabis industry largely operates on a cash basis, annual financial audits are highly recommended to ensure that all receipts have been properly reported and all taxes fairly remitted.

Each of these tax methods has advantages and disadvantages for the operator, depending upon the cultivation methods being used and the price point for the cannabis being produced. Indoor and mixed-light cultivation are both able to produce multiple harvests per year, while outdoor cultivation only produces one, so the square footage rates must be adjusted for each. In addition, cannabis grown indoors tends to demand a higher market price than mixed-light, with outdoor cannabis getting the lowest prices of the three. This is a factor that should be adjusted for both square footage rates and per-pound rates.

HdL has developed a methodology for comparing tax rates by square footage, gross receipts and by weight. Though there are numerous variables that can only be determined on a case-by-case basis, this methodology allows us to determine rates that are generally equivalent regardless of the tax basis being used. This allows the host jurisdiction to ensure that their cultivation tax rates are generally consistent with the rates applied by other nearby jurisdictions, even when they are using different taxing methods.

Cultivation yield is generally assumed to average one pound of cannabis flower for every 10 square feet of cultivation area. This metric is drawn from a 2010 study by the Rand Corporation[xx]. Though the study is fairly old for such a young industry, its findings remain generally consistent with more recent studies. Some cultivation facilities can yield one pound for every eight square feet, and others cite yields that are much lower (more square feet per pound), but 10 square feet remains a convenient and commonly used metric which provides for conservative estimates. Using this figure, a 10,000 square foot cultivation facility operating 4 cycles would produce around 4,000 pounds of cannabis per year.

The price per pound is conservatively assumed to be $1,000. This figure is somewhat lower than the current average for indoor-grown cannabis, but there is still great variability in the market and, over the long term we anticipate that wholesale prices for raw cannabis will continue to decline. Applying this figure, our 10,000 square foot facility would generate $4 million in gross receipts.

Figure 14 (below) shows how these assumptions can be applied to generate an equivalent tax rate based on square footage, weight or gross receipts, and the total annual tax that would be paid for a hypothetical 10,000 square feet of cultivation. We have used a base rate of 1.00% of gross receipts for illustration purposes. The County does not intend to permit outdoor cultivation at this time, so our analysis here is limited to indoor and mixed-light cultivation, only.

As can be seen, both methods pay the same percentage of gross receipts and the same price per pound, but the effective tax rate per square foot and the total annual tax paid varies greatly due to the different number of harvest cycles possible with each method.

Figure 14:

Cultivation Tax Rates Assuming Constant Market Price									
	A	B	C	D	E	F	G	H	I
Cultivation Type	Harvest Cycles /Year	Sample Area (sq ft)	Yield @ 1 lb/10 sf /cycle	Price per pound	Gross Receipts	Tax Rate % Gross Receipts	Tax Rate per SF	Tax Rate per Pound	Total Annual Tax Paid
Indoors	4	10,000	4,000	$1,000	$4,000,000	1.00%	$4.00	$10.00	$40,000
Mixed Light	3	10,000	3,000	$1,000	$3,000,000	1.00%	$3.00	$10.00	$30,000

As discussed above, the market has generally been awarding a higher price for cannabis grown indoors than for cannabis grown in mixed-light. Though prices can vary widely, we assume a conservative market price differential of $1,000 per pound for indoors and $800 for mixed light. When we adjust for this price differential, the equivalent rates per square foot and per pound both change significantly, as does the total annual tax paid. This is shown in Figure 15.

Figure 15:

Cultivation Tax Rates Assuming Variable Market Price									
	A	B	C	D	E	F	G	H	I
Cultivation Type	Harvest Cycles /Year	Sample Area (sq ft)	Yield @ 1 lb/10 sf /cycle	Price per pound	Gross Receipts	Tax Rate % Gross Receipts	Tax Rate per SF	Tax Rate per Pound	Total Annual Tax Paid
Indoors	4	10,000	4,000	$1,000	$4,000,000	1.00%	$4.00	$10.00	$40,000
Mixed Light	3	10,000	3,000	$800	$2,400,000	1.00%	$2.40	$8.00	$24,000

HdL generally recommends that tax rates for indoor cultivation be set at an initial rate of $7 per square foot (sf) up to a maximum rate of $10 per square foot, with mixed-light cultivation ranging from $4/sf to $7/sf. We would recommend that square footage taxes be set at initial rates of $7/sf for indoor cultivation and $4/sf for mixed light. These rates would give an approximate equivalent rate of 1.67% to 1.75% of gross receipts, as shown in Figure 16, below. We note that these rates do not all result in nice, round

numbers, but we encourage readers of this report not to dwell upon that detail. As discussed above, there are many variables in cultivation and it is unlikely that any two cultivators will have exactly the same yield per square foot or receive exactly the same price per pound for their product.

Figure 16:

Initial Cultivation Tax Rates Assuming Variable Market Price									
	A	B	C	D	E	F	G	H	I
Cultivation Type	Harvest Cycles /Year	Sample Area (sq ft)	Yield @ 1 lb/10 sf /cycle	Price per pound	Gross Receipts	Tax Rate % Gross Receipts	Tax Rate per SF	Tax Rate per Pound	Total Annual Tax Paid
Indoors	4	10,000	4,000	$1,000	$4,000,000	1.75%	$7.00	$17.50	$70,000
Mixed Light	3	10,000	3,000	$800	$2,400,000	1.67%	$4.00	$13.33	$40,000

Figure 17, below, shows rates based upon $10 per square foot for indoor cultivation and $6 per square foot for mixed-light. These would give an equivalent rate of approximately 2.50% of gross receipts.

Figure 17:

Maximum Cultivation Tax Rates Assuming Variable Market Price									
	A	B	C	D	E	F	G	H	I
Cultivation Type	Harvest Cycles /Year	Sample Area (sq ft)	Yield @ 1 lb/10 sf /cycle	Price per pound	Gross Receipts	Tax Rate % Gross Receipts	Tax Rate per SF	Tax Rate per Pound	Total Annual Tax Paid
Indoors	4	10,000	4,000	$1,000	$4,000,000	2.50%	$10.00	$25.00	$100,000
Mixed Light	3	10,000	3,000	$800	$2,400,000	2.50%	$6.00	$20.00	$60,000

Maximum rates exist primarily to provide an upper limit for the purposes of the cannabis tax ballot measure and are not intended as a target to be achieved. The maximum rates are provided to allow for future scenarios where the higher rates may be appropriate based upon changes in the marketplace. For this reason, we recommend that the maximum rate be based upon the constant market price scenario where all cultivation types receive the same price for their product. Essentially, the initial rates should be set to reflect current market conditions, while the maximum rates should be adequate to allow for unforeseeable future market conditions. We recommend that the maximum square footage rates for cultivation be set at $10/sf for indoor and $7/sf for mixed light as shown in Figure 18.

Figure 18:

Maximum Cultivation Tax Rates Assuming Constant Market Price									
	A	B	C	D	E	F	G	H	I
Cultivation Type	Harvest Cycles /Year	Sample Area (sq ft)	Yield @ 1 lb/10 sf /cycle	Price per pound	Gross Receipts	Tax Rate % Gross Receipts	Tax Rate per SF	Tax Rate per Pound	Total Annual Tax Paid
Indoors	4	10,000	4,000	$1,000	$4,000,000	2.50%	$10.00	$25.00	$100,000
Mixed Light	3	10,000	3,000	$1,000	$3,000,000	2.33%	$7.00	$23.33	$70,000

For purposes of revenue projections, we have provided a scenario where the 10 permits to be issued by the County are divided between 5 licenses for medium indoor cultivation (Type 3A) and 5 licenses for medium mixed-light cultivation (Type 3B). The Type 3A indoor and Type 3B mixed-light cultivation licenses are allowed to cultivate up to 22,000 square feet of canopy.

Multiplying by the number of licenses gives a total cultivation area of 110,000 square feet of canopy each for mixed-light and indoor cultivation, for a total of 220,000 square feet. Applying HdL's recommended initial tax rates of $4.00/sf for mixed light and $7.00/sf for indoor would yield a total of $1,210,000 in annual cannabis tax revenue for the County. Applying medium rates of $5.50/sf and $8.50/sf, respectively, would generate up to $1,540,000, and HdL's maximum rates of $7.00/sf and $10/sf would generate up to $1,870,000 in annual revenue for the County. These revenues are shown in Figures 19, 20 and 21, below.

Figure 19:

Cannabis Cultivation; HdL Initial Rate					
Cultivation Type	**# of Sites**	**Avg. Square Footage**	**Total Square Footage**	**Tax Rate per Square Foot**	**Total Tax Revenue**
Indoor	5	22,000	110,000	$7.00	$770,000
Mixed Light	5	22,000	110,000	$4.00	$440,000
Total	**10**		**220,000**		**$1,210,000**

Figure 20:

Cannabis Cultivation; HdL Medium Rate					
Cultivation Type	**# of Sites**	**Avg. Square Footage**	**Total Square Footage**	**Tax Rate per Square Foot**	**Total Tax Revenue**
Indoor	5	22,000	110,000	$8.50	$935,000
Mixed Light	5	22,000	110,000	$5.50	$605,000
Total	**10**		**220,000**		**$1,540,000**

Figure 21:

Cannabis Cultivation; HdL Maximum Rate					
Cultivation Type	**# of Sites**	**Avg. Square Footage**	**Total Square Footage**	**Tax Rate per Square Foot**	**Total Tax Revenue**
Indoor	5	22,000	110,000	$10.00	$1,100,000
Mixed Light	5	22,000	110,000	$7.00	$770,000
Total	**10**		**220,000**		**$1,870,000**

IX. Testing Laboratories

As of February 1, 2022, the Department of Cannabis Control has issued 43 licenses for cannabis testing laboratories in California. These laboratories tend to be located in areas with a large amount of commercial cannabis activity. Data from the DCC shows 6 testing laboratories located in the City of Los Angeles, 5 in Long Beach, 2 in Monrovia and 1 in Pasadena. Nearby, there are 5 testing labs in Orange County (3 in Irvine and 2 in Santa Ana) and 2 in Cathedral City in Riverside County.

The Medical and Adult Use Cannabis Regulation and Safety Act (MAUCRSA) requires that all dried cannabis flower or leaf must be tested for tetrahydrocannabinol (THC) and cannabidiol (CBD) content, contaminants, impurities and other factors before it can be sold to a manufacturer, distributor, dispensary or end user. Batch testing for raw cannabis requires a 2.3 gram sample per pound, which works out to a loss of 0.5% of the volume (the sample must be destroyed after testing). DCC regulations limit the maximum batch size to no more than 10 pounds. The costs for all of the tests as required under MAUCRSA have not yet settled into a clear norm, but an online survey of a number of cannabis testing facilities in California suggest an average of $750 per 10-pound batch, or $75 per pound, which equals 7.5% of the $1,000 per pound price. The cost and loss of product amount to an additional 8% cost to the product which, when added to the cultivation tax, excise tax and any local taxes, helps push the cumulative tax rate towards 30%.

Testing is a semi-regulatory function mandated by the State to protect consumer health and safety, and which amounts to a State-imposed cost on the product. Unlike cultivation or manufacturing, testing does not create product or add value to the product, and unlike distributors or retailers, the testing laboratory is prohibited from having any ownership interest in the product. MAUCRSA requires that testing laboratories be completely independent from any other cannabis business, and prevents them from benefitting from, or having any interest in, the results of the test or the value of the product. In this way, testing laboratories are categorically different from any other cannabis business type. An analogy might be an independent auto shop that does State mandated smog tests for used car dealerships. They perform the test to State standards for a given price, but they don't benefit in any way from the sale of the car, or from its sale price.

HdL generally recommends that cannabis testing laboratories be taxed at a rate of 1% up to 2% of gross receipts. However, given the semi-regulatory function they provide, some cities and counties have chosen not to apply a tax to testing facilities.

Pro formas reviewed by HdL suggest average gross receipts of $2,000,000 for testing laboratories. Below we have shown the amount of revenue that could potentially be generated from 1 facility, though we would recommend that the County should not anticipate any testing laboratories for purposes of revenue projections, as there are already 14 located in various cities within the County.

Figure 22:

Cannabis Testing Laboratories; HdL Recommended Rates						
Testing Laboratories	**# of Licenses**	**Avg Gross Receipts**	**Total Gross Receipts**	**Revenue @ 1.0% Tax Rate**	**Revenue @ 1.5% Tax Rate**	**Revenue @ 2.0% Tax Rate**
Scenario 1	1	$2,000,000	$2,000,000	$20,000	$30,000	$40,000

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A. Legal and Regulatory Background for California

The legal and regulatory status of cannabis in the State of California has been continually evolving ever since the passage of Proposition 215, the Compassionate Use Act of 1996 (CUA), which de-criminalized the use, possession and cultivation of cannabis for qualifying patients and their primary caregivers when such use has been recommended by a physician. The CUA did not create any regulatory program to guide implementation, nor did it provide any guidelines for local jurisdictions to establish their own regulations. The lack of legal and regulatory certainty for medical marijuana (or cannabis) continued for nearly 20 years, until the passage of the Medical Cannabis Regulation and Safety Act (MCRSA) in October of 2015. MCRSA created a State licensing program for commercial medical cannabis activities, while allowing counties and cities to maintain local regulatory authority. MCRSA required that the State would not issue a license without first receiving authorization by the applicable local jurisdiction.

On November 8, 2016, the voters of the State of California approved Proposition 64, the Adult Use of Marijuana Act (AUMA), which allows adults 21 years of age or older to legally grow, possess, and use marijuana for personal, non-medical "adult use" purposes, with certain restrictions. AUMA requires the State to regulate non-medical marijuana businesses and tax the growing and selling of medical and non-medical marijuana. Cities and counties may also regulate non-medical marijuana businesses by requiring them to obtain local permits or restricting where they may be located. Cities and counties may also completely ban marijuana related businesses if they so choose. However, cities and counties cannot ban transport of cannabis products through their jurisdictions, nor can they ban delivery of cannabis by licensed retailers to addresses within their jurisdiction (added later through regulations).

On June 27, 2017, the Legislature enacted SB 94, which repealed MCRSA and incorporated certain provisions of MCRSA into the licensing provisions of AUMA. These consolidated provisions are now known as the Medicinal and Adult-Use Cannabis Regulation and Safety Act (MAUCRSA). MAUCRSA revised references to "marijuana" or "medical marijuana" in existing law to instead refer to "cannabis" or "medicinal cannabis," respectively. MAUCRSA generally imposes the same requirements on both commercial medicinal and commercial adult-use cannabis activity, with certain exceptions. MAUCRSA also made a fundamental change to the local control provisions. Under MCRSA, an applicant could not obtain a State license until they had a local permit. Under MAUCRSA, an applicant for a State license does not have to first obtain a local permit, but they cannot be in violation of any local ordinance or regulations. The State licensing agency shall contact the local jurisdiction to see whether the applicant has a permit or is in violation of local regulations, but if the local jurisdiction does not respond within 60 days, then the applicant will be presumed to be in compliance and the State license will be issued.

MAUCRSA authorizes a person to apply for and be issued more than one license only if the licensed premises are separate and distinct. With the passage of AB 133 in 2017, a person or business may co-locate multiple license types on the same premises, allowing a cultivator to process, manufacture or distribute their own product from a single location. This includes the allowance to cultivate, manufacture, distribute or sell cannabis for both medical and adult use from a single location. Licensees of cannabis testing operations may not hold any other type of license. However, these allowances are still subject to local land use authority, so anyone seeking to operate two or more license types from a single location would be prohibited from doing so unless local regulations allow both within the same zone.

The table below provides a detailed overview of the license types available under California's cannabis regulations:

State Cannabis Business License Types				
Type	**Activity**	**Description**	**Details**	**Notes**
1	Cultivation	Outdoor; Specialty, Small	Up to 5,000 sf, or 50 plants on non-contiguos plots	A, B
1A	Cultivation	Indoor; Specialty, Small	501 sf - 5,000 sf	A, B
1B	Cultivation	Mixed-Light; Specialty, Small	2,501 sf - 5,000 sf	A, B
1C	Cultivation	Outdoor/indoor/mixed; Specialty Cottage, Small	Up to 25 plants outdoor; up to 2,500 sf mixed light; up to 500 sf indoor	A, B
2	Cultivation	Outdoor; Small	5,001 sf - 10,000 sf	A, B
2A	Cultivation	Indoor; Small	5,001 sf - 10,000 sf	A, B
2B	Cultivation	Mixed Light, Small	5,001 sf - 10,000 sf	A, B
3	Cultivation	Outdoor; Medium	10,001 sf - one acre	A, B, C
3A	Cultivation	Indoor; Medium	10,001 sf - 22,000 sf	A, B, C
3B	Cultivation	Mixed-Light; Medium	10,001 sf - 22,000 sf	A, B, C
4	Cultivation	Nursery		A, B
-	Cultivation	Processor	Conducts only trimming, drying, curing, grading and packaging of cannabis	A, B, E
5	Cultivation	Outdoor; Large	Greater than 22,000 sf	A, B, D
5A	Cultivation	Indoor; Large	Greater than 22,000 sf	A, B, D
5B	Cultivation	Mixed-Light; Large	Greater than 22,000 sf	A, B, D
6	Manufacturer 1	Extraction; Non-volatile	Allows infusion, packaging and labeling	A, B
7	Manufacturer 2	Extraction; Volatile	Allows infusion, packaging and labeling, plus non-volatile extraction	A, B
N	Manufacturer	Infusion for Edibles, Topicals	No extraction allowed	A, B, E
P	Manufacturer	Packaging and Labeling	No extraction allowed	A, B, E
S	Manufacturer	Shared-use manufacturer	Manufacturing in a shared-use facility	A, B, E
8	Testing		Shall not hold any other license type	A
9	Retailer	Non-storefront retail delivery	Retail delivery without a storefront	A, F
10	Retailer	Retail sale and delivery		A, B
11	Distributor			A, B
12	Microbusiness	Cultivation, Manufacturer 1, Distributor and Retailer	< 10,000 sf of cultivation; must meet requirements for all license types	A, B
A	All license types valid for 12 months and must be renewed annually			
B	All license types except Type 8 Testing must be designated "A" (Adult Use), "M" (Medical) or "A/M"			
C	CDFA shall limit the number of licenses allowed of this type			
D	No Type 5 licenses shall be issued before January 1, 2023			
E	Established through rulemaking process			

AUMA, and its successor MAUCRSA, required three state agencies, the Bureau of Cannabis Control, the California Department of Food and Agriculture, and the California Department of Public Health, to permit commercial cannabis licensees and to adopt regulations for the cannabis industry. On January 16, 2019, all three agencies announced that the state's Office of Administrative Law officially approved state regulations, which took immediate effect and replaced emergency regulations that had been in effect since 2017. The final regulations were largely similar to the emergency regulations, but somewhat controversially, Section 5416(d) of the Bureau of Cannabis Control regulations authorizes deliveries of cannabis products into any city or county in the state, even if a city or county has banned commercial deliveries.

On July 12, 2021, Governor Gavin Newsom signed AB 141 into law, which consolidated the Bureau of Cannabis Control, the California Department of Food and Agriculture's CalCannabis Division, and the California Department of Public Health's Manufactured Cannabis Safety Branch into a single agency, now called the Department of Cannabis Control.

B. State Tax Considerations

To determine what local tax rates might be most appropriate, they must be considered in the context of other taxes imposed by the State. Any local taxes will be in addition to those taxes applied through the Adult Use of Marijuana Act (AUMA), which imposes both a 15% excise tax on purchases of cannabis or cannabis products and a separate cultivation tax on harvested cannabis that enters the commercial market, as well as sales tax. Taxes are most commonly expressed as a percent of price or value, so some method of conversion is necessary to allow development of an appropriate cultivation tax based on square footage.

The State tax rate for cultivation is set at $10.08 per ounce of dried flower or $3.00 per ounce of dried leaf. Because these rates are set per ounce, rather than as a percentage of price paid, the tax is the same whether the cultivator is producing commercial-grade cannabis at $500 per pound or top-grade cannabis at $2,500 per pound. The cultivator is generally responsible for payment of the tax, though that responsibility may be passed along to either a manufacturer or distributor via invoice at the time the product is first sold or transferred. The distributor is responsible for collecting the tax from the cultivator upon entry into the commercial market, and remitting it to the California Department of Tax and Fee Administration.

Cumulative Cannabis Taxes

Category	Amount	Increase	Cumulative Price
Producer Price	$1,000	$1,000	$1,000
State Cultivation Tax, per oz.	$10.08	$161	$1,161
Local Tax	2.50%	$25	$1,186
Batch Testing	$75/lb, + 0.75%	$75	$1,261
Wholesale Price w/ Taxes		$1,261	
Total Tax at Wholesale		$261	
Tax as %		26.13%	
Distributor Markup	20.00%	$252	$1,514
Local Tax	2.00%	$30	$1,544
Total Distributor Price		$1,544	
Total Taxes at Distributor		$292	
Total Tax as %		18.89%	
Retailer Markup	100.00%	$1,544	$3,088
Local Tax	4.00%	$124	$3,211
State Excise Tax	15.00%	$463	$3,674
Total Retailer Price		$3,674	
Total Taxes at Retail		$878	
Total Tax as %		23.90%	
CA Sales Tax (non-medical)	6.25%	$230	$3,904
Local Sales Taxes	3.25%	$119	$4,023
Total Taxes at Retail		**$1,227**	
Total Tax as %		**30.50%**	
Total Local Tax		**7.41%**	**$298.19**

The cultivation tax of $10.08 per ounce of dried flower is equivalent to $161 per pound. Just 2 years ago, HdL would have assumed an average wholesale market price for dried flower of around $1,500 per pound, which would make that $161 equal to roughly 11% of value. Since then, however, prices have plummeted.

Competitive market forces enabled by legalization have brought the average price for indoor cannabis down to around $1,000 per pound, or even less (cannabis prices vary greatly based on product quality).

Conversations with cannabis industry trade groups suggest that the cumulative tax rate on the end product should remain at or below 30%. Higher rates create too much price disparity between legal and illegal cannabis, making it harder for the regulated industry to compete with the illicit market. Higher local tax rates can also make a county or city less attractive to the industry, especially for manufacturers and distributors, which have greater flexibility in choosing where to locate. We believe that setting rates that adhere to this 30% rule will help keep the local cannabis industry competitive with other cultivators across California, thus encouraging the transition to a legal industry.

The above table shows how the cumulative tax rate on adult-use cannabis builds as the product moves towards market. The value of the product increases as it moves through the supply chain towards market, with manufacturers, distributors and retailers each adding their own markup. Testing laboratories do not add a direct markup to the product, but the cost of testing and the loss of a small test sample can add around $75 per pound. Any or all of these activities may be taxed.

This model assumes a hypothetical case where cultivation, manufacturing, testing, distribution and retail sale all happen within the same jurisdiction and are thus all subject to that jurisdiction's tax rates. In actuality, this is unlikely to be the case. Manufacturers may work with product purchased from anywhere in California, and may sell their product to retailers elsewhere, as well. The cumulative tax burden for any product at retail sale will almost always include a variety of tax rates from numerous jurisdictions.

C. State and Local Tax/Fee Burden on Cannabis Cultivation

There has been much public discussion over the past six months or so regarding high cannabis cultivation tax rates imposed by local jurisdictions across the state. HdL has examined the issue to determine the degree to which the setting or adjusting of local cultivation tax rates can provide meaningful and equitable tax relief to cannabis cultivators.

The 3 scenarios below are provided to show how State and local taxes and fees combine to create an overall tax burden on cannabis cultivation and to illustrate the portion of the overall tax/fee burden that is within the control of the local jurisdiction. These scenarios both consider a hypothetical 10,000 square feet of cultivation area using our standard assumptions for the number of harvests per year, product yield and price. We assume that outdoor cultivation will achieve 1 harvest cycle per year, mixed-light cultivation will achieve 3 harvests, and indoor cultivation will achieve 4. Yield assumes that all cultivation types will yield 1 pound of dried flower for every 10 square feet of canopy. We note that these are all general assumptions, provided only for purposes of comparison.

Scenario 1; High Tax Rates with a Constant Market Price

Scenario 1, below, assumes that all cultivation types will achieve the same $1,000 per pound wholesale market price ("constant market price"). This is shown in Column D. Under this scenario, 10,000 square feet of indoor cultivation would generate gross receipts of $4 million, 10,000 square feet of mixed-light cultivation would generate $3 million, and 10,000 square feet of outdoor cultivation would generate $1 million (Column E).

In Column F we have applied separate square-footage tax rates for each cultivation type ($3/sf for outdoor, $9/sf for mixed-light, and $12/sf for indoor) that are simple multiples of the number of harvests we have allowed for each. These rates give a total tax paid of $30,000 for outdoor cultivation, $90,000 for mixed-light and $120,000 for indoor (Column G). Assuming a constant market price of $1,000 per pound, the equivalent gross receipts tax rate would be 3.0% for all cultivation types (Column I).

Scenario 1; High Rates w/ Constant Market Price									
	A	B	C	D	E	F	G	H	I
Cultivation Type	Harvest Cycles /Year	Sample Area (sq ft)	Yield @ 1 lb/10 sf /cycle	Price per pound	Gross Receipts	Tax Rate per SF	Total Annual Tax Paid	Tax Rate per Pound	Tax Rate % Gross Receipts
Indoors	4	10,000	4,000	$1,000	$4,000,000	$12.00	$120,000	$30.00	3.00%
Mixed Light	3	10,000	3,000	$1,000	$3,000,000	$9.00	$90,000	$30.00	3.00%
Outdoors	1	10,000	1,000	$1,000	$1,000,000	$3.00	$30,000	$30.00	3.00%

In the second table, below, we have calculated the total state and local taxes and annual license fees for each cultivation type. The State's cultivation tax of $10.08 per pound of dried flower equals $161.28 per pound. We have applied this to our assumed yield in the upper table to show the State tax paid for each cultivation type (Column J). In Column K we have added the Department of Cannabis Control's annual license fees, which produces a total State tax/fee burden of $166,100 for outdoor, $495,640, for mixed-light and $680,530 for indoor, as shown in Column L.

In Column N we have assumed a general average of $22,000 for the annual permit fees from the local jurisdiction. Annual permit fees vary greatly from jurisdiction to jurisdiction, with a range from under $3,000 to nearly $150,000, but the most common range is between $15,000 and $30,000. Removing the outliers gives an average of $22,000. Combined with the annual tax paid (from Column G in the first table), the total local tax/fee burden ranges from $52,000 to $142,000, as shown in Column O.

Scenario 1; Combined State and Local Tax/Fee Burden												
	J	K	L	M	N	O	P	Q	R	S	T	U
Cultivation Type	State Cultivation Tax Paid @ $10.08/oz	State Annual License Fee	State Taxes and Fees; Total	Local Cultivation Tax (Column G)	Local Annual License Fee	Local Taxes and Fees; Total	Total Taxes and Fees	Total Gross Receipts (Column E)	Total Taxes/Fees as % Gross Receipts	State Taxes/Fees as % Gross Receipts	Local Taxes/Fees as % Gross Reciepts	Local % of Total Tax/Fee Burden
Indoors	$645,120	$35,410	$680,530	$120,000	$22,000	$142,000	$822,530	$4,000,000	20.56%	17.01%	3.55%	17.26%
Mixed Light	$483,840	$11,800	$495,640	$90,000	$22,000	$112,000	$607,640	$3,000,000	20.25%	16.52%	3.73%	18.43%
Outdoors	$161,280	$4,820	$166,100	$30,000	$22,000	$52,000	$218,100	$1,000,000	21.81%	16.61%	5.20%	23.84%

The total State and local tax/fee burden ranges from $218,100 for outdoor cultivation up to $607,640 for mixed-light and $822,530 for indoors (Column P). Expressed as a percentage of gross receipts (from Column E in the first table), the total State and local tax/fee burden runs from 20.25% for mixed-light, to 20.56% for indoor and 21.81% for outdoor (Column R).

From this overall tax/fee burden, we can determine the portion of that burden that is due to local taxes and fees and, thus, the portion that the local jurisdiction has the ability to control or reduce in an effort to provide relief for cannabis cultivators. For outdoor cultivation, State taxes and fees total 16.61% of gross receipts (Column S) while local taxes and fees equal just 5.20% (Column T). Expressed another way, local taxes and fees make up 23.84% of the total tax fee burden (Column U), with State taxes and fees accounting for the rest.

For mixed-light cultivation, State taxes and fees total 16.52% of gross receipts while local taxes and fees equal 3.73%, accounting for 18.43% of the total State/local tax fee burden. For indoor cultivation, State taxes and fees equal 17.01% of gross receipts, while local taxes and fees make up just 3.55%, or just 17.26% of the overall tax/fee burden. In short, even with a relatively high square footage tax rates as used in this scenario, the local jurisdiction only has influence over roughly 17% to 24% of the total tax/fee burden. Up to 83% of the total tax/fee burden is imposed by the State and is thus beyond the control of the local jurisdiction.

Scenario 2; High Tax Rates with a Varying Market Price

Scenario 2 maintains the same assumptions for number of harvests and yield, and the same square-footage tax rates as in Scenario 1. The only variable we have changed is the market price per-pound of cannabis produced by each cultivation method (Column D). Outdoor cannabis achieves the same $1,000 per-pound rate as in Scenario 1, while mixed-light achieves $800 per pound and outdoor fetches just $600 per-pound ("varying market price"). This is a very general price spread that more accurately reflects current market conditions, though we note that actual prices can vary widely depending on THC content, quality, consistency and numerous other factors. All other inputs for taxes and fees remain the same.

As can be seen in the table below, this difference in market price has no change on the annual tax paid under a square footage tax rate. However, the equivalent rate as a percentage of gross receipts changes dramatically, as both mixed-light and outdoor are now paying the same amount of tax on a lower amount

of gross receipts (Column E). The equivalent gross receipts rate for indoor remains the same at 3.00%, while the equivalent rate for mixed-light climbs to 3.75% and the equivalent rate for outdoor moves up to 5.00% (Column I).

Scenario 2; High Rates w/ Varying Market Price									
	A	B	C	D	E	F	G	H	I
Cultivation Type	Harvest Cycles /Year	Sample Area (sq ft)	Yield @ 1 lb/10 sf /cycle	Price per pound	Gross Receipts	Tax Rate per SF	Total Annual Tax Paid	Tax Rate per Pound	Tax Rate % Gross Receipts
Indoors	4	10,000	4,000	$1,000	$4,000,000	$12.00	$120,000	$30.00	3.00%
Mixed Light	3	10,000	3,000	$800	$2,400,000	$9.00	$90,000	$30.00	3.75%
Outdoors	1	10,000	1,000	$600	$600,000	$3.00	$30,000	$30.00	5.00%

All State and local taxes and fees remain the same, as these are not tied to the business' gross receipts. Since the price per pound for indoor cultivation has not changed in this scenario, there is no change to the tax/fee burden. For mixed-light and outdoor cultivation, however, the impact of those taxes and fees as an equivalent percentage of gross receipts changes significantly. The total tax/fee burden as a percentage of gross receipts rises to 25.32% for mixed-light and to 36.35% for outdoor cultivation (Column R). The State tax/fee burden rises to 20.65% for mixed-light cultivation and 27.68% for outdoor (Column S), while the local tax/fee burden rises to 4.67% for mixed-light and 8.67% for outdoor (Column T). The percentage of the total tax/fee burden that is due to local taxes and fees (Column U) remains unchanged, as the rates have not changed in this scenario, only the relative price per pound.

Scenario 2; Combined State and Local Tax/Fee Burden												
	L	M	N	O	P	Q	P	Q	R	S	T	U
Cultivation Type	State Cultivation Tax Paid @ $10.08/oz	State Annual License Fee	State Taxes and Fees; Total	Local Cultivation Tax (Column G)	Local Annual License Fee	Local Taxes and Fees; Total	Total Taxes and Fees	Total Gross Receipts (Column E)	Total Taxes/Fees as % Gross Receipts	State Taxes/Fees as % Gross Receipts	Local Taxes/Fees as % Gross Reciepts	Local % of Total Tax/Fee Burden
Indoors	$645,120	$35,410	$680,530	$120,000	$22,000	$142,000	$822,530	$4,000,000	20.56%	17.01%	3.55%	17.26%
Mixed Light	$483,840	$11,800	$495,640	$90,000	$22,000	$112,000	$607,640	$2,400,000	25.32%	20.65%	4.67%	18.43%
Outdoors	$161,280	$4,820	$166,100	$30,000	$22,000	$52,000	$218,100	$600,000	36.35%	27.68%	8.67%	23.84%

Scenario 3; Low Tax Rates with a Varying Market Price

Scenario 3 maintains the same assumptions for number of harvests and yield, and the same varying market prices as described in Scenario 2 but applies a much lower range of square footage tax rates (Column F). We have reduced the rates to $4/sf for indoor cultivation, $3/sf for mixed-light and $1/sf for outdoor. These rates cleanly match the average number of harvest cycles per year for each cultivation type. As shown in the table below, the total annual tax paid (Column G) drops to $40,000 for 10,000sf of indoor cultivation, $30,000 for mixed-light, and $10,000 for outdoor. The equivalent gross receipts tax rate drops to 1.00% for indoor, $1.25 for mixed-light and $1.67 for outdoor (Column I).

Scenario 3; Low Rates w/ Varying Market Price									
	A	B	C	D	E	F	G	H	I
Cultivation Type	Harvest Cycles /Year	Sample Area (sq ft)	Yield @ 1 lb/10 sf /cycle	Price per pound	Gross Receipts	Tax Rate per SF	Total Annual Tax Paid	Tax Rate per Pound	Tax Rate % Gross Receipts
Indoors	4	10,000	4,000	$1,000	$4,000,000	$4.00	$40,000	$10.00	1.00%
Mixed Light	3	10,000	3,000	$800	$2,400,000	$3.00	$30,000	$10.00	1.25%
Outdoors	1	10,000	1,000	$600	$600,000	$1.00	$10,000	$10.00	1.67%

These lower rates bring the overall tax/fee burden down by around 2% to 3%, compared to Scenario 2. For indoor cultivation, the total tax fee burden drops to 18.56%, for mixed-light, the burden drops to 22.82% and for outdoor it drops to 33.02% (Column R). Even with the local rates being based on the number of harvests per year, the tax burden still has an unequal impact, particularly on outdoor cultivation. This is due to portion of that burden that comes from State taxes and fees, which remains at 17.01%, 20.65% and 27.68% for indoor, mixed-light and outdoor, respectively (Column S). The total local tax/fee burden as a percentage of gross receipts drops to just 1.55% for indoor cultivation, 2.17% for mixed-light and 5.33% for outdoor. The uneven burden across the cultivation types is due to the annual fees, which in these scenarios remain constant regardless of cultivation type. Local taxes and fees make up 8.35% of the total tax/fee burden for indoor cultivation, 9.50% for mixed-light and 16.15% for outdoor. From 84% to 92% of the total tax/fee burden is due to taxes and fees imposed by the State of California.

Scenario 3; Combined State and Local Tax/Fee Burden												
	L	M	N	O	P	Q	P	Q	R	S	T	U
Cultivation Type	State Cultivation Tax Paid @ $10.08/oz	State Annual License Fee	State Taxes and Fees; Total	Local Cultivation Tax (Column G)	Local Annual License Fee	Local Taxes and Fees; Total	Total Taxes and Fees	Total Gross Receipts (Column E)	Total Taxes/Fees as % Gross Receipts	State Taxes/Fees as % Gross Receipts	Local Taxes/Fees as % Gross Reciepts	Local % of Total Tax/Fee Burden
Indoors	$645,120	$35,410	$680,530	$40,000	$22,000	$62,000	$742,530	$4,000,000	18.56%	17.01%	1.55%	8.35%
Mixed Light	$483,840	$11,800	$495,640	$30,000	$22,000	$52,000	$547,640	$2,400,000	22.82%	20.65%	2.17%	9.50%
Outdoors	$161,280	$4,820	$166,100	$10,000	$22,000	$32,000	$198,100	$600,000	33.02%	27.68%	5.33%	16.15%

Conclusion

This analysis was provided to show how State and local taxes and fees combine to create an overall tax burden on cannabis cultivation and to illustrate the portion of the overall tax/fee burden that is within the control of the local jurisdiction. We have provided 3 scenarios employing only 2 variables: tax rates per square foot and the market price per pound. These scenarios demonstrate that the taxes and fees imposed by the State of California account for as much as 92% of the overall tax/fee burden for cannabis cultivators. Even when the local jurisdiction imposes relatively high taxes, the State's portion of the overall tax/fee burden on cannabis cultivators still exceeds 75%. Given this, the amount of tax relief that can be offered by a city or county is limited.

In addition, fees must be set to accurately reflect the actual cost to the local government of regulating the cannabis business. A reduction in fees must be accompanied by a commensurate reduction in staff time or other county/city costs, which generally means less regulatory oversight of the business. Otherwise, any reduction in fees would result in regulatory costs being paid out of the general fund and, thus, borne by the taxpayers, generally, rather than by the business that benefits from the service provided. Given this, the local jurisdiction's ability to provide relief is limited further still, to only that portion of the overall State and local tax/fee burden that is comprised of local cannabis taxes.

This analysis also shows the importance of setting cultivation tax rates that are equitable for the various cultivation types. Outdoor cultivation, in particular, is limited to only a single harvest per year and generally receives a significantly lower wholesale price per pound. Both of these factors must be considered when setting square footage tax rates to keep the equivalent rates as a percentage of gross receipts similar.

D. Fiscal Impacts and Fees

HdL has prepared this fiscal impact study to provide a general discussion of the County costs that may be associated with the permitting, regulatory monitoring and enforcement of cannabis businesses. This study is intended to inform the County's decision making regarding the development of a cannabis regulatory and tax program by giving an overview of the types of costs that may be incurred, including those costs from exploration and development of the cannabis regulatory program, costs from a review and selection process for cannabis business applicants, land use entitlements and building permits, environmental review where necessary, regulatory monitoring, permit renewals, and any enforcement actions or appeals.

Along with generating revenues through a cannabis business tax, commercial cannabis businesses also bring certain costs to the host jurisdiction due to the staff time and other expenses associated with the permitting, regulation and enforcement of those businesses. In developing a cannabis regulatory program, the County should anticipate these costs and develop cost recovery fees adequate to cover all direct County costs.

The County of Los Angeles is still in the exploratory phase of developing its cannabis regulatory and tax program. It is currently unknown which (if any) commercial cannabis business types will be allowed, or how many, or in what locations, or with what level of regulatory restrictions and oversight. It is also unknown the level to which the County may want to provide relief from certain regulatory costs for social equity applicants. Given this, it is not yet possible to know the details of the County's application review and selection process, the array of businesses that may need to be permitted and regulated, the level of regulatory oversight desired by the County and other important factors necessary for determining the actual permitting and regulatory fees that will be needed.

Recoverable costs may include, but are not limited to, any or all of the following:

- Costs associated with the development of a commercial cannabis regulatory program:
    - Initial outreach and exploration
    - Ordinance development
    - Environmental review
    - Meeting costs and development of staff reports and other materials
    - Consultant costs
    - Development of application procedures and guidelines
    - Development of appropriate fees
    - Development of regulatory protocols and administrative procedures
- Costs associated with the review and permitting of individual cannabis businesses:
    - Development of an RFP for cannabis businesses (if utilized)
    - Conducting application reviews and applicant interviews
    - Background checks
    - Land use permitting and entitlements, including CUP hearings if needed
    - Processing building permits
    - Pre-license inspections
    - Consultant costs associated with any of the above

- Costs associated with ongoing monitoring and permit renewals:
    - Regulatory compliance inspections (may be conducted annually or semi-annually)
    - Other routine inspections that may be required (environmental health, fire department, etc.)
    - Annual revenue audits to ensure proper reporting and remittance of taxes
    - Permit renewal processing
    - Program administration
- Costs associated with mitigating external impacts to the community or the environment:
    - Traffic impacts
    - Odor, noise or lighting impacts
    - Social or public health impacts, *where a clear nexus can be established*
- Costs associated with enforcement and appeals:
    - Regulatory enforcement of any findings of non-compliance
    - Processing and conducting any appeals of enforcement actions
    - Law enforcement actions where necessary

These various costs may be recovered through a variety of fees. In general, costs are assigned to the person or business entity that benefits from the service being provided by the County. The beneficiary varies among the many policy development and regulatory activities described above. Development of the regulatory program benefits those who are allowed to operate a business that would otherwise be prohibited. Processing of applications and land use permits benefits the applicant or proposed business. The cost of monitoring existing businesses for compliance and processing permit renewals benefits the business as it allows them to continue to operate.

Fees are generally divided into a number of categories including initial application fees, permitting and land use entitlement fees, and annual permit renewal fees which may include costs for compliance inspections and annual revenue audits to ensure the business is reporting and remitting the proper portion of gross receipts. Each of these general categories may include a number of individual fees to cover distinct costs or services, not all of which would be applied in every case. These costs all vary from jurisdiction to jurisdiction, depending upon a variety of factors specific to each city or county.

Initial application fees can vary greatly depending upon the details of the application process required by the jurisdiction. Some cities or counties choose not to limit the number of cannabis businesses or to process applications on a “first-come, first-served” basis. Others may solicit applications for a limited number of permits, which will then be reviewed on either a quality assurance (pass/fail) basis or merit-based (high-low score) basis. Final selection of permittees may be done through either a discretionary process or via lottery, where permittees are chosen at random from a pool of all qualifying applicants.

Once applicants have been selected to move forward into the permitting process, the land use entitlement and building permit process is no different than it would be for other, similar businesses. The amount of County staff time (and thus the cost) may vary greatly depending upon the specific location, needed construction or tenant improvements and other building requirements.

Annual permit fees vary greatly from jurisdiction to jurisdiction, based upon the desired level of regulatory oversight and administration. Jurisdictions may require that businesses submit to one or more regulatory

compliance inspections per year, as well as annual cannabis revenue audits to ensure the business is reporting and remitting the proper portion of gross receipts to the host city or county. In addition, some jurisdictions choose to place certain regulatory roles within law enforcement, which may include POST certified officers. This can greatly increase the cost for these regulatory services.

In the table below we have provided the annual permit fees for 27 cities and counties from around California[xxi]. The fees range from a high of $14,645 for the City of San Jose to a low of just $2,606 for Calaveras County. We note that the permit fees for some jurisdictions may vary depending upon the specific type of cannabis business. In such cases, the table displays the highest cost.

Among this sample set, the average annual permit fee is $20,789 per year. However, this range I heavily skewed by the fees for the City of San Jose, which are more than three-times higher than the next highest fees. We regard this as an outlier as it is not otherwise representative of the overall range.

When we exclude the fees from the City of San Jose, the average annual permit fee among our sample set of California cities and counties comes down to $16,076. We believe this lower figure is more representative.

Agency	Annual Permit Fee
San Jose	$147,645
Davis	$42,359
San Luis Obispo (City)	$39,634
Chula Vista	$31,275
Redwood City	$29,530
Culver City	$27,771
Placerville	$22,841
Modesto	$21,740
Sacramento (City)	$20,800
San Diego (City)	$20,803
Grover Beach	$20,000
Vista	$19,967
Oakland	$16,676
Santa Ana	$12,529
Goleta	$11,879
Palm Springs	$10,984
Salinas	$9,854
Oceanside	$8,511
Los Angeles (City)	$9,735
Vallejo	$8,288
Santa Barbara (County)	$6,945
San Luis Obispo (County)	$6,836
San Francisco	$4,354
Monterey (County)	$4,355
Santa Cruz (County)	$4,000
Watsonville	$3,700
Calaveras County	$2,606
Average Annual Permit Fee:	**$20,789**
Excluding San Jose as an Outlier:	**$16,076**

These annual permit costs reflect the direct per-business cost for each jurisdiction to provide its desired level of regulatory oversight for permitted cannabis businesses, including regulatory monitoring and inspections, revenue audits, annual permit renewals and overall administration of its cannabis business regulatory and tax program.

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FESIA A. DAVENPORT
Chief Executive Officer

Board of Supervisors
HILDA L. SOLIS
First District

HOLLY J. MITCHELL
Second District

SHEILA KUEHL
Third District

JANICE HAHN
Fourth District

KATHRYN BARGER
Fifth District

October 4, 2022

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

From: Fesia A. Davenport
Chief Executive Officer

REPORT BACK ON IMPLEMENTING AN EQUITABLE COMMERCIAL CANNABIS REGULATORY FRAMEWORK (ITEM NO 6, AGENDA OF FEBRUARY 15, 2022)

On February 15, 2022, the Board of Supervisors (Board) adopted a motion directing the Chief Executive Office (CEO), in consultation with the Department of Consumer and Business Affairs (DCBA) to report back in 30 days and during the FY 2022-23 Supplemental Budget on necessary bridge funding to support the immediate staffing and fiscal needs to implement an equitable commercial cannabis regulatory framework (framework) within the County.

The County Code currently prohibits commercial cannabis activities in the unincorporated areas, including sale, manufacturing, testing, and cultivation. There are over 150 unlicensed cannabis "pop-ups" operating within the unincorporated County areas without testing, oversight, or other regulations. As a result, the Board approved the implementation of the framework, as outlined in DCBA's December 20, 2021 report,[1] proposing an equitable cannabis program to ensure compliance with health and safety standards set by the State and industry best practices.

On August 9, 2022, the Board approved a resolution proposing that the Cannabis Business Tax Ordinance be consolidated as a general business tax measure (Measure) on the November 8, 2022 General Election ballot. The Measure would impose a general business tax on cannabis businesses located within the unincorporated County areas and require a simple majority for passage. If approved, the Measure would impose general tax rates on cannabis cultivation, manufacturing, distribution, and retail sales ranging from one to six percent of gross receipts, and generate an annual estimated $10.4 million in revenue that must be deposited into the County's General Fund and may be used to fund a broad array of County services.

1 http://file.lacounty.gov/SDSInter/bos/supdocs/166359.pdf

In response to the February 15, 2022 motion directive, the CEO's March 16, 2022 report[2] indicated that DCBA currently has 2.0 budgeted positions dedicated to the Office of Cannabis Management and an initial projected need of $2.0 million to support 6.0 additional positions and services and supplies to develop the framework. However, since that time, the CEO and DCBA have collaborated to revise the immediate need to $2.2 million for 3.0 additional positions and services and supplies to continue the programmatic, administrative, and regulatory development of the framework and its potential implementation. Most notably, the additional cost includes funding for a consultant to conduct a program-level California Environmental Quality Act (CEQA) review to evaluate the potential environmental impacts and benefits of implementing a cannabis zoning ordinance. Until the outcome of the November 2022 election is known, the CEO recommends that DCBA hire temporary staff and consultants for the continued development of the framework, rather than hiring permanent staff.

Based on the above, the CEO is recommending $2.2 million in one-time funding in the 2022-23 Supplemental Budget to provide bridge funding for a CEQA review, information technology and cannabis regulatory consultants, and temporary staffing for the continued development and potential implementation of the regulatory framework within the unincorporated County areas.

Approval of the cannabis general business tax on the November 2022 ballot measure is essential to provide adequate funding for enforcement activities whose costs are not recoverable through permitting and license fees. The CEO will report back during future budget phases, when appropriate, with additional one-time bridge and ongoing funding need recommendations should the ballot measure be approved. In addition, DCBA will continue to provide a detailed status of these efforts in their quarterly reports to your Board.

Should you have any questions concerning this matter, please contact me or Sheila Williams at (213) 974-1155 or swilliams@ceo.lacounty.gov.

FAD:JMN:MM
SW:AB:BM:kn

c: Executive Office, Board of Supervisors
County Counsel
Consumer and Business Affairs

2 http://file.lacounty.gov/SDSInter/bos/supdocs/166488.pdf

LOS ANGELES COUNTY
CONSUMER & BUSINESS AFFAIRS

November 18, 2022

Board of Supervisors

Hilda L. Solis
First District

Holly J. Mitchell
Second District

Sheila Kuehl
Third District

Janice Hahn
Fourth District

Kathryn Barger
Fifth District

Director
Rafael Carbajal

Chief of Staff
Joel Ayala

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

From: Rafael Carbajal
Director

IMPLEMENTING AN EQUITABLE COMMERCIAL CANNABIS REGULATORY FRAMEWORK QUARTERLY REPORT (ITEM NO. 6, AGENDA OF FEBRUARY 15, 2022)

On February 15, 2022, your Board directed the Department of Consumer and Business Affairs (DCBA) and its Office of Cannabis Management (OCM), in consultation with relevant departments, to proceed with the development of a commercial cannabis regulatory framework and an equity program[1] outlined in the Updated Framework and Recommendations for Regulating Commercial Cannabis in Unincorporated Los Angeles County report in December 2021.[2] Your Board further directed OCM to coordinate with relevant departments to provide written status updates to your Board on a quarterly basis.

This report provides the third quarterly update to your Board, following previous reports[3] filed by OCM on May 16, 2022, and August 15, 2022. Included in this quarterly report are updates on:

- The development of an equitable cannabis program, including the status of the equity assessment and next steps toward finalizing recommendations to your Board;

- Efforts to develop a cannabis regulatory framework, including progress on permitting process development, enhanced direct enforcement, the Cannabis Tax Measure (Measure C), and legislative advocacy; and
- The universal emblem program education and outreach efforts.

[1] Los Angeles County Board Motion, February 15, 2022: http://file.lacounty.gov/SDSInter/bos/supdocs/166358.pdf
[2] Office of Cannabis Management Report, Updated Framework and Recommendations for Regulating Commercial Cannabis, December 20, 2021: http://file.lacounty.gov/SDSInter/bos/supdocs/166359.pdf
[3] Office of Cannabis Management Quarterly Reports (May 16, 2022 and August 15, 2022): http://file.lacounty.gov/SDSInter/bos/supdocs/166488.pdf

Equitable Cannabis Program

As previously reported, the development of a robust equitable cannabis program requires an understanding of the populations and communities disproportionately impacted by the War on Drugs, and the infrastructure and resources needed to reduce barriers to entry into the cannabis industry. Relying on data, and lessons learned is central to finalizing recommendations for the County's Equity Program. OCM remains committed to a thorough process in the development of an Equity Program that are reflective of best practices and community feedback.

Equity Assessment

OCM finalized its Equity Assessment earlier this month in partnership with research consultants from UCLA. The assessment compiles data from an in-depth literature review, a cannabis-equity focus group composed of community members, publicly available sources, and individual consultations with community groups, policymakers, and cannabis stakeholders to provide recommendations that will inform foundational elements of the Equity Program. OCM will release the Equity Assessment report in late November/early December as part of an extensive public engagement effort to gather community and stakeholder input to finalize recommendations.

Public Engagement for Equity Assessment

OCM is in the process of developing and launching a public engagement strategy to share the Equity Assessment findings aimed to finalize recommendations and ensure they are responsive to community and industry stakeholder priorities. This includes a variety of methods, such as digital and in-person strategies, to ensure the public has an opportunity to provide their feedback. OCM will utilize its network of external and County partners to promote all public engagement opportunities, including sharing newsletters and event announcements via email listservs, social media, and the OCM website. The proposed engagement plan also considers timelines that may result with higher community participation, as outlined below.

- **Digital/Virtual Strategies – December 2022**
    - *Online Survey.* OCM is drafting a public feedback survey with plans to post the survey online early December. OCM will utilize its website to post the online survey and remain open throughout the duration of the public engagement process.

    - *Webinars (pre-recorded and live).* OCM plans to create a pre-recorded webinar(s) summarizing the assessment findings and recommendations to be posted on OCM's website, along with the online survey. Additionally, OCM is planning to conduct live topic-based webinars based on the Equity

Assessment recommendations and provide opportunities for public input. The live webinars may occur in December/January.

- **In-person Strategies – January through February 2023**
  - *Community Sessions.* In addition to live webinars, OCM would like to provide opportunities for in-person community sessions. The number of sessions would depend on available resources. As such, OCM will work with the Board offices, and other Departments, to identify partnership opportunities and coordination of community sessions, with plans to host sessions in January and February 2023.

Once this process is complete OCM will return to the Board with a recommended program framework and operational needs.

Strategic Partnerships

As mentioned in the previous reports, a successful equity program relies heavily on the range of services and resources available to support equity ownership, workforce development, and training. OCM has recommended these resources be made available before the launch of the application process to ensure equity applicants are well positioned to pursue permitting opportunities. This will require partnering with subject matter experts and consultants experienced in the field. As such, OCM continues to explore opportunities to identify strategic partnerships with experienced business development organizations, legal service providers, as well as associated costs for services.

Regulatory Framework

Permitting Process and Development

The August 15, 2022 quarterly report outlined OCM's multiple roles in facilitating an efficient cannabis permitting process. This includes serving as the initial touchpoint for applicants and potential applicants, administering the issuance of cannabis business permits, managing the County's Equity program, and coordinating administrative & operational compliance with all appropriate departments.

Since the last report, OCM has actively researched other cities and counties with more established cannabis license and permit programs to glean lessons learned and best practices for all aspects of cannabis regulation policies and processes. In October, OCM staff attended the California Cannabis Control Summit in Sacramento for an opportunity to engage with regulators from across the state and learn more about the issues agencies are facing from a diverse array of perspectives including law enforcement, public health, public policy, compliance, and equity. The panel discussions brought attention to the

numerous challenges in dual permitting processes, and adjustments made to local cannabis equity programs as they matured. OCM also continues to maintain regular communication with several other prominent jurisdictions including the City of Los Angeles, Oakland, Sacramento, and San Francisco to tap into their expertise and stay updated on challenges being confronted by these more mature markets. OCM also reached out to jurisdictions to learn more about specific issues like Trinity County, to gather more information on their land use review and approval process and the legal challenges their cannabis program has encountered. OCM also met with leadership from the State of New York's Office of Cannabis Management to learn more about New York's unique approach to cannabis regulation which also sought to incorporate lessons learned from other states.

OCM continues to work with relevant County departments to discuss opportunities to implement these practices to increase the overall efficiency of the business permitting and approval process.

Permitting Department Workgroup Meetings

OCM continues to meet regularly with the Department of Public Health (DPH), Department of Public Works (DPW), Fire, and Agricultural Commissioner/Weights & Measures (ACWM) to provide updates and to develop and implement the County's cannabis permit review and inspection process. As discussed in the previous reports, these departments have existing roles and procedures for plan reviews, facility inspections, and permit issuance. The permitting process, however, is fragmented and often a source of delays, due to the numerous parties involved, and the amount and complexity of requirements an applicant must meet to obtain a permit. Furthermore, modifying or eliminating these requirements is oftentimes not feasible because they are derived from State level codes.

In effort to address the identified challenges, OCM will function as a coordinating body to facilitate communication across parties, develop educational materials, and support the implementation of best practices. As an example, OCM is working closely with departments to develop process flowcharts, requirements checklists, and communications protocols. Currently, the workgroup is assessing the estimated costs and time required to obtain the necessary approvals from each respective department for each type of cannabis business. Going forward, the workgroup will continue to identify and implement best practices, such as establishing a single point of contact, creating a quick reference guide to help applicants through the permitting process, and opportunities for pre-application meetings with applicants to explain the permit process, requirements, and other important topics.

Land Use

OCM and the Department of Regional Planning (DRP) continue to collaborate and assess the feasibility of establishing a ministerial or "by-right" land use entitlement option to support an equitable framework that minimizes the amount of time and money required for the review of certain commercial developments. The last quarterly report highlighted the primary challenge with establishing a ministerial approval due to limitations of DRP's ability to place conditions on the development and operations of the land use outside of the pre-established regulations. To minimize this risk, the report further suggested incorporating robust development and operational standards in the zoning ordinance (Title 22) to promote responsible business practices.

Recently, another challenge was identified with the ministerial land use entitlement option following a conversation with staff from the California Department of Cannabis Control's (DCC) Environmental Division. Generally, ministerial review or "by-right" land use entitlement involving a Site Plan Review (SPR) by DRP is exempt from California Environmental Quality Act (CEQA) requirements. This process typically results with a simple one-page Notice of Determination or Notice of Exemption regarding the environmental impacts of a project. However, at the state level, the issuance of an annual cannabis license by DCC is a discretionary action subject to CEQA requirements. Consequently, DCC requires site-specific CEQA documents despite a project being exempt at the County level, which may result in lengthy and detailed project documentation submission. For example, it is not uncommon for jurisdictions to submit a thirty-page Notice of Exemption to DCC containing extremely detailed project information for the State to affirm the local jurisdiction's determination. These state requirements severely undercut local streamlining efforts and adversely impact access into the industry by requiring resource-intensive environmental documentation.

OCM will continue working with DRP to identify potential solutions which may include the development of templates or questionnaires to facilitate the preparation of the appropriate documents required by DCC.

CEQA Environmental Consultant

A program-level CEQA review that evaluates the potential environmental impacts and benefits of a cannabis program is critical in expediting the cannabis permit application process. The previous quarterly report noted the release of a Request for Information (RFI) on August 10, 2022 to gauge interest from qualified consultants to: 1) conduct an environmental assessment of the cannabis program; 2) develop the zoning and land use ordinance that will govern where cannabis business can be located; and 3) environmental mitigation measures required for compliance. However, no responses were received when the response window closed on September 16, 2022. This outcome necessitated a strategic adjustment to identify an appropriate consultant with significant experience

conducting environmental assessments for cannabis programs in other large jurisdictions. As a result, OCM identified three consultants with relevant experience to determine interest in completing this project and determine the best fit based on experience, cost, and project completion timeline. OCM estimates the environmental assessment will take approximately 10 to 13 months to complete once the project kicks off; therefore, vendor selection is a high-priority deliverable in the short-term to ensure timely completion of the environmental assessment and land use ordinance in tandem with other program deliverables.

OCM will continue the process of identifying an appropriate consultant to carry out this work and report back to your Board with additional details in the next quarterly report.

Software Business Solutions

Cannabis regulation & permit management is a highly complex endeavor requiring coordination between numerous individuals from businesses, state governments, local governments, and ancillary agencies. OCM's software platform will be used for a variety of purposes which include housing the cannabis business permit application, facilitating compliance of individual sites, accepting permit fees, and general case management functions. OCM is currently evaluating software products and has participated in demonstrations from three of the most popular software providers in the space. In order to ensure a time and cost-effective implementation OCM is prioritizing platforms that will require minimal customization "out of the box" to meet its business needs. OCM will continue work on this critical component by identifying a budget, contracting a software service provider, and begin implementing the software into OCM's workflow.

Additionally, DCBA continues to work with the Office of the CIO to look for the best ways to leverage the work already done with EPIC-LA, as well as other departments not on EPIC-LA. As DCBA examines systems, one of the key points of evaluation used is the vendor's ability to either integrate or ease the acquisition of necessary information from other County systems.

Cannabis Business Tax- Measure C

The Cannabis Business Tax Ordinance on the November 8, 2022 General Election ballot (Measure C) imposes a general business tax on cannabis businesses located within the unincorporated areas of the County. The previous quarterly report outlined the significance of Measure C and its potential impact to support an equitable cannabis program, and equitable programs and resources through revenues deposited to the County's General Fund.

OCM produced a variety of informational materials and resources regarding Measure C. This involved a dedicated webpage on OCM's website to house all materials, including an FAQ on the cannabis business tax, a fact sheet, and a short informational video titled "*What you should know about Measure C*" which has received over 10 thousand views on YouTube.[4] All educational content was also made available in Spanish to facilitate language access. OCM also worked with industry stakeholders to share information and materials, and received support from the United Cannabis Business Association, California Cannabis Industry Association, and Asian Americans for Cannabis Education. The measure was also endorsed by several media outlets, publications, and organizations including CityWatchla.com[5], Santa Monica Democratic Club[6], Pasadena City Council's Legislative Policy Committee[7], and the Los Angeles Times[8].

With Measure C projected to pass given the overwhelming support by the voters, it allows the County to move forward with plans that align with the Board's intention to prioritize cannabis tax revenue toward community reinvestments and equity-led programs. OCM will begin working with the Treasurer and Tax Collector (TTC) and other relevant stakeholders to determine next steps and report back to your Board with regular updates.

Enhanced Direct Enforcement- *Ongoing Commercial Cannabis Enforcement Activities*

Since May 2022, the Sheriff Department's Narcotic's Bureau has served more than 38 search warrants at locations in an unincorporated area of Los Angeles County where known businesses are occupying retail storefronts and engaging in illegal cannabis activities.

In several cases, after serving search warrants, cease and desist letters and/or civil lawsuits, property owners who rented or leased their properties to illegal cannabis businesses have initiated eviction proceedings against their illegal business tenants to vacate the premises. Most of these evictions have been completed, while some eviction proceedings are still pending.

Closure inspections have been conducted by the District Attorney Investigators and staff from the DRP to confirm that the illegal cannabis businesses have ceased operating and have vacated the property. In cases where a lawsuit was filed, settlements for the recovery of attorney's fees and costs and civil penalties are being negotiated with the

[4] Measure C dedicated webpage: https://dcba.lacounty.gov/cannabis-business-tax/
[5] CityWatchLA.com: https://citywatchla.com/index.php/cw/la-election-2022/25798-it-s-election-time-again-and-here-are-my-recommendations
[6] Santa Monica Democratic Club: https://santamonicademocrats.com/our-endorsed-candidates/
[7] Pasadena City Council's Legislative Policy Committee: https://www.pasadenanow.com/main/city-committee-recommends-measures-and-propositions-city-should-officially-endorse-or-oppose-remains-silent-about-measure-h-rent-control
[8] Los Angeles Times: https://www.latimes.com/opinion/story/2022-10-16/endorsement-county-measure-c-marijuana-tax

property owners and will proceed to trial or be resolved through a motion for summary judgment, if settlements cannot be reached.

In one case that settled in the fall of last year, a receiver was recently appointed by the court to enforce the terms of the stipulated judgment. The court appointed receiver has begun the eviction proceedings that the property owner failed to initiate, and the receiver will be compensated for its work from the equity in the real property.

Two cases are proceeding by way of default judgment since the defendants failed to respond to the litigation. In one case, the application for default judgment has been submitted to the court, which the court has tentatively approved, and includes injunctive relief, and a judgment in the total amount of $1,317,877, which represents attorney's fees and costs, and civil penalties. In the other case, in addition to the pending application for default judgment in which attorney's fees and costs and civil penalties in excess of $2,400,000 are being sought against the current property owner and the business operators, a settlement was reached through a stipulated judgment with the former property owner - enjoining him, and his corporate affiliates, from engaging in any cannabis business or activities. The stipulated judgment includes a payment of $374,366, covering the County's attorney's fees and costs and civil penalties.

Finally, two cases are set for trial in December 2022.

Legislative Advocacy

Both the State Legislature and Congress will conclude two-year legislative terms this calendar year. The State Legislature adjourned on August 31, 2022 and will convene the new legislative session on December 5, 2022. On the Federal level, due to the November 2022 midterm election, Congress is expected to have a condensed legislative schedule through the remainder of the year and is scheduled to convene the new session on January 3, 2023. For these reasons, additional proposals will not likely be introduced until the coming legislative cycles.

On November 1, 2022, the Chief Executive Office issued a pursuit to advise your Board about County sponsored legislative and budget proposals to include, a budget proposal to *Improve the Cannabis Industry through Equity Programming and Capacity Building* in the 2023-24 State legislative session. This proposal is a budget request for $20 million in one-time State General Fund (SGF) in Fiscal Year (FY) 2023-24 to augment the State's Cannabis Equity Grants Program for Local Jurisdictions. This funding would help ensure access to critical financial assistance and technical support for equity applicants and licensees, as Los Angeles County establishes its Cannabis Equity Program. The proposal would also provide local jurisdictions additional options in utilizing the grant funding to assist equity applicants and licensees by further supporting the equitable licensing of legal and safely operating cannabis businesses.

The CEO-Legislative Affairs and Intergovernmental Relations branch will work closely with the OCM on the County-sponsored legislation and will keep your Board apprised.

Public Education and Outreach

In addition to the public engagement plans previously mentioned for the Equity Assessment recommendations, OCM continues to work with the Department of Public Health (DPH) and other partners to expand the public education campaign that focuses on the importance of consumers purchasing products from properly inspected locations.

Emblem Program

A promotional video[9] for the Emblem Program was released in August 2022, which spotlights some of the first contracted cities that have implemented the Emblem Program within their jurisdiction. OCM, DPH and local Emblem Program participants in the City of El Monte, Culver City and Malibu partnered to create a Public Service Announcement highlighting the Emblem Program QR Code for Authorized Cannabis Stores. One authorized cannabis store, Sweet Flower, had this to say about the program: "As Culver City's first dispensary, Sweet Flower supports the Los Angeles County Cannabis Compliance & Enforcement Emblem Program to ensure trust with the surrounding community and normalize a safe cannabis shopping experience. The health and safety of our customers along with a community-first approach are integral parts of Sweet Flower's DNA." The videos have been shared via OCM's website, social media platforms, County Channel LA36 and other curated public outlets to reach as many communities as possible.

DPH and the City of Los Angeles' Department of Cannabis Regulation (DCR) have also implemented their first phase of compliance applications with local operators within city limits. Accordingly, OCM will work closely with DPH, and DCR to create additional educational videos to broaden awareness of the significance of responsible usage and of the potential risks involved in untested products.

As the Cannabis Compliance & Enforcement Emblem Program (CCEP) continues to expand throughout Los Angeles County, OCM remains committed to working with other jurisdictions to join efforts in building a safe, responsible cannabis marketplace.

[9] Emblem Program Promotional Video: https://dcba.lacounty.gov/cannabisemblemprogram/

Future Reports

OCM will continue to update your Board with a quarterly report on implementing an equitable commercial cannabis regulatory framework and all other OCM-related matters. The next report will be due in February 2023.

Should you have any questions concerning these matters, please contact me or Laura Magallanes, Chief of Office of Cannabis Management, at lmagallanes@dcba.lacounty.gov

RC:JA:LM
FGN:SMB:EV

Attachment

c: Executive Office, Board of Supervisors
Chief Executive Office
I County Counsel
Sheriff
District Attorney
Agricultural Commissioner/ Weights & Measures
Economic Opportunity
Fire
Public Health
Public Works
Regional Planning
Treasurer and Tax Collector

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Fifth District

Director
Rafael Carbajal

Chief of Staff
Joel Ayala

February 17, 2023

To: Supervisor Janice Hahn, Chair
Supervisor Hilda L. Solis
Supervisor Holly J Mitchell
Supervisor Lindsey P. Horvath
Supervisor Kathryn Barger

From: Rafael Carbajal
Director

IMPLEMENTING AN EQUITABLE COMMERCIAL CANNABIS REGULATORY FRAMEWORK QUARTERLY REPORT (ITEM NO. 6, AGENDA OF FEBRUARY 15, 2022)

On February 15, 2022, your Board directed the Department of Consumer and Business Affairs (DCBA) and its Office of Cannabis Management (OCM), in consultation with relevant departments, to proceed with the development of a commercial cannabis regulatory framework and an equity program[1] outlined in the Updated Framework and Recommendations for Regulating Commercial Cannabis in Unincorporated Los Angeles County report of December 2021.[2] Your Board further directed OCM to coordinate with relevant departments to provide written status updates to your Board on a quarterly basis.

This report provides the fourth quarterly update to your Board, following previous reports filed by OCM in May, August, and November 2022.[3] Similar to the previous submissions, this quarterly report includes the latest progress on program design and implementation of an equitable cannabis program.

Summary of Report

As mentioned in previous reports, the development of a robust equitable program requires an understanding of the populations and communities disproportionately impacted by the war on drugs, and the infrastructure and resources needed to reduce barriers to entry into the cannabis industry. A

[1] Los Angeles County Board Motion, February 15, 2022: http://file.lacounty.gov/SDSInter/bos/supdocs/166358.pdf
[2] Office of Cannabis Management Report, Updated Framework and Recommendations for Regulating Commercial Cannabis, December 20, 2021: http://file.lacounty.gov/SDSInter/bos/supdocs/166359.pdf
[3] Office of Cannabis Management Quarterly Reports (May 16, 2022, August 15, 2022, and November 18, 2022): http://file.lacounty.gov/SDSInter/bos/supdocs/166488.pdf

fundamental piece for the advancement of this work was the completion of the Equity Assessment.

The Equity Assessment was completed in December 2022 by academic researchers. The assessment explores current practices and highlights the complexities in the development and maintenance of cannabis social equity programming. Drawing on lessons from across the country, the assessment emphasizes a lack of resources, as well as predatory investment, and monopolistic practices challenging numerous equity programs. In alignment with previous reports submitted to your Board, the Equity Assessment identifies major themes for working toward a vision of an equitable program from community-engaged research. These include equitable ownership and job opportunities, such as direct support for cannabis businesses and those impacted by the war on drugs, and thinking beyond licensure, toward reinvestment in community and overall social good. It is important to note that while the attached assessment includes numerous recommendations to support an equitable cannabis industry, many of them contain longer term goals that require significant time, investment, and risk mitigation.

Since the last report, OCM has worked to closely examine and identify the assessment recommendations believed to be the most critical for launching a cannabis equity program. This has centered primarily on determining equity program eligibility criteria through identification of individuals and communities most adversely impacted by the war on drugs (potential “Equity Applicants”). This report provides an initial assessment of some eligibility criteria considerations, including: a) prior cannabis conviction or a prior cannabis conviction of an immediate family member; b) residency in an area of disproportionate impact; c) low-income status and net worth; d) ownership requirements, as well as some other potential program components.

OCM will continue leveraging the assessment findings to ensure the design of an equitable cannabis program is data and community informed and based on best practices. As a next step, OCM will utilize GIS-based mapping to identify areas of disproportionate impact within the County, including statistical analysis of relevant data and population density. OCM is also scheduling a series of community meetings to gather additional feedback regarding some of the Equity Assessment findings. This supplemental quantitative and qualitative analysis will help to further inform final recommendations on equity program eligibility criteria and requirements and will be incorporated as an Addendum to the Equity Assessment.

Lastly, this report provides updates on the development of a regulatory framework. OCM continues to work with relevant departments to build a streamlined cannabis permit review and approval process. Various factors greatly impact the time, scope, and costs of the review and approval process and are a frequent source of delays due to multiple rounds of plan checks, corrections, and inspections. Such existing processes place a significant risk to the financial well-being of equity applicants, while favoring businesses with robust

financial resources. To date, OCM has developed interdepartmental flowcharts designed to help applicants navigate complex processes and is establishing interdepartmental communication protocols to help with early identification of potential application issues. OCM is also working with departments to estimate baseline approval timelines and fees for increased transparency. The workgroup will continue to identify opportunities to help potential applicants navigate these barriers to entry through a streamlined permit review and approval process.

OCM will continue to provide quarterly updates to your Board on the progress of these efforts, with the next report scheduled to be submitted in May 2023.

Should you have any questions concerning these matters, please contact me or Laura Magallanes, Acting Deputy Director of Office of Cannabis Management, at lmagallanes@dcba.lacounty.gov.

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FGN:SMB:EV:ph

Attachment

c: Executive Office, Board of Supervisors
Chief Executive Office
Acting County Counsel
Sheriff
District Attorney
Agricultural Commissioner/ Weights & Measures
Economic Opportunity
Fire
Public Health
Public Works
Regional Planning
Treasurer and Tax Collector

QUARTERLY REPORT ON IMPLEMENTING AN EQUITABLE COMMERCIAL CANNABIS REGULATORY FRAMEWORK

Introduction

On December 20, 2021, the Los Angeles County Office of Cannabis Management (OCM) submitted an updated framework and recommendations for regulating commercial cannabis in unincorporated Los Angeles County,[4] which was subsequently approved by your Board in February 2022. In seeking to create an equitable cannabis program, the report recommended 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. It further highlighted the need for a centralized and simplified licensing program, a strong and supportive compliance infrastructure, and significant investment into education, job training, technical assistance and capital for qualified equity candidates.

The updated framework helped establish the groundwork for OCM's direction and the areas of focus moving forward. Accordingly, this quarterly report provides updates on the following developments:

- Progress on the design and implementation of an equitable cannabis program, including efforts following the completion of the Equity Assessment;
- Updates on developing a cannabis regulatory framework, including progress on permitting process development;
- Updates on cannabis compliance and enforcement efforts, and efforts to increase visibility of the Cannabis Compliance and Enforcement Program (the Emblem Program).

Equitable Cannabis Program

OCM remains committed to a thorough process in the development of an Equity Program that is data-informed, and reflective of best practices and community feedback. A critical first step in the development of the Equity Program included the completion of an Equity Assessment to better understand the populations and communities disproportionately impacted by the war on drugs, and the infrastructure and resources needed to reduce barriers to entry into the cannabis industry.

[4] Office of Cannabis Management Report, Updated Framework and Recommendations for Regulating Commercial Cannabis, December 20, 2021: http://file.lacounty.gov/SDSInter/bos/supdocs/166359.pdf

Summary of Equity Assessment Findings

The Equity Assessment was completed at the end of November 2022 by academic researchers (**Attachment A**), funded through the State's GO-Biz Cannabis Equity Grant. The assessment emphasizes the creation of pathways and practices for cannabis social and health equity through a series of recommendations in the following areas:

1. Shared definition and visioning of social equity and development of equity governing processes;
2. Exploration of priority licensing;
3. Business development, technical and legal assistance;
4. Financial assistance and access to capital;
5. Job training and workforce development;
6. Protection of youth, patients, and communities; and
7. Community reinvestment.

The assessment also highlights the importance of incorporating community input, concrete accountability, and investment of adequate resources before the launch of a cannabis permit application process to successfully address the needs of equity cannabis operators.

Since completion of the report, OCM has continued to assess and narrow down some of the key recommendations as a basis for developing a preliminary framework to garner further community feedback. This includes recommendations on the program's eligibility criteria and implementation of strategies and programs to best support Equity Applicants. The following includes some preliminary recommendations OCM is considering as part of the Cannabis Equity Program framework, which may be further refined with additional feedback from industry and community stakeholders. Consequently, OCM will collect and analyze the qualitative and quantitative data and incorporate into an Addendum to the Equity Assessment for final recommendations for the Board (anticipated by Spring 2023).

Identifying and Defining Equity Applicants

Cannabis equity programs must include eligibility criteria that are designed to identify individuals and communities most adversely impacted by the war on drugs (potential "Equity Applicants"). Equity programs around the country often use one or a combination of the following criteria as a minimum eligibility requirement: a prior cannabis conviction or a prior cannabis conviction of an immediate family member; residency in an area of disproportionate impact; low-income status and net worth; and ownership requirements.

These categories are described below:

a. Prior Cannabis Convictions and Arrests

Justice involvement is a measure of interaction between an individual and law enforcement regarding cannabis laws, generally defined as an arrest or conviction for a cannabis-related offense. Cannabis equity programs often require the applicant's justice involvement given that such involvement is a marker of disproportionate impact from the war on drugs. However, an individual may be disproportionately impacted by the war on drugs without themselves being the target of justice involvement. For example, unfair enforcement practices often led to a child's parent being arrested for a cannabis offense; the child in this case is disproportionately impacted as well. Consequently, many jurisdictions will accept individuals with prior cannabis-related conviction(s) or arrest(s), or that of an immediate family member.

As additional conditions, some jurisdictions may also require the cannabis-related offense to have occurred within a certain timeframe. The time periods typically stretch from the early 1970s or 1980s (referencing milestones in the formal war on drugs) to as late as the state's legalization of adult-use cannabis. Additionally, some jurisdictions only accept cannabis-related offenses that occur in their municipality or state. The cities of Los Angeles and Sacramento restrict qualifying offenses to those that occurred in California or Sacramento, respectively. Alternatively, the cities of Long Beach and San Francisco accept cannabis-related offenses that occurred anywhere in the United States.

Pending additional feedback and analysis, OCM is considering accepting applicants with prior federal, state, or local cannabis-related conviction(s) and/or an immediate family member (i.e., their child, spouse, parent, or guardian) of an individual with a prior cannabis-related conviction, as recommended in the County's Equity Assessment.

b. Residency in an Area of Disproportionate Impact

Residency requirements are common in cannabis equity programs both within and outside of California. Residency requirements are a means of targeting local equity program benefits to individuals who were directly impacted by the jurisdictions' own enforcement of cannabis prohibition. Among California municipal cannabis equity programs, most accept residency in only certain areas of their community. For example, the cities of Los Angeles, Sacramento, Long Beach, and San Francisco each require residency in certain areas that are effectively deemed disproportionately impacted by the war on drugs ("Disproportionately Impacted Area" or "DIA"). These municipalities, however, vary in how they identify DIAs. For example, San Francisco uses census tracts and federal income data. Meanwhile,

Los Angeles city uses zip codes and a more complex methodology outlined in their Equity Assessment. Municipalities also diverge on the amount of years residency in a DIA is required, which range anywhere from a three-year (City of Long Beach) to ten-year requirement (City of Los Angeles).

The County's Cannabis Equity Assessment recommends a five-year residency requirement in unincorporated census tracts where 60 percent or more of the population is housing-burdened and earns 80 percent of the Los Angeles County median household income. Five years in a DIA is consistent with the Equity Program residency criteria in the city of San Francisco as well as the states of Michigan, New Jersey, Illinois, and California. Five years is also recommended in the Equity Assessments for the city and county of San Diego.

OCM will continue to evaluate DIAs with high rates of arrests, convictions and incarcerations related to cannabis, and where 60 percent or more of the population is low-income, housing-burdened (defined as those who pay more than 50 percent of their income on housing and earn 80 percent of the median household income).

A critical next step is a deeper analysis of relevant datasets through GIS-based mapping to identify and define DIAs within the County. To this end, OCM will seek additional assistance to develop GIS-based mapping to help determine appropriate geographic distribution and statistical analysis, including relevant data and population density, that will help inform final recommendations on this eligibility requirement. OCM will also continue to gather public input and work with County Counsel to conduct legal analysis on potential residency requirements for the Cannabis Equity Program.

c. Low-Income Status and Net Worth

Cannabis equity programs regularly include low-income status as an eligibility requirement, consisting of an income cap, a wealth cap, or both. This eligibility criterion, in combination with other criteria, is meant to identify individuals most adversely impacted by the war on drugs. This most commonly utilizes an annual income cap linked to the Area Median Income ("AMI") and household size. For example, the cities of Oakland, San Francisco, and Long Beach set their income cap as 80 percent of their county's AMI by household size and is also included as a recommendation in the County's Equity Assessment.

In addition to income caps, some jurisdictions also include a wealth cap—wherein an applicant's household wealth cannot exceed a certain threshold. The wealth cap is meant to provide an additional measure of surety that the potential Equity Applicant was *and remains* disproportionately adversely impacted by the war on drugs. The city of Long Beach imposes an individual wealth cap of $250,000.

Alternatively, the cities of Los Angeles and San Francisco tie an applicant's wealth cap to a multiple of their AMI, 400 percent and 300 percent, respectively.

Wealth caps in cannabis and other programs often carve out certain assets from the wealth calculation. For example, the city of Long Beach's cannabis program excludes certain retirement accounts. The Supplemental Nutrition Assistance Program ("SNAP") also excludes certain retirement accounts and vehicles. Additionally, conversations between OCM and stakeholders thus far suggest excluding primary residence from this calculation.

Preliminarily, OCM is considering annual income caps equal to 80 percent of the Los Angeles County AMI, based on household size, and potential recommending a wealth cap at 300 percent of the County's AMI, adjusted for household size. Furthermore, OCM will also explore exclusion of primary residence, primary vehicle, and primary retirement accounts from the wealth cap calculation.

d. Ownership Requirement

Cannabis equity programs consistently require that Equity Applicants own at least 50 percent of the cannabis business entity. This is to ensure, among other things, that qualifying Equity Applicants are not relegated to mere figure heads while investors own and control the business.

The cannabis equity initiatives in Colorado, California, Illinois, Massachusetts, New Jersey, New York, Los Angeles city, San Francisco, Sacramento, and Long Beach all require Equity Applicants to own at least 50 to 51 percent of the cannabis business entity. The County Equity Assessment also recommends a 51 percent minimum ownership threshold. Some jurisdictions also prioritize, or "tier", classes of Equity Applicants based on ownership percentage. For example, the County of San Diego Equity Assessment recommends prioritizing Tier 1 Equity Applicants owning 100 percent of the business, and then prioritizing Tier 2 Equity Applicants owning at least 51 percent of the business. Alternatively, Los Angeles city prioritizes Tier 1 Equity Applicants owning at least 51 percent, and then offers Tier 2 priority for Equity Applicants owning at least 33.3 percent.

OCM will continue to explore the benefits and drawbacks of minimum ownership thresholds. Preliminarily, OCM recommends requiring Equity Applicants to own at least 51 percent of the cannabis business entity, as recommended in the Equity Assessment.

Additional Program Considerations

In addition to the eligibility criteria listed above, OCM is also exploring the following program components:

- **Starting with Retail and Delivery Permits for Launch of Cannabis Permit Application Program.** The fiscal revenue analysis of the commercial cannabis industry included in the OCM August 15, 2022 report-back, included recommendations to first permit cannabis retail and delivery businesses. The report iterated that cannabis retail and delivery businesses constitute the greatest unmet consumer demand in the County. Additionally, first permitting cannabis retail and delivery businesses provides the County with the greatest return on tax revenue, which can then be used to support Equity initiatives and future permitting phases. The February 15, 2022 Board-approved framework allowed for up to 25 cannabis retail permits and 25 cannabis delivery permits, with no more than 5 permits of each category allowed per Supervisorial District. Starting with retail and delivery permits would allow OCM, and other relevant County departments, to develop and implement the necessary infrastructure that will: 1) enable a smooth program launch; 2) sufficiently support program applicants; and 3) expand and improve the permitting processes.

- **Reserving A Portion of Licenses for Equity Applicants.** Most cannabis equity programs include priority permitting for a "first mover advantage" for Equity Applicants, including the cities of Long Beach, Oakland, San Francisco, and Los Angeles. Furthermore, the Equity Assessments for the insipient cannabis programs in Los Angeles County, San Diego County, and the City of San Diego each recommend priority permitting for Equity Applicants. One option may include reserving half of the anticipated permits/licenses for Equity Applicants. Under this option, 12-13 of the 25 licenses to be approved for both retail and delivery would be reserved for Equity Applicants for the first round, while the remaining 12-13 cannabis retail/delivery permits would be available for general applicants in the second round. In researching other cannabis programs, OCM found jurisdictions were split on reserving all or half of permits for Equity Applicant priority processing. OCM continues to work with County Counsel and your Board offices to further explore the feasibility of this option.

Equity Program Public Outreach and Engagement

The timelines included in the previous report to publicly release the Equity Assessment and to conduct community listening sessions were revised as preliminary recommendations were further examined. Additionally, OCM leadership has met with individual Board offices to provide an initial overview of the Equity Assessment's key findings and recommendations.

Despite this change, OCM is moving forward with plans to host five community listening sessions in March, both in-person and virtual webinars. Below are the tentative dates and locations identified:

Date	Time	Location	Supervisorial District
March 13, 2023	5:30 p.m.-7:00 p.m.	East Los Angeles Library 4837 E. 3rd Street Los Angeles, CA 90022	1
March 16, 2023	5:30 p.m.-7:00 p.m.	South Whittier Library 11543 Colima Road Whittier, CA 90604	4
March 18, 2023	12:30 p.m.-2:00 p.m.	Quartz Hills Library 5040 West Avenue M-2 Quartz Hill, CA 93536	5
March 21, 2023	5:30 p.m.-7:00 p.m.	A C Bilbrew Library 150 E. El Segundo Boulevard Los Angeles, CA 90061	2
March 23, 2023	12:00 p.m.-1:00 p.m.	Virtual	All Districts

OCM will post the virtual session recording on the OCM website[5], along with an online survey for additional opportunities to provide feedback on preliminary considerations mentioned in this report. OCM will begin promoting the sessions toward the end of February in the form of email announcements, and through social media channels. Once the listening sessions are completed, OCM will incorporate the feedback into final recommendations for the Board's consideration.

Consultants for the Design and Implementation of Equity Program Services

In addition to public outreach and engagement to gather community feedback on the preliminary program considerations, OCM recognizes the importance of including industry experts to assist with the design and implementation of the equity program and services mentioned in the Equity Assessment. As such, OCM is exploring opportunities to onboard notable and experienced cannabis equity consultants. The consultants will specifically be tasked with helping inform the Cannabis Equity Program framework recommendations, and the design of a business support and technical assistance program for equity applicants. OCM is currently reviewing the proposals and estimated costs and anticipates selecting a consultant by the end of February.

[5] https://dcba.lacounty.gov/cannabis/

Regulatory Framework

As mentioned in previous reports, ensuring an efficient cannabis business permit process is one of the more complex aspects of implementation due to the number of requirements a business must meet, as well as the number of departments involved. Various factors greatly impact the time and scope of the review and approval process. OCM continues to work with Regional Planning, Public Health, Public Works, Fire, and Agricultural Commissioner/Weights & Measures to identify both challenges and opportunities for the permitting process.

Plan Review and Building Permit Process Challenges

The plan review and building permit process is a common barrier for many small business owners. Before opening its doors, most business owners will make some alterations to the interior and exterior of a business premises to improve aesthetics, enhance utility, or both. These alterations will often require the approval of multiple agencies to ensure compliance with standards for land use, building, fire, and public health regulations. To approve these projects, agencies will charge a fee to review, correct, and approve detailed plans of the proposed work to the business premises. Once plans are approved, the work will be permitted, and construction may begin. Generally, all permitted work will require on-site inspections throughout the lifecycle of a project by inspectors from each agency that permitted the work. However, this process often becomes a bottleneck because of multiple rounds of plan checks, corrections, and inspections that may take up to a year or more to complete and prove costly for business owners.

The plan review and building permit process is a significant risk to the financial well-being of equity applicants with limited resources. Some equity applicants in other jurisdictions have experienced financial ruin as a result of a prolonged licensing process.[6] This process requires massive amounts of capital to pay for experts to design plans, workers and materials to carry out construction, and government fees to review plans and conduct inspections. Furthermore, cannabis business owners are shouldering these expenses while also paying thousands of dollars a month in inflated rent costs all before the business can begin generating revenue. These factors are detrimental to equity applicants and favor businesses with robust financial resources.

The County's plan review and building permit process is not unique, with several departments responsible for plan reviews and facility inspections of cannabis businesses. The table below briefly summarizes some of the responsibilities that County departments may have as part of the cannabis permit review and inspection process.

[6] https://www.latimes.com/california/story/2022-01-27/california-pot-industry-social-equity-broken-promises

Department	Responsibilities
Office of Cannabis Management	• Verify eligibility for cannabis business permit applicants • Review and approve security plans, operating procedures, and other requirements • On-site inspections • Issuance of cannabis business permits
Regional Planning	• Site-plan reviews • Environmental reviews • On-site inspections • Land use approvals
Public Works	• Plan reviews • On-site inspections • Issuance of building permits
Fire	• Plan reviews • On-site inspections • Equipment inspections (e.g., CO^2 enrichment device) • Hazardous waste & materials plan reviews
Public Health	• Plan reviews • On-site inspections
Agricultural Commissioner/ Weights & Measures	• Weight device registration • Point-of-Sale system registration • Pesticide use compliance • On-site inspections

Identifying Opportunities to Streamline Processes

OCM continues to meet regularly with the departments listed above to identify strategies to reduce approval timelines and costs associated with obtaining approvals. Thus far, this has involved developing interdepartmental flowcharts to help applicants navigate this complex process and the parties involved, establishing interdepartmental communications protocols to quickly determine where an applicant is in the approval process and screening for potential issues to avoid unnecessary delays. This also includes efforts to onboard a consultant to conduct a Programmatic Environmental Impact Report (PEIR) to facilitate compliance with the California Environmental Quality Act (CEQA) and establish a ministerial land use approval process with Regional Planning (see *CEQA Environmental Consultants* section below).

OCM is currently working with departments to estimate approval timelines and fees for cannabis businesses in order to establish baselines and increase transparency. OCM is analyzing permit and fee datasets provided by each department. Based on an initial analysis of the data, a very rough estimate indicates fees ranging from $6,000-$15,000,

and lasting around 6 to 12 months to receive necessary approvals.[7] It is important to note that developing an accurate estimate is challenging due to numerous variables that may change on a case-by-case basis, including the type of business, the size of the business space, and the cost of construction to build out the premises. As such, further collaboration with departments is needed to determine approval process timelines and the associated fees to the extent possible.

OCM will continue working with departments to identify additional strategies to streamline the building permit and review process and report back to your Board with recommendations.

CEQA Environmental Consultants

OCM continues plans for bringing on a consultant to conduct a PEIR of the County's commercial cannabis business program in compliance with the CEQA. In December, OCM received two proposals from experienced firms to conduct the PEIR that incorporates development of a zoning and land use ordinance to establish a ministerial approval process and facilitate a streamlined environmental review process. OCM is working closely with Regional Planning and other relevant departments to review the proposals and ensure the project scope accomplishes the desired objectives of conducting the PEIR. OCM anticipates selection of the consultant by the end of February and will begin preparing for contract execution. OCM will continue to update your Board on this project.

Software Business Solution

Cannabis regulation and permit management is a highly complex endeavor requiring coordination between numerous individuals from businesses, state and local governments, and ancillary agencies. Consequently, the right permit software platform plays a significant role in simplifying this process and facilitating better communication and coordination among agencies and applicants. To ensure coordination among agencies, OCM recently hosted a follow-up demo with a municipal cannabis permit software provider at the end of January, with participation from representatives from all relevant departments. OCM continues to work with partner departments to determine feasibility of cross-departmental usage and maximize the efficacy of the proposed software solutions, and accurate estimated costs for project implementation.

[7] OCM reviewed numerous data sets including published fee tables and permit data provided by departments. As an example, to estimate an approval timeframe for DPH's Cannabis Compliance and Enforcement Program (CCEP), OCM evaluated 70 CCEP plan approvals issued between 2018 and 2022 and calculated the length of time between plan submission and plan approval. As another example, to estimate DPW's permit fees which typically range between 1.5% to 3% of construction valuation, OCM analyzed approximately 376 Tenant Improvement building permit approvals and calculated the median and average cost of construction to establish a lower and upper bound, respectively. OCM used these bounds to estimate permit fees.

Cannabis Compliance and Enforcement Efforts

Ongoing Department Coordination

OCM continues to work with County Counsel's Affirmative Litigation Division to enhance enforcement strategies and methods to mitigate damages caused by the illicit cannabis market. To assist with these efforts, County Counsel recently retained a new attorney whose assignment will partially include cannabis enforcement. Additionally, OCM, County Counsel, and Regional Planning continue to collaborate on scheduling community meetings within each Supervisorial District in response to specific community concerns. The meetings provide an opportunity to inform residents of the various channels to report illegal cannabis activity (i.e., e-mail, the Works App) and the process of investigating complaints, while simultaneously capturing community feedback and problems distinctive to their geographic area. The next community meeting will be held in March with the Wiseburn Watch team in the Second Supervisorial District.

OCM also participates in the Cannabis Abatement Workgroup comprised of Regional Planning, County Counsel, and Sheriff to implement the Unpermitted Commercial Cannabis Activity Nuisance Abatement Ordinance. Regional Planning, the designated issuing department to enforce the Ordinance, submitted their report-back on February 1, 2023, which provided updates on the progress of finalizing the Countywide Cannabis Abatement Program.[8] As mentioned in that report, the Workgroup will continue to meet bi-monthly to discuss milestones, timelines, tasks, and necessary funding to implement the program.

Increasing Visibility of the Cannabis Compliance and Enforcement Program (the Emblem Program)

OCM continues to collaborate with Public Health to ensure a broad range of county residents and visitors are educated on the benefits of the Cannabis Compliance and Enforcement Program partnerships (the Emblem Program) throughout the County.

Since the addition of the City of Los Angeles as the Emblem Program's sixth contracted city in 2022, OCM and Public Health have focused on increasing visibility of the program's public education campaign. Beginning in February, over 255 billboards will be displayed throughout designated high-traffic areas of the County that incorporate simplified messaging for the Emblem Program, including "Look for the sign of cannabis you can trust," and "Tested. Legal. Cannabis. Always check for the check." Examples of the signage are included in **Attachment B**. Among some of the areas where the billboards will be located include Downtown Los Angeles near 9th and Main Street at the Spring Street intersection, and off the 10 freeway near the 605 freeway interchange. OCM is

[8] Department of Regional Planning Report Back on Implementation of Unpermitted Commercial Cannabis Activity Nuisance Abatement Ordinance for Illegal Operations, Feb. 1, 2023: https://file.lacounty.gov/SDSInter/bos/supdocs/165436.pdf

currently identifying additional billboard locations in zones that have been identified as being a high traffic area for the illicit dispensary market.

To support the public education campaign, OCM and Public Health are also working on another promotional video to demonstrate Public Health's inspection process for becoming an authorized cannabis retail facility. The video will provide information on how Public Health ensures compliance of safety codes and requirements aimed to help prevent injury and illness. The video will be released in March 2023 on the OCM website, social media platforms, County Channel LA36, and other curated public outlets to reach as many communities as possible.

Legislative Advocacy

OCM continues to work closely with the CEO-Legislative Affairs and Intergovernmental Relations (CEO-LAIR) branch to support County-sponsored legislative and budget proposals on *Improving the Cannabis Industry through Equity Programming and Capacity Building*. This includes a County-sponsored budget proposal for $20 million in one-time State General Fund (SGF) in the 2023-24 Legislative Session to augment the State's Cannabis Equity Grants Program for Local Jurisdictions, as outlined in the December 2, 2022 Chief Executive Office memorandum to the Board.[9]

OCM is also working with CEO-LAIR to review and monitor the following bills:

- **SB 51 (Bradford) – Cannabis provisional licenses: local equity applicants**
  The bill would amend the Business and Professions Code, authorizing the ability of California Department of Cannabis Control (DCC), in its sole discretion, to issue a provisional license for a local equity applicant for retailer activities, indefinitely, if the applicant meets specified requirements. The bill would also authorize the DCC, in its sole discretion, to renew a provisional license until it issues or denies the provisional licensee's annual license, subject to specified requirements, or until 5 years from the date the provisional license was issued, whichever is earlier.

- **AB 374 (Haney) – Local control cannabis consumption**
  This bill would specify that a local jurisdiction may allow a retailer or microbusiness to conduct business activities on its premises other than the smoking, vaporizing, and ingesting of cannabis or cannabis products, including, but not limited to, selling non-cannabis-infused food, selling nonalcoholic beverages, and allowing, and selling tickets for, live musical or other performances.

[9] https://file.lacounty.gov/SDSInter/bos/bc/1133926_sacto_120222_2023CountySponsoredLegislationMemo.pdf

- **AB 471 (Kalra) - Cannabis catering**
  This bill would add acting as a cannabis caterer for a private event to the definition of commercial cannabis activity. This bill would authorize DCC to issue a state caterer license authorizing the licensee to serve cannabis or cannabis products at a private event approved by a local jurisdiction for the purpose of allowing attendees 21 years of age or older to consume cannabis or cannabis products at an event that is not hosted, sponsored, or advertised by the caterer. Under the bill, consumption of alcohol or tobacco would be authorized on the premises of that event, as specified. The bill would prohibit a caterer licensee from serving cannabis or cannabis products at any one premises for more than 36 events in one calendar year, except as specified, and would authorize a caterer licensee to reuse cannabis at a subsequent event, as provided.

- **SB 285 (Allen) – Cannabis retail: sale and consumption of non-cannabis food and beverages**
  This bill would authorize a local jurisdiction to allow for the preparation or sale of non-cannabis food or beverage products, as specified, by a licensed retailer or microbusiness in the area where the consumption of cannabis is allowed.

Future Reports

OCM will continue to update your Board with a quarterly report on implementing an equitable commercial cannabis regulatory framework and all other OCM-related matters. The next report will be due in May 2023.

ATTACHMENT A
Cannabis Equity Assessment

Pathways and Practices for Cannabis Social and Health Equity in Los Angeles County

An equity assessment prepared for the Los Angeles County Office of Cannabis Management

LOS ANGELES COUNTY OFFICE OF CANNABIS MANAGEMENT

Academic Collaborators: Robert Chlala, PhD and Dilara K. Üsküp, PhD, PhD

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With Special Thanks to Vikki Glinskii, Kirby Johnson, Omar Nieto, Patrick Thornton and Madeline Wander.

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Important Note: The content of this report expresses the opinions of its authors and focus group participants and does not necessarily represent the views of the Los Angeles County Office of Cannabis Management.

EXECUTIVE SUMMARY

The Office of Cannabis Management (OCM) continues to serve Los Angeles County (LAC) and its residents by leading an equitable transition of cannabis to a regulated market with policies that seek to promote the health, safety, and wellbeing of our communities. This report assesses current practices and provides recommendations to support "cannabis retail, manufacture, distribution, growth, testing, regulation, and enforcement in [unincorporated LAC]" as "rooted in an equity framework and [considering] environmental impacts to biological, ecological and water resources."[iii] The authors of this report emphasize the creation of pathways and practices for cannabis social and health equity by considering the following seven areas: 1.) a shared definition and visioning of social equity and development of equity governing processes, 2.) exploration of priority licensing, 3.) business development, technical and legal assistance, 4.) financial assistance and access to capital, 5.) job training and workforce development, 6.) protection of youth, patients, and communities, and 7.) community reinvestment. Across these seven areas, we lift up the need for a process that centers sustained community engagement, transparency, accountability, and investment from public and private sources from the onset, and the importance of not rushing through what is a complex and very new field.

In this report, we highlight insights from a variety of sources—including focus groups, individual consultations, a literature review, and public document analysis. We weave in community perspectives with an emphasis on identifying key challenges facing LAC in its implementation of an equitable cannabis licensing program and potential solutions based on best practices. We, the primary investigators and authors of this report, are scientists from racial and ethnic minority backgrounds with experience and long-term research focuses on cannabis inequality and social equity in communities of color. We also drew from the insights emerging from the many regulatory and policy experiments in equity emerging throughout cannabis regulation in the US but also in other sectors such as community health, criminal justice reform, small business relief, and street vending legalization where LAC is leading with new transformative models. In this report, we aim to explain the complexities in the development and maintenance of cannabis social equity programming with honesty and integrity toward reparation and justice, and a hopeful eye towards LAC's shared future.

Voters recently approved LAC Measure C (the Cannabis Business Tax), on November 8, 2022, to support enacting taxes on cannabis business in the unincorporated areas of LAC. While all generated tax revenues will be deposited to the County General Fund, this provides a significant opportunity for LAC to ensure funds are directed to support critical priorities highlighted in this report focused on equity in cannabis and reinvestment in communities.

RECOMMENDATIONS AT A GLANCE

Recommendation 1:
Define Equity.

In order to develop a successful and sustainable equity framework, all stakeholders must have a shared understanding and definition of health and social equity. This shared definition of health and social equity can center access to cannabis wealth creation and workforce development, healing and wellness, community investment, and other priorities outlined by stakeholders. Bring this to the public via OCM platforms.

Recommendation 2:
Develop Equity Governing Processes.

- Build a Cannabis Working Group as a standing mechanism for interagency collaboration between OCM, LA County Department of Public Health (LACDPH), Regional Planning, Building & Safety, and other relevant agencies. Include subject matter experts and information sharing with Care First Community Investment; Anti-Racism, Diversity, and Inclusion & juvenile justice reform initiatives.
- Develop a Community Voice Subgroup as part of the Cannabis Working Group that includes cannabis arrest-impacted individuals and those from communities disproportionately impacted by the war on drugs. These should include community, labor, and faith-based groups with credibility and trust in public health and social equity, and be compensated for their time.
- Create an internal cannabis health and social equity screen to guide decision-making across participating departments.

Allocate sufficient up-front funding in the LAC budget to staff OCM appropriately to manage the equity mandate and regulatory demands and to collaborate with stakeholders and agencies.

Recommendation 3:
Identify and Prioritize Equity Applicants.

Develop a mixed merit and lottery-based licensing framework that prioritizes "equity applicants" for the first wave of licensing for 90 businesses. Equity applicants should be defined as those are: a.) directly impacted by the war on drugs, either with prior federal, state, or local cannabis conviction(s) and/or a parent/guardian or spouse/domestic partner of an individual with a prior cannabis-related conviction (these include arrest(s) for cannabis-related convictions where cannabis was used as pretext for a stop or investigation); and b.) residing for at least 5 years in an unincorporated LAC census tract that, according to the LAC Department of Regional Planning Equity Indicators Tool (EIT), at least 60% of the population is housing-burdened and earns 80% of LAC median household income.

- **Baseline Requirement:** At least 51% individual, pooled, or cooperative ownership by equity applicants (see above).
- **Merit Scorecard:** Develop a simple "yes/no" checklist for comprehensive, specific, and evidence-based cannabis social responsibility commitments. Offer points for:
  - Worker-owned cooperative business structure;
  - 80% workforce from LAC equity-impacted areas (double the required amount);
  - Pledging to join, fund, and hire from County-approved cannabis workforce apprenticeship programs;
  - Pledging to invest a percent of profits to LAC community reinvestment fund;
  - Participation in the Compassionate Cannabis Donation Program (SB 34) for medical cannabis patients allowing companies to donate product to low-income patients;

- Planned implementation of consumer and worker cannabis health education programs;
- Use of regenerative, aquaponic, or other sustainable technologies in cultivation;
- Use of sustainable materials, recycling programs, and other technologies in distribution, manufacturing, and cultivation.

If a large number of applicants passes a merit threshold, trigger a lottery system to determine awards. This threshold and process should be determined in advance, in consultation with the Cannabis Working Group and its Community Voice Subgroup.

Recommendation 4:
Protect Equity Licensing.

- Specify rules regarding the sale of existing individual, pooled, or cooperative shares, including transferability and next of kin, to ensure ownership by social equity applicants and prevent fraud. Require that shares be sold to other qualified equity applicants and that commitments for social responsibility be tied directly to the license and its renewal.
- During relicensing, require reporting on all cannabis social responsibility commitments and set measurable progress as necessary for further licensing. Opportunities to correct should be provided but relicensing should be contingent on adherence and progress on initial commitments. Keep all data on cannabis social responsibility commitments and progress transparent and public for accountability and to help promote these businesses as model sites.
- Integrate community-based third-party oversight into the process of equity identification, merit selection, and the lottery, via the Cannabis Working Group Community Voice Subgroup.

Recommendation 5: Build an "Education First" Pathway to Support Transition from Unregulated to the Regulated Market.

Develop pathways to legalization and administrative enforcement processes that educate first and repair the mistrust engendered by long-term criminalization including:

- Multi-stage outreach to unregulated market operators, in partnership with trusted community organizations and in consultation with legacy operators, informing them of licensing processes and assistance available to transition.
- Intensive public education campaigns in the direct vicinity of unregulated, noncompliant businesses to educate consumers about: 1.) the risk of unregulated products and 2.) tools to find regulated products.
- Increasing administrative fines targeted at landlords renting to unregulated, noncompliant businesses to support grants, loans, community reinvestment, and other OCM equity/program goals. Monitor and make data available on administrative penalty programs, to screen for racial/ethnic biases.
- Outreach programs to help legacy workers transition out of the unregulated market, linking them to LAC-sponsored and high road workforce training, apprenticeships, and jobs in and beyond cannabis.

Recommendation 6: Support Transformative Justice from the Drug War.

- Request regular reporting from LASD on cannabis-related arrest data, including race/ethnicity, age, gender, and other demographics. Make such data public and utilize in assessing future action.
- Create firewalls on cannabis administrative enforcement data to protect from federal enforcement risks.
- Coordinate with the District Attorney, Public Defender and Alternate Public Defender's offices to support outreach to unincorporated LAC communities regarding expungement, including OCM expungement fairs as part of other cannabis social equity technical assistance efforts. Focus expungement ground outreach on LAC equity-impacted areas (in conjunction with licensing efforts) and on unhoused communities, which are often unaware of such services yet highly impacted by them.

Coordinate with other LAC working groups and reentry efforts, including those for youth, via the Cannabis Working Group.

Recommendation 7: Establish an Equitable Fee Structure.

Reduce and, with market development, waive fees for qualified equity applicants for the full licensing application. Tier fees based on businesses' existing capital reserves and other factors, like conviction/incarceration history. Require fees only at final-stage licensing.

Recommendation 8: Increase License Availability.

- Petition the LAC Board of Supervisors to manage and plan to increase license availability over the next 5 years to avoid creation of an inflated market to buy and sell scarce licenses.
- Include Type S shared-use manufacturing, outdoor cultivation, and consumption lounges in future rounds of licensing.
- Assign a high point value to cooperative ownership in cannabis social responsibility commitments.

Recommendation 9: Protect from Predatory Investment.

- Develop a prospective investment pool or database through LAC, where investors can sign-up to link to applicants and to support transparency.
- Create boilerplate investment contract language for operating agreements or sample "best practice" model agreements that include required language protecting cannabis equity operators. Include language regarding decision-making control, equity share buyout and inheritance, management agreement restrictions, and other protections in consultation with equity groups and in alignment with current research.
- Include training on how to identify, recruit, and select investors, and how to protect oneself, in LAC-sponsored mentorship program immediately following qualification for the equity program.
- Include an interview portion in the application process to speak directly with the equity applicant about their control, ownership, and voice in their business.

Provide applicants with access to legal investment agreement review as part of the "one-stop-shop" model.

Recommendation 10:
Limit Property Requirements.

- Eliminate initial property requirements and hold lease or title proof until the latter stage of licensing.
- Match zoning to existing commercial and manufacturing zones; do not create "green zones." Align sensitive use requirements with California Department of Cannabis Control criteria to prevent conflicts in the application process.[i]
- Institute density requirements for retail operations only, and with sensitivity to the small amount of unincorporated land covered by this ordinance.

Recommendation 11:
Provide Technical Assistance and Other Supports to Equity Applicants.

- Create a one-stop-shop for cannabis technical assistance that includes LAC-vetted legal support, financial guidance, employee training, tax planning, and business development. Draw upon and include other County agencies/resources, including in small business development, building safety, fire departments, and workplace safety.
- Provide access to this one-stop-shop prior to licensing. Create a 3-stage licensing process that selects equity applicants first, provides training/resources, and then moves forward with permitting or licensing applications.
- Develop a simplified application process and provide the public with 1-page explainers and boilerplates for required elements like security or fire plans, in partnership with collaborative agencies.
- After applicants are accepted, build an equity support cohort model that allows all equity applicants to meet, share resources, support each other, and build supply chain relationships. This can include wellness and mental health support at the participant's choosing.
- Invest LAC funds or state equity funding in a public-private partnership to create an incubator that can support cohorts of cannabis equity applicants.
- To advance these projects, allocate up-front investment from the County – including through potential partnerships with private foundations and from philanthropic capital.

Recommendation 12:
Help Equity Applicants Overcome Capital Barriers.

- Raise funds to provide grants or repayable low interest rate loans of significant value that can help equity applicants overcome capital barriers.
- Using registries of potential vacant public lands or properties, identify and help create a shared cultivation, manufacturing, and/or testing space. These shared spaces can also house the "one-stop shop" for cannabis technical assistance.

Recommendation 13:
Recruit Workers Equitably.

- Require all applicants to hire at least 40% of their workforce from unincorporated LAC equity-impacted areas (aligned with equity licensing criteria). Incentivize doubling to 80% and/or achieving specific goals for managerial positions, as part of merit-based cannabis social responsibility commitments.
- Tie compliance with equity hiring goals, including in cannabis social responsibility commitments with annual relicensing process.
- Create a targeted outreach program that links to high-road employers through meet-and-greets, job fairs, and other events.

Recommendation 14:
Train Workers with Equity.

- Partner with LAC community colleges, state universities, vocational training sites, community-based organizations, and unions to create a cannabis workforce pipeline and paid apprenticeships. Draw from developing models, like the high-road statewide joint apprenticeship model currently being certified by the State.
- Include a budtender/cannabis counselor health certification short course program in community college/workforce development sites. Require participation by at least one worker at each delivery/dispensary/retail site. This can cover "product potency, dosing, evidence of harms to youth, evidence for specific therapeutic effects and when/how to recommend consulting with a physician," in alignment with the 2019 LACDPH report.[xiv]
- Mirror the City of Los Angeles' requirement of a labor peace agreement for 10 or more applicants.
- Partner with worker-led organizations to offer worker know-your-rights training and OSHA 10/30 safety/health, and to offer equity employers in labor-management training, including at LAC-sponsored incubation and shared spaces.

Include workers, their organizations, and workforce development agencies in the Cannabis Working Group and Community Voice Subgroup.

Recommendation 15:
Protect and Invest in Youth.

- Support a public health equity-oriented approach to cannabis use that is rooted in positive youth development models and addresses "upstream factors." Integrate youth in developing related health programming.
- Include LAC medical cannabis, harm reduction, and youth development experts in a collaborative cross-agency working group for cannabis health and social equity.

Recommendation 16:
Protect and Educate Users.

- Develop a budtender health certification program, to be piloted in new equity businesses and gradually implement as a requirement for employees in delivery and dispensary sites. Cover "product potency, dosing, evidence of harms to youth, evidence for specific therapeutic effects and when/how to recommend consulting with a physician" in alignment with the 2019 LACDPH report. [xiv]
- Require cannabis retail sites to post comprehensive, balanced information on cannabis use and cannabis effects, including but not limited to the use of cannabis for medicinal and adult-use purposes, safe consumption, awareness of contraindications or drug interactions, potential risks, mental health awareness, and other key elements to protect public health and consumer safety, and promote reliance upon physicians and LAPDH resources versus informal sources.
- Develop similar community health worker (promotora-style) programs in partnership with community organizations for broader education on cannabis use. Ensure physicians and other healthcare providers have access to cannabis continuing medical education (CME) courses through academic partnerships.

Recommendation 17:
Decriminalize use.

- Assess and remove cannabis-related "quality of life" tickets that harm unhoused residents from County administrative codes. Explore local ordinances like the New York City and State measures that prevent evictions based on cannabis private consumption, as well to ban the removal of unhoused people from shelters for possession of cannabis.
- Provide venues for affordable testing home grows, especially for qualified patients.
- Set a plan for consumption spaces in future licensing and instruct exploration of this, including publicly managed consumption spaces. In the interim, work with LACDPH to identify and designate space for consumptions for qualified patients.

Recommendation 18:
Protect Medical Cannabis Patients

- Include business participation in the Compassionate Cannabis Donation Program (SB 34) to donate products to medical cannabis patients in the merit-based licensing program.
- Expand education and access to LAC Medical Marijuana ID (MMID) program. Consider selecting community-based partners in each Service Planning Area to help medical patients enroll in the MMID and determine participating businesses in the Compassionate Cannabis Donation Program.
- Sponsor community-level conversations regarding cannabis that bridge residents, workers, patients and owner-operators to create understanding, increase trust, expand partnerships in equity priority areas.
- Educate the DCBA Office of Labor Equity on implications of AB 2188, which blocks cannabis workplace testing. Provide educational resources through the DCBA to ensure protections.

Recommendation 19:
Reinvest for Equity.

- With the passage of Measure C (2022) authorizing a cannabis business tax, ensure all cannabis tax revenues go to: 1.) administrative operations of OCM and related LAC programs supporting cannabis social and health equity; and 2.) a comprehensive health and social equity community reinvestment program.
- Direct part of cannabis tax revenues toward OCM social and health equity programs, including grants and loans for cannabis license applicants.
- Create an unincorporated LAC community reinvestment stream to support programming at the county that directly addresses the harms of the drug war, prioritizing the Care First Community Investment Spending Plan (Reimagine LA/Measure J). This Investment plan already includes community engagement with those who suffered through disinvestment during the drug war years. The Community Voice Subgroup can liasion with the Care First and Community Investment Advisory Committee to help link processes.
- Develop a mechanism to allow cannabis businesses to invest in a community reinvestment funding stream-much like Community Reinvestment Act credits for financial institutions– as part of merit-based license application and as part of the relicensing process. Link future tax incentives to investment of profits in this funding stream.

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INTRODUCTION

On February 15, 2022, the Los Angeles County (LAC) Board of Supervisors passed a motion directing the Department of Consumer and Business Affairs' (DCBA) Office of Cannabis Management (OCM)[ii] to develop and implement an equitable commercial cannabis licensing program in the unincorporated areas of LAC. This focus on equity aligns with the overall Board-directed priorities in LAC, including: Care First Community Investment; Poverty Alleviation; and Anti-Racism, Diversity, and Inclusion. This report assesses current practices and provides recommendations to support "cannabis retail, manufacture, distribution, growth, testing, regulation, and enforcement in [LAC]" as "rooted in an equity framework and [considering] environmental impacts to biological, ecological and water resources."[iii]

Report Background & Goals

In this report, we highlight insights from a variety of sources—including focus groups, individual consultations, a literature review, and public document analysis. We weave in community perspectives with an emphasis on identifying key challenges facing LAC in its implementation of an equitable cannabis licensing program and potential solutions based on best practices. We, the primary investigators and authors of this report, are scientists from racial and ethnic minority backgrounds with experience and long-term research focuses on cannabis inequality and social equity in communities of color. In this report, we aim to explain the complexities in the development and maintenance of cannabis social equity programming with honesty and integrity toward reparation and justice, and a hopeful eye towards LAC's shared future.

Cannabis-Related Racial & Economic Disparities

Support for cannabis legalization has shifted nationwide, with two out of three Americans supporting legalization, underscoring efforts to move policy goals toward equity, particularly decarceration. Popular opinion has driven many states to either legalize or decriminalize cannabis. In California, cannabis was legalized for medicinal use in 1996 and for adult-use in 2016. Proposition 64 (2016) was one of the first adult-use laws to mandate release of those imprisoned by the drug war and to reinvest resources into communities harmed by the drug war. At the local level, cannabis legalization also offers unique wealth-building, job creation, and community reinvestment opportunities that can repair the generational loss and trauma in communities of color caused by cannabis criminalization. In spite of these reforms and a thriving adult-use cannabis market in the City of Los Angeles, disparities persist.

In terms of racial disparities, cannabis-related arrests disproportionately target people of color, affecting not only individuals, but also households and communities.[iv] Specifically, Black and Latina/o/x people accounted for 75% of the Los Angeles Police Department's (LAPD) cannabis-related arrests between 2019 and 2020, even though rates of use are consistently similar between White, Black, Latina/o/x and other racialized groups.[v] In 2020, Black and Latina/o/x residents were nearly three times more likely to be arrested compared to their White counterparts.[vi] LAC Sheriff's Department (LASD) public data from 2005 to 2021 show disparities in majority-people of color geographic areas. For example, the Antelope Valley Service Planning Area (SPA), a predominantly Black and Latina/o/x geography, had over 31,500 arrests; the majority-White West LA SPA, on the other hand, had 2,600 arrests during the same timeframe.

In LAC's unincorporated areas, those places that are predominantly non-White, like East LA, show higher concentrations of "cannabis-related incidents."[vii] So too do small cities contracting with LASD: majority-Latina/o/x and/or Black cities such as Lancaster (14,100 incidents) or Lynwood (4,800 incidents) have much higher incidents that predominantly White cities such as Glendora (55 incidents).[viii] While more analysis of and access to LASD data is needed, reports of its raids demonstrate an enforcement approach centered on arrests, despite the negligible impact arrests have on unregulated cannabis activity.[ix] These trends suggest the continued racialized impacts of a war on cannabis and people who use cannabis. To create a regulated cannabis industry in unincorporated LAC, county regulators and policymakers must be attuned to rates of arrest, detention, incarceration, and law enforcement actions (including raids) that disproportionately target, and so harm, communities of color.

Income disparities exacerbate racial disparities, particularly in the unincorporated LAC areas of South, East, and Southeast LA, according to the County's racial equity analyses.[x] The reality of low-paying work and high rent burden in LAC suggests the need for wealth-creation and capital access opportunities to serve Black and Latina/o/x communities who were commonly targeted by the drug war. LAC data shows Los Angeles Black and Mexican populations with 1% of the wealth compared to White populations, with Korean, Vietnamese, Filipino, and other Latina/o/x persons also experiencing staggering gaps.[xi] Numerous neighborhoods of unincorporated LAC also lack access to banks or credit unions of any form.[xii] Further, disinvestment and disenfranchisement from the drug war shape social determinants (or "upstream" factors) like employment, housing, and healthcare access, thereby impacting health equity and health outcomes. The social disparities in LAC among Black and Latina/o/x residents, and concentrated in places like South LA and East LA, mean heightened diabetes, heart disease, low birth weight, and other health problems.[xiii] An equity-driven approach to decriminalizing cannabis holds the potential to reduce racialized arrests and incarceration, and also to provide critical medical support as well as wealth-building opportunities for those who were historically denied such opportunities.

However, increasing costs of legal cannabis have restricted access in low-income LAC communities to those living with HIV/AIDS, cancer, seizures, ADHD, depression, chronic pain, and other health conditions. Communities of color in areas with high concentrations of unlicensed cannabis retailers, such as unincorporated East LAC and South LAC, have expressed concerns with overconcentration of unlicensed retailers in their neighborhoods. Research from Los Angeles County Department of Public Health (LACDPH) shows that unlicensed shops are more likely to have high-potency products, child-attractive or less child-resistant packaging, and other health risks. There are also legitimate concerns with providing sensible, legible information regarding safe and healthy cannabis use, underscoring the need for a new, more nuanced lens that can uncover past harms and prevent replicating or creating new ones in cannabis education or regulation.

Opportunities to Support Equity Through Cannabis

The last few years have seen a shift in LAC to center questions of equity and reinvest in communities. LAC-sponsored efforts include careful consideration of how to raise and redirect funds toward parks, transportation, social services, and criminal justice to begin to heal past harms and generate a new future. These are enshrined in the LAC Board-directed priorities—*Care First Community Investment; Poverty Alleviation; and Anti-Racism, Diversity and Inclusion*—and in the processes for equitable implementation of Measures M (transportation investments) and A (parks funding).

The LAC Board of Supervisors' decision to "lead with equity" in its passage of the February 2022 motion[xv] to develop an equitable licensing framework aligns with such shifts and presents its own opportunities. The approved motion includes an initial allocation of 90 licenses (25 retail, 25 delivery, 10 cultivation, 10 manufacturing, 10 distribution, and 10 testing). While the limited number of licenses may prove a challenge, it also presents a chance to develop in-depth support, funded programs, and connections for the emerging cannabis market. It is an opportunity for OCM to expand beyond legalized licensing to overall wealth creation and decriminalization that spans everyday usage, patient access, and more.

In this report, we highlight voices of people who operated in the "legacy"[xvi] and unlicensed cannabis markets in South, East, and unincorporated LAC, emphasizing the importance of bringing them into the process and opening pathways for their economic inclusion. Sensationalized media accounts of an "illegal market" often lose sight of the fact that many of those who operate in the legacy market are ordinary small business owners, patients, and workers who have done so for decades and have not been able to find a path to licensing.[xvii] An approach to equity is often lost in a focus on dramatic incidences of violence, while rarely asking what it means to keep workers, owners, and surrounding communities truly safe. Learning from what has and has not worked in other jurisdictions, the new shift in an equity-oriented licensing policy in LAC is a chance to address the root causes for a persistent unregulated market, which including a lack of pathways to a legal market, economic need, distrust for government based on incidences of racially-biased policing, and other inequities.

Further, cannabis licensing provides an opportunity to develop new models of small business ownership programs, capital access, and high-road employment prioritizing vulnerable communities who are high-need. LAC is rife with other new experiments by numerous organizations and educational institutions that are looking to support this critical asset building and high-road workforce opportunities, particularly for those impacted by incarceration.[xviii] Efforts from sectors like street vending offer insights on how to effectively transition actors trapped in the informal market. Moreover, cooperative land trust models can inform how to build assets in new ways, as do public banking discussions.[xix] Meanwhile, new lessons from LAC efforts for juvenile justice reform, Measure J (Cares First Community Reinvestment) implementation, and racial reparations programming offer insights on a community-driven approach to end arrest-first approaches, reduce health harms, and reinvest in harmed communities.

In learning from and linking with such efforts, cannabis can be another hallmark in a new direction for LAC that will make a tangible impact on residents' lives by leading with social and health equity.

METHODS

This report compiles data from: 1.) an in-depth literature review; 2.) a diverse focus group of LAC cannabis community stakeholders; 3.) publicly available sources; and 4.) individual consultations (i.e., informal interviews) with community groups, policymakers, and cannabis stakeholders across the United States.

Focus Groups

We recruited focus group participants through local community-based organizations that support cannabis social equity advocacy across LAC. The resulting convenience sample completed an online demographic survey with equity-centered selection criteria to ensure that historically marginalized groups were prioritized for selection.

We selected a total of 20 participants who consented to join the focus group. The discussion was conducted in English via Zoom in August 2022. It was approximately 2 hours long. Drawing from extensive experience in conducting qualitative research, including other cannabis equity-funded research studies, the co-authors led the focus group. Additional study staff were present for administrative purposes. All participants were compensated $150 at the end of the focus group for providing their time and knowledge. See Appendices 2 and 3 for further details regarding our Focus Group methodology, including: the Focus Group Guide, the written consent form template, and the content produced by participants via Jamboard.

Data Analysis

The focus group was audio and video recorded, transcribed verbatim by Rev.com, and reviewed with de-identified demographic information. We conducted a rapid data analysis and an inductive thematic analysis of the focus group discussion as well as outcomes from the activities conducted during the focus group, including Jamboard and PollEverywhere. Our analyses were further informed by an in-depth literature review of peer-reviewed research and popular reports on cannabis social equity and health equity programs, as well as recent research on equity-oriented policy processes and implementation best practices more broadly.

Our extensive research in the fields of social equity and public health further contributed to our analyses. We drew from more than 15 combined years of research directly with cannabis social equity and legacy operators, workers, and consumers, with a focus on in-depth interviews, ethnography, and engagement in LAC capturing diverse voices in terms of race, gender, sexual orientation, ability, and geography. Our peer-reviewed work has been brought before numerous policy and government agencies.

Limitations

While this methodology provides a snapshot of both stakeholder perspectives and existing cannabis research—particularly on regulatory, equity and public health processes—it also means the project is limited in scope. It is further limited given the recency of legalization. In terms of an analysis of LAC, we rely primarily on past ethnographic research and focus group insights regarding the legacy and unregulated market for cannabis in the region. There are no comprehensive demographics or other economic analyses of this segment of the market, but given the span of our prior work we do see our descriptive data on the cannabis market as widely relevant and confirmed through repeated inquiry. There is also no public racial and demographic analysis of the LASD arrest data for cannabis, and we therefore make approximations or correlations to race/demographics based on the locations of these arrests. Finally, we relied on a multi-faceted focus group and follow-up conversations with community partners, but encourage further engagement with stakeholders beyond this as part of an ongoing equity process.

HOW LOS ANGELES COUNTY CAN ACHIEVE AN EQUITABLE CANNABIS LICENSING PROGRAM & BEYOND

In this section, based on our in-depth analysis of qualitative data from focus groups and document review, we provide recommendations for how LAC can develop and implement an equitable commercial cannabis licensing program—and thereby become a national leader in cannabis equity.

Overall, lessons learned from existing equity processes and complex issues in cannabis demonstrate that there is no quick fix; successful program rollout will require significant time, investment, new ideas, and risk mitigation. This is in part the impetus behind many of the recommendations in this section, including de-prioritizing enforcement and limiting property requirements. In order to achieve cannabis equity for the long-term, LAC should focus on "baking in" equity from day one; engaging with the legacy market, formerly-incarcerated persons, and regions most impacted by health inequity; and mitigating the contradictions that plague much of the industry. Cities and counties have had to do much learning as they go, and LAC is in a unique position to draw from these lessons while keeping focus on equity first and foremost.

Define Equity

Research on equitable policy implementation suggests that starting with a definition of equity rooted in meaningful, continuous engagement helps build programs that are able to achieve their full potential for the long term.[xx] LAC Department of Regional Planning defines equity as "when every individual, regardless of race, income-level, or neighborhood, is given access to the resources they need to succeed and thrive;" it means "closing the gaps so that race does not predict one's success, while also improving outcomes for all."[xxi]

Focus group participants identified the following critical elements of cannabis equity:

- **Social equity:** An attempt to repair the damage done by the war on drugs; reparations; money from cannabis staying in the communities affected by the drug war.
- **Health equity:** Access to cannabis as medicine; healthy food options; healing; freedom from disease and health disparities; an overall focus on wellness.

Central to participants' definitions of equity was access. Specifically, the connections across social and health equity come from "addressing the systemic disparity in access to power and wealth," according to one 73-year-old Black, Indigenous female and two-spirit participant. She further explained that health could only be promoted by investing in social environments. Another community business owner shared that equity is about the "value of being part of a community." In other words, an equity lens must have a systematic analysis of the broader ecosystem, including disparities, assets, and shared values guiding a vision for the future.

Indeed, these findings support a robust body of research arguing that health equity goes hand-in-hand with social equity.[xxii] Specifically, these findings suggest that cannabis equity must include a comprehensive, place-based lens that looks at more "downstream" realities like cannabis use in relation to more "upstream" factors (or root causes) like job access, education, green space, and more.[xxiii] Any approach to equity must also consider how health disparities that may be related to cannabis use are shaped by larger social determinants of health and where new investments created by cannabis taxes and related economic opportunities might be a vital intervention, especially with the continued ravages on these areas by the COVID-19 crisis and recession.[xxiv]

Develop Equity Governing Processes

Building an equity approach includes interagency collaboration. The work of the Los Angeles Regional Reentry Partnership (LARRP), the juvenile justice reform working group, and the parks equity collaboration to implement Measure A are just a few examples of the impact that deep collaboration across agencies and with community-based groups can have. Direct community involvement in such efforts ensures breaking down departmental silos in ways that center on equity goals.[xxv] Integrating public health agencies is key in LAC—and is also a rare opportunity since most municipalities do not have this extensive of a public health infrastructure.

As a 55-year-old Black female cannabis business participant stated, "We're still federally locked out, and the County is responsible for health systems, as well as public health…How do we minimize cannabis businesses, especially those that are going to focus on wellness and other types of nontraditional things[,] bumping heads with the federally governed health systems and reimbursement systems that we currently have with all of our health plans?" The existing proposal by OCM for a Cannabis Working Group is an ideal starting point to conjoining social and health equity imperatives in a way that engenders innovation in the face of a complex regulation situation.

Engage Constituents in Equity Work

Recent research supports convening a diverse stakeholder group, with individuals across government, business, and labor/community groups from a variety of backgrounds (e.g., different racial/ethnic, gender, and other identifications), alongside policymakers who can bear through productive tensions and work together to guide equity processes and growth.[xxvi] Indeed, focus group participants supported a constituent-driven process. As an Asian male participant who was previously involved in LAC processes for justice reform explained, "I think we need more folks that have living experience to be involved with legislation because those are where all the harmful policy that's created in the first place. We need to have some kind of support from high up people [with policy literacy] that can create a positive policy and try to reduce the people that get convicted with marijuana or other [substances] that creates mass incarceration."

While challenging, research on best practices for implementing equity-oriented policies also highlights the critical role of meaningful, shared decision-making beyond just input.[xxvii] One participant suggested a community oversight process over lotteries, zoning, and other licensing selections to ensure security. This would increase trust in both the process and in the government. A 27-year-old Asian non-binary cannabis worker suggested LAC could be the first California jurisdiction with a dedicated community oversight committee.

Part of this process should involve storytelling and an opportunity for affected communities (including legacy market actors, the formerly-incarcerated, and those from disinvested communities) to share their experiences, explained a 58-year-old mixed-race female community advocate. Doing so involves linking community members with subject matter experts and think tanks, she further shared. Others emphasized the importance of both reckoning with the past but also giving a space to share success stories and to help others see that pathways to equity are possible.

It merits noting here that engaging with different agencies and with stakeholders requires significant staffing and investment for OCM to prevent additional layers of bureaucracy and delays. Many municipalities have learned the lesson after the fact that they must invest first in building their new agency capacity first, before creating equity or even licensing programs, to prevent massive bottlenecks and creating more community frustration. The Board of Supervisors must budget appropriately even before seeing the "return" in cannabis taxes to ensure the success of equity and licensing of cannabis overall.

Build a Cannabis Equity Vision

Realizing the "nuts and bolts" of equity in the midst of a changing landscape can be hard. Research on equitable implementation processes shows that having concrete indicators and measurable results, in conversation with community, plays a vital role in programmatic success.[xxviii] With this in mind, the focus group offered participants a chance to think ahead and envision how equity should look. We asked participants what success would look like in five years, when global attention is focused on LAC for the Summer Olympics and with cannabis potentially legalizing federally.

Several key themes emerged from participants toward a cannabis equity vision:

1. **Equitable ownership and job opportunities, including direct support for local businesses owned, operated, and supporting those impacted by the war on drugs:**

    - An industry that locally generates "$10M+ annually," with "Black and Brown people leading profitable businesses increases by 50% or more in all licenses with annual revenue of $10 million-plus;"
    - "Dispensary grants" for "minority owned" businesses;
    - "Realignment of the regulations that are so restrictive and serve as barriers to actually getting the [cannabis business] licensing;"
    - "Workforce development, high-end job development, career pathways in cannabis that are not normal to just dispensaries and deliveries, but testing, a lot of different things of that nature;"
    - "Job creation is a big vision for [the] future 5 years;"
    - Support for a broader hemp-based industry. "What we need is green [industry] and that starts with cannabis…Think about vanity products. Think about the medicinal purposes that can be used, the clothes that we can build." This includes hemp plastics and building materials.
    - Bringing new municipalities into cannabis licensing to better respond to California voters and to curb "not in my backyard" politics.

2. **A link between cannabis businesses and reinvestment in community health and overall social good:**

    - Successful nonprofit models of cannabis and other "community health spaces" that includes cannabis community classes, trainings, and affordable prices;
    - A program that creates cannabis social entrepreneurs who directly benefit from community-based organizations that offer care and healing;
    - "Community benefit agreements attached to projects around cannabis equity in local communities…[seeing that resources are] redistributed back into the local communities where these businesses are [located]."
    - "Some of that [cannabis] tax revenue invested in productive things for our community."

> "If you're going to put a cannabis shop on this corner, we want to make sure that the dollar stays on this corner. That's what I want to see, that the dollar stays in our schools, that the dollar stays in our community garden because that's what we need.
>
> ***-73-year-old female and two-spirit Black and Native community advocate***

3. **Achieving broader social and health equity through cannabis equity:**

   - Legally clearing those arrested for cannabis convictions via automatic expungement;
   - "...Folks that have disproportionately been impacted by the war on drugs getting maybe a public apology from folks that were directly responsible for the disenfranchisement of people of color;"
   - "Changing the narrative" to support decriminalization and "fully normalizing cannabis."

One 58-year-old Black and white female participant shared that she hopes LAC will be a "role model of sustainability, community access to health services, and healthcare for all." Another participant, a 26-year-old Black female advocate/cannabis consumer shared that the vision must go beyond cannabis economics. "Some people do not want to own a cannabis business. Some people have no desire to do that." Yet, even so, multiple generations have been impacted by a now-legalized plant.

Creating a Cannabis Working Group can both serve the purposes of inter-agency collaboration to ensure all LAC departments have a shared division and vision of health and social equity. In accordance with best practices on equity, and learning from the challenges in other jurisdictions, it will be essential to have a transparent process that integrates input from community members. This can be done in a way that does not slow the process down but helps inform and validate the process. The creation of a Community Voice Subgroup would offer a means to bring those most affected by the drug war into the regulatory process, create mechanisms for continual public input on the definitions of health and social equity, help build trust through partners grounded in community, and can offer input on the cannabis social responsibility commitments. Faith-based and worker organizations can be brought in to help with outreach on the licensing process. Stages like the lottery selection can be done in a publicly-visible manner, in the same way that elections certifications are completed.[xxix]

Recommendation 1: Define Equity. In order to develop a successful and sustainable equity framework, all stakeholders must have a shared understanding and definition of health and social equity. This shared definition of health and social equity can center access to cannabis wealth creation and workforce development, healing and wellness, community investment, and other priorities outlined by stakeholders. Bring this to the public via OCM platforms.

Recommendation 2: Develop Equity Governing Processes.

- Build a Cannabis Working Group as a standing mechanism for interagency collaboration between LACDPH, Regional Planning, Building & Safety, DCBA, and other relevant agencies. Include subject matter experts and information sharing with the Care First Community Investment; Anti-Racism, Diversity, and Inclusion and juvenile justice reform initiative.
- Develop a Community Voice Subgroup as part of the Cannabis Working Group that includes cannabis arrest-impacted individuals and those from communities disproportionately impacted by the war on drugs. These should include community, labor, and faith-based groups with credibility and trust in public health and social equity, and be compensated for their time.
- Create an internal cannabis health and social equity screen to guide decision-making across participating departments.
- Allocate sufficient up-front funding in the LAC budget to staff OCM appropriately to manage the equity mandate and regulatory demands and to collaborate with stakeholders and agencies.

Prioritize Equity in Licensing

Identify and Prioritize Equity Applicants

Developing a licensing program centered on equity was a consistent theme among participants, and is a main avenue of action that municipalities have used to repair the harms of the drug war. Lessons learned from other equity processes, LACDPH recommendations, and focus group input suggest that the best approach would be a mixed merit and lottery-based applications process that incorporates: 1.) baseline equity criteria tied to cannabis-related convictions and to residency in an equity-impacted area, and 2.) a points system for specific, measurable, equity-centered cannabis social responsibility commitments.

Baseline Requirements

Individuals and Communities Impacted by the War on Drugs

Some have critiqued barring violent crimes in determining who qualifies for a social equity license, given that attachment of a violent crime charge, gun charge, or gang enhancement to a drug-related activity has been proven to be deeply connected to racial inequality and to the discretion of prosecutors. Focusing on California crimes also ignores the impact of federal arrests. Focus group participants unanimously prioritized those with federal or state cannabis convictions. Numerous jurisdictions, such as Los Angeles, Oakland, and Sacramento, include social equity criteria for those with California cannabis-related convictions. Other municipalities, like Mendocino County, include being affected by programs such as the Campaign Against Marijuana Planting (CAMP) or having assets seized through drug war raids.[xxx] Mendocino County also allows licensing prioritization for those affected by trafficking and sexual violence when in cannabis planting operations. Focus group participants underlined the collateral consequences directly on family members, such as spouses, siblings, and children. Several participants had been personally impacted. Research shows the ways education, health, and income disparities widen in the overall household when a member is arrested (see Appendix 1).

> I think we need to support a lot of folks that are being convicted and also the people...that were formerly incarcerated. I myself am formerly incarcerated and so I feel like we need to have a support network and like a system that can just include everybody in there instead of like, look at marijuana as something very harmful. I think we can create a program or maybe hire formerly incarcerated that were convicted with marijuana. And a lot of folks have been learning how to grow marijuana because this is not something that can create harm, it can be very useful for the community and like it can help the economy as well.
>
> ***– an Asian male business owner and community advocate (age unknown).***

Residency and Income

The challenge identified with neighborhood residency is that the drug war, resulting in inequality and disinvestment, contributes to risk of eviction and displacement, and, simultaneously, continual movement for better opportunities.[xxxi] Many neighborhoods impacted during the height of the drug war in LAC, like northern South Central and Echo Park, have seen local residents pushed out to areas like the Antelope Valley.[xxxii] To deal with this, localities have sought to include those who once lived in a jurisdiction for a given period of time, and to loosen the kinds of proof needed (including affidavits).

Others suggested that neighborhoods should be considered for selection based on other equity indicators, like poverty, and not just by arrest rates. Different forms of percentage based on median income or Federal Poverty Level (FPL) have been utilized. The latter has raised particular concern because FPL is a national-level blanket category that does not account for local cost of living. It is often far below a living or even survivable wage for areas like LAC that have high costs of housing and basic goods. Oftentimes, equity analyses use markers instead, like 200% of FPL, just to begin to assess working poverty status.[xxxiii] Research from the Working Group suggests a multipronged measure tied to how the drug war has impacted populations. For instance, considering an applicant being a woman, recipient of SNAP or other benefits, recipient of federal public housing, and so forth.[xxxiv]

LAC has a unique opportunity to utilize its existing Department of Regional Planning (DRP) Equity Indicators Tool (EIT) to determine equity target neighborhoods. Among the most succinct measures of today's challenging conditions is the indicator of percent housing-burdened low-income residents, which captures income disparities, poverty, and the threat of displacement. There is a critical overlap among drug war impacted areas and those with extremely high rates of low-income housing burdened people (i.e., those who pay more than 50% of their income on housing and earn 80% of the median family income). For example, most of East Los Angeles, Florence Firestone, and Walnut Park have rates of housing burden above 90%, as well as overcrowding rates upwards of 30%.[xxxv] Median income in most of these areas falls far below $39,000, while the median income in LAC is $65,290. These unincorporated regions of LAC are primarily comprised of Latina/o/x, Black, and some Asian and Pacific Islander residents.

Other potential EIT markers include disproportionately high poverty and segregation rate or unemployment rate. It is important to note that this should be the applicant's residence, not the business location, to prevent overconcentration. OCM should help create easy to use public information that either links tracts to more commonly-used form of data (such as a zip code) or creates an address lookup system on the equity program website. We will refer to an LAC tract determined to be disproportionately affected by economic and health inequity via the EIT in this report as an "LAC equity-impacted area."

Merit Scorecard

Focus group participants suggested a merit approach to award points for meeting certain criteria, mixed with a lottery if a large number of applicants reach a point threshold. This is currently being utilized in Detroit, Michigan, and has been used in other jurisdictions including West Hollywood. With the impetus—including the call from LACDPH—to integrate social responsibility and equity in business practices, this would allow a baseline set of cannabis social responsibility commitments that could be used to determine relicensing. This is a very clear way to start with equity and prevent later "surprises" with which companies rarely comply.

Protect Equity Licensing

Several focus group participants also underlined the importance of understanding how arrest and equity affect availability of capital and other key elements of a successful business. Many criteria that have been used by other jurisdictions' point systems, like standard operating procedures or extensive regulatory documents, can then become a barrier to equity applicants and instead favor well-capitalized firms with wealthy investors and access to consultants and legal staff. Succinctly put by a 73-year-old two-spirit and female Black and Native advocate/operator, "And so, that's the gap…'How do you start a social equity program with zero capital?' What was the whole point? They started out identifying us as low-income, zero income, criminalized, marginalized, and then you want to start a multimillion-dollar business with no money. That's called the Hunger Games."

Recommendation 3: Identify and Prioritize Equity Applicants. Develop a mixed merit and lottery-based licensing framework that prioritizes "equity applicants" for the first wave of licensing for 90 businesses. Equity applicants should be defined as those are: a.) directly impacted by the war on drugs, either with prior federal, state, or local cannabis conviction(s) and/or a parent/guardian or spouse/domestic partner of an individual with a prior cannabis-related conviction (these include arrest(s) for cannabis-related convictions where cannabis was used as pretext for a stop or investigation); and b.) residing for at least 5 years in an unincorporated LAC census tract that, according to the LAC Department of Regional Planning Equity Indicators Tool (EIT), is at least 60% of the population is housing-burdened and earns 80% of LAC median household income.

- **Baseline Requirement**: At least 51% individual, pooled, or cooperative ownership by equity applicants (see above).
- **Merit Scorecard:** Develop a simple "yes/no" checklist for comprehensive, specific, and evidence-based cannabis social responsibility commitments. Offer points for:
  - Worker-owned cooperative business structure;
  - 80% workforce from LAC equity-impacted areas (double the required amount);
  - Pledging to join, fund, and hire from reommCounty-approved cannabis workforce apprenticeship programs;
  - Pledging to invest a percent of profits to LAC community reinvestment fund;
  - Participation in the Compassionate Cannabis Donation Program (SB 34) for medical cannabis patients allowing companies to donate product to low-income patients;
  - Planned implementation of consumer and worker cannabis health education programs;
  - Use of regenerative, aquaponic, or other sustainable technologies in cultivation;
  - Use of sustainable materials, recycling programs, and other technologies in distribution, manufacturing, and cultivation.

If a large number of applicants passes the merit threshold, trigger a lottery system to determine awards. This threshold and process should be determined in advance, in consultation with the Cannabis Working Group and its Community Voice Subgroup.

Recommendation 4: Protect Equity Licensing.

- Specify rules regarding the sale of existing individual, pooled, or cooperative shares, including transferability and next of kin, to ensure ownership by social equity applicants and prevent fraud. Require that shares be sold to other qualified equity applicants and that commitments for social responsibility be tied directly to the license and its renewal.
- During relicensing, require reporting on all cannabis social responsibility commitments and set measurable progress as necessary for further licensing. Opportunities to correct should be provided but relicensing should be contingent on adherence and progress on initial commitments. Keep all data on cannabis social responsibility commitments and progress transparent and public for accountability and to help promote these businesses as model sites
- Integrate community-based third-party oversight into the process of equity identification, merit selection, and the lottery, via the Cannabis Working Group Community Voice Subgroup.

Transition to a Regulated Market by Understanding Realities of the Unregulated Market

Build an "Education First" Pathway to Support Transition from the Unregulated to the Regulated Market

The social equity process is complicated by the fact that the demands for enforcement have been front and center in cannabis policy. In LAC, numerous raids have continued even as different municipalities have implemented licensing programs. While there is a push to reduce and eventually eliminate the unregulated marketplace, LAC must not duplicate drug war tactics that pose the same harms that equity programs mean to heal. Indeed, the last decade of enforcement tactics to shut down unregulated shops have led police and policymakers themselves to call this "an expensive game of whack-a-mole" that has done nothing to weaken the unregulated market. Instead, it has led to numerous arrests impacting more lives, most often workers at the front lines of raided businesses.[xxxvi]

Realities of the Unregulated Market

Many legacy participants explained that the reasons for staying in the unregulated market are largely misunderstood. They shared that barriers to entering the legal market and lack of information play a major role in their decision to operate elsewhere. As one operator shared, "…some of us trying to stay above ground are going broke because it's not realistic the way this is being approached. You stand us in line, we jump through hoops, we fill out all the affidavits, we spend $150 on notary public for notarizing, all for what? To still wait in line?" The quantity of storefront and delivery operations has historically been larger than the number of retail licenses available in regulated markets in LAC cities. These stories are rarely captured in media accounts that sensationalize crime at dispensaries and paint "illegal" shops with a singular brush that includes crime and guns, rather than the more mundane realities of the way the unlicensed market has become crucial for the economic survival of many.

There are no "clean lines" between regulated and unregulated or licensed and unlicensed. The fact is, some operators continue to navigate both, offloading products or maintaining investment ties across both markets. Extensive multi-year interviews, ethnography and other research by the co-authors, as well as focus group comments, suggests that larger organized cartels do not represent a significant portion of cannabis operations in LAC.[xxxvii]

Focus group data, interviews, and prior research[xxxviii] illustrate a complex unregulated market that includes:

- **Legacy actors** who have operated before 2016, which include cooperatives and other retail/delivery actors that operated during the medical cannabis era. Among this group are those who: operate where no licensing is available; distrust government institutions based on encounters with policing; and, in some cases, have a lack of technical information and resources to navigate the licensing process.
- **Newer, small delivery and retail operations** started after 2016, managed by individual operators who seek eventual entry into the legal system, or who are surviving in this economy temporarily, often in areas of LAC where there is no clear licensing pathway.
- **Product and retail outlets tied to licensed actors** who struggle with fully shifting to a licensed model due to the patchwork of laws in California municipalities and/or feeling that this is a necessary strategy given how consumers gravitate to the unregulated market for lower costs.
- **A smaller number of shops tied to other underground operations,** but who are often under much greater cover and harder to locate. For some, cannabis ventures are only a small part of other unregulated activities; and for others, these are part of survival strategies that require deeper engagement to understand the root causes.

Workers are often not directly involved in anything more than the desire to find meaningful, good paying work. Reports and research also show that many workers in legacy or unlicensed shops are rarely aware of the license status of where they are working (or even their location in unincorporated LAC), and also did not have many other options for survival.[xxxix]

Understanding legacy market actors' specific experiences and, more broadly, diversity in the unregulated market serves as a first and critical step in understanding the realities of the unregulated market. Legacy actors have helped build the processes and knowledge upon which the industry depends, whether it is in medical cannabis patient work, cultivation, or manufacturing. They also understand the real pain points in licensing that can hinder equity applicants. Much like the work of *Care First Community Investment Advisory Committee* or other LAC restorative processes, OCM should aim to give these actors a seat at a table and conduct significant outreach to workers/operators who have been waiting many years for licensing to unfold in unincorporated LAC. So too should trusted community organizations be brought in for educating unregulated actors on the opportunities overall, to help break down mistrust created by years of racist criminalization and promote participation in the various programs that will be launched.

Support Transformative Justice from the Drug War

Several focus group participants insisted that both LAC licensing and federal legalization cannot open the door to more surveillance and policing. As such, LAC can institute stopgaps at this licensing stage to prevent what many in the cannabis advocacy and regulation spaces have called a "drug war 2.0"—a model of enforcement that directs cannabis program funds to the hands of the same policing agencies responsible for the racialized execution of the drug war.

Indeed, data show that policing-focused enforcement strategies have only exacerbated racial disparities, worsening drug war legacies and particularly harming frontline workers. In the City of Los Angeles, cannabis-related arrests in 2020 were still disproportionately Black and Latina/o/x (26% and 54% respectively in 2019, and 38% each in 2020), and many of these came through raids and other enforcement actions at dispensaries.[xl] LASD also routinely targets areas that are majority Black and Latina/o/x, such as the Antelope Valley or East LA.[xli]

In this context, a 26-year-old Black community advocate shared, "Including law enforcement in any cannabis budget, I think that's a mistake. Or trying to get folks to get in relationship with law enforcement, I think that's a common mistake." Many police agencies themselves want out of this process. Many community organizations and equity groups have questioned the logic of allocating cannabis tax funds to policing given the pressing needs to repair direct harms of the drug war and associated disinvestment in social and educational needs. OCM should also be keenly aware of such concerns considering the current crisis with the LASD and ongoing LAC Board of Supervisors investigations into LASD abuses and their own gangs

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Administrative Penalties

An administrative model of enforcement that drives toward transformative justice incorporates direct outreach to operators and workers to help them understand the licensing process—and for workers to move into new positions. Moratoriums on enforcement should coincide with rollout of the licensing program. While this means that permitted and unpermitted businesses may co-exist for a while, there are ways to promote equity companies and incentivize consumption from the licensed market and ensure equity businesses see success.

If issues with unregulated businesses persist, new strategies for administrative penalties can be considered. Even police departments, like LAPD, regularly report to media that (costly) raids have had little return.[xlii] Water and power cutoffs are ineffective as businesses are able to avoid significant impact to operations through the use of generators. Fines can be instituted, and these can then cycle the funds back to the maintenance of other programs like community reinvestment and equity grants. Landlords are an important target for fines as they often exploit tenants' ambiguous legal status to collect excessive rent and have the power to evict or close their doors when their pocketbook is affected.[xliii] (It is important to note that there have been incidents of lawsuits in other jurisdictions in relationship to racial biases in landlord fines, and this process must be carefully monitored.[xliv]) Another suggestion may be on-the-ground public education; this can include flyering and setting up LAC-run informational tents next to unregulated dispensaries informing those seeking to enter the shop of alternative regulated businesses and educating about the risks posed by products and to workers in certain unregulated shops. Any strategies that are instituted, including fines, should be monitored in relationship to racial/ethnic and geographic biases, and OCM should regularly report on these with demographics in a publicly-accessible fashion.

Operate in the Context of Broader Reparative Efforts

More than 58,000 LAC cannabis-related arrest records were left off initial automated attempts to expunge records through the Department of Justice, which the current District Attorney is working to rectify.[xlv] Working with expungement networks to assess and take action with the District Attorney and Public Defender on the current state of record clearing of cannabis convictions and investing in re-entry programs is a vital part of helping transition out of the long shadow of the war on drugs. This is a particularly pressing issue for residents who are unhoused and are affected by barriers due to past convictions, yet unaware of expungement opportunities that can help shift their options.

OCM has a unique opportunity to model a new approach that can shift other city and state practices, an approach that puts education and decriminalization which first considers the root causes behind gravitating to the underground.

Recommendation 5: Build an "Education First" Pathway to Support Transition from Unregulated to the Regulated Market. Develop pathways to legalization and administrative enforcement processes that educate first and repair the mistrust engendered by long-term criminalization including:

- Multi-stage outreach to unregulated market operators, in partnership with trusted community organizations and in consultation with legacy operators, informing them of licensing processes and assistance available to transition.
- Intensive public education campaigns in the direct vicinity of unregulated, noncompliant businesses to educate consumers about: 1.) the risk of unregulated products and 2.) tools to find regulated products.
- Increasing administrative fines targeted at landlords renting to unregulated, noncompliant businesses to support grants, loans, community reinvestment, and other OCM equity/program goals. Monitor and make data available on administrative penalty programs, to screen for racial /ethnic biases.
- Outreach programs to help legacy workers transition out of the unregulated market, linking them to LAC-sponsored and high road workforce training, apprenticeships, and jobs in and beyond cannabis.

Recommendation 6: Support Transformative Justice from the Drug War.

- Request regular reporting from LASD on cannabis-related arrest data, including race/ethnicity, age, gender, & other demographics. Make such data public and utilize in assessing future action.
- Create firewalls on cannabis administrative enforcement data to protect from federal enforcement risks.
- Coordinate with the District Attorney, Public Defender and Alternate Public Defender's offices to support outreach to unincorporated LAC communities regarding expungement, including OCM expungement fairs as part of other cannabis social equity technical assistance efforts. Focus expungement ground outreach on LAC equity-impacted areas (in conjunction with licensing efforts) and on unhoused communities, which are often unaware of such services yet highly impacted by them.
- Coordinate with other LAC working groups and reentry efforts, including those for youth, via the Cannabis Working Group.

Remove Barriers to Entry

Establish an Equitable Fee Structure

Participants and numerous equity research reports on cannabis identify tremendous costs of survival in the regulated market as the biggest barrier to transitioning from the unlicensed market and to social equity program success.[xlvi] "[Regulators] have no idea how much it costs to open a cannabis business, nor how long it takes to become profitable," shared a 43-year-old Black operator. Another operator shared that on average, "...it costs $1.7 [million] to open up a dispensary. That's the numbers we got to be looking at, as far as raising money to own and have the equity that we want in the businesses over time." This can include initial fees that in most municipalities can range in the $15,000 to $30,000 range; deposits for leases that often run $20,000 and far above; initial monthly rent; build-out to match security and regulatory needs (which can easily reach the half-million range and above); fixtures; track and trace technology; and staff time to start up that can easily reach the range described. To note, these estimates are only climbing with recent inflation.

Per participants, and in view of the rise of multi-state operators, such high costs tend to benefit more corporate models of investment and capital. These high-capitalized operators take up individual licenses, capitalize upon "economies of scale" (lowering costs via mass production), and create potential monopolies. A 51-year-old Black woman involved in multiple avenues of the industry shared that equity businesses are "competing against investors with the most capital from playing monopoly locking all others out, specifically mom and pops small business that makes community, community."

Focus group participants suggested the clearest way for LAC to overcome the barriers to entry is to waive fees for social equity applicants, particularly if defined as those affected by the War on Drugs. As the same focus group participant explained:

> "I say do away with the fees for people who lived in the communities the war against drugs [targeted]. I don't think they should have to pay a fee. They paid the greatest fee. So many people's lives were lost, families destroyed. It should be, at minimal, the least amount to ensure that everyone has access and is able to participate..."

Several suggested that if fees exist, there should be a tiered system based on the applicant's equity status and other potential indicators, like income. Meanwhile, fees should be redirected back to the systems that support cnnabis social equity.

Such a system is not unprecedented. For instance, application fee reductions range from 25% in Michigan to 80% in Arizona, with many other places in the middle at 50%. At the state level, California retail fees are $1,000 and cultivation ranges from $135 (specialty cottage indoor) to $8,655 (medium indoor). (Local jurisdictions charge additional fees.)[xlvii] California recently passed a bill requiring a fee waiver for initial licensing and renewals from the state Department of Cannabis Control (DCC). The State's fee waiver is among the most comprehensive, allowing equity applicants to qualify by conviction/income/neighborhood and gross revenue cap (less than $5 million in gross revenue).[xlviii] This is a critical intervention with cultivation ranging from $1,205 to $77,905 and retail from $2,500 to $96,000, depending on entity size and revenue.[xlix]

Recommendation 7: Establish an Equitable Fee Structure. Reduce and, with market development, waive fees for qualified equity applicants for the full licensing application. Tier fees based on businesses' existing capital reserves and other factors, like conviction/incarceration history. Require fees only at final-stage licensing.

Prevent Predatory Investment

Increase License Availability

In several cities and LAC, limiting licenses was intended to support access for social equity businesses by giving space for these businesses to grow and protecting the market from larger corporate interests. In other areas this has created a premium on licenses, leading to a race to obtain these "golden tickets" at any cost.[l] The Working Group aptly describes how capping contributes to a feeding frenzy, "At this point in California, there is now a secondary market for existing operational licenses, a third tier market where Social Equity Applicants are being approached by private entities, and a fourth tier market where the limited number of compliant properties across the country are being secured before licenses are even being issued."[li] Expanding or removing license caps could bring many more social equity players into the market, while reducing the premium created for the license itself.[lii]

Protect from Predatory Investment

Investment relationships in the cannabis industry can consist of power imbalances, lack of a shared vision, and attempts to push out equity applicants. Forcing participants from different backgrounds and with different value systems into multi-million dollar relationships tied to a highly-regulated plant has resulted in complexities that many regulators did not foresee. According to a 55-year-old Black community advocate, existing equity applicants in the City of Los Angeles and neighboring jurisdictions have been subject to "All levels of predatory or unscrupulous practices." These include "pay to play; gang taxes; landlord inflated rents; and landlord taxes." Other participants also noted "predatory contracts and loan sharks." Among existing practices in other equity programs, focus group participants cited practices of finding "straw men/women in social equity contracts and businesses," such as putting social equity applicants as owners in name only. Others include "taking advantage of individuals who are less savvy than a predatory investor/partner; bullying of [equity] partners, and threats." Many investors also offer a high price built into their offers, including control of business operations, profit "waterfalls" that redirect towards the investors only, low salaries, and planned buyouts.[liii]

> "I met with an investor and a social equity applicant, and I was appalled by the way the investor treated the social equity applicant. It was basically, 'I own you, you don't even get to speak. I have the money, you have this social equity applicant,' and I couldn't even believe it…having to partner with these type of individuals, when you have someone who is really trying to do the right thing in the right way, and to have to deal with this is, again, unacceptable. And unethical to the core.
>
> *-51-year-old Black female cannabis worker/ prospective operator/community advocate*

Template Contract Language & Mentorship

Other municipalities, like the City of Los Angeles, have moved toward offering pre-existing contract language as a tool for equity applicants.[liv] When coupled with simplified technical assistance processes such templates allow applicants to be better prepared to navigate investment relationships. Mentorship from equity applicants in other jurisdictions arranged through LAC would also be key in helping navigate investor relationships.

Investor Registration

Part of supporting better relationships is easing the pressure on equity applicants, including more extensive timelines, simplified processes, and registering investors. Equity applicants rarely have the time to vet investors. Often this is due to the need to secure property in order to qualify for social equity applications in many jurisdictions, and thus the need for capital.[lv] Some of these decisions are made in a brief meet-and-greet or in response to mass emails sent to struggling equity applicants. Ultimately, LAC can also help register investors in a public database to support more transparency, to centralize potential opportunities and to help quell predation.

Cooperative Ownership

Incentivizing and supporting cooperative, worker-owned models is another key way to move away from investment traps. Different from pooled ownership, cooperative ownership offers a chance to multiply wealth generation without outside investors. It also centers workers who are often impacted by the drug war and have been essential to developing the knowledge and practices upon which the industry depends.

LAC has numerous local community-based programs that can support this and be brought to provide training for social equity qualified applicants, such as via the LA Coop Lab,[lvi] which has recognized cannabis as an area of interest. Cooperative businesses are also eligible for participation in larger nonprofit-run funding pools that can help cover start-up costs to overcome capital barriers.

Other places are beginning to recognize cooperatives. For instance, in the U.S., Rhode Island set aside 25% of new licenses for worker-owned cooperatives (along with another 25% for social equity licenses).[lvii] Looking abroad, Malta chose a decriminalization approach that licenses cannabis associations and social clubs that produce collectively and share cannabis with members. Up to 500 of these will be licensed in the country without a requirement to commercialize. This is in part reminiscent of early models of medical cannabis cooperatives, but in this case, does not require the operation to be medical in nature.[lviii] Research has shown, in California and elsewhere, that many smaller cultivation operations operated in this matter prior to the advent of the commercial market.[lix]

Recommendation 8: Increase License Availability.

- Petition the LAC Board of Supervisors to manage and plan to increase license availability over 5 years to avoid creation of an inflated market to buy and sell scarce licenses.
- Include Type S shared-use manufacturing, outdoor cultivation, & consumption lounges in future licensing.
- Assign a high point value to cooperative ownership in cannabis social responsibility commitments.

Recommendation 9: Protect from Predatory Investment.

- Develop a prospective investment pool or database through LAC, where investors can sign-up to link to applicants and to support transparency.
- Create boilerplate investment contract language for operating agreements or sample "best practice" model agreements that include required language protecting cannabis equity operators. Include language regarding decision-making control, equity share buyout and inheritance, management agreement restrictions, and other protections in consultation with equity groups and in alignment with current research.
- Include training on how to identify, recruit, and select investors, and how to protect oneself, in LAC-sponsored mentorship program immediately following qualification for the equity program.
- Include an interview portion in the application process to speak directly with the equity applicant about their control, ownership, and voice in their business.
- Provide applicants with access to legal investment agreement review as part of the "one-stop-shop" model.

Address the Real Estate Challenge

Property Requirements

Finding a compliant property in tightly-zoned municipalities has proven to be a significant obstacle for equity applicants. Participants in the focus group described the creation of "green zones" that landlords and developers have taken advantage of to charge inflated rents. These are so common in the cannabis industry that they have been dubbed a "landlord tax" or "cannabis tax," as described by participants and confirmed in research.[lx] As a 55-year-old Black female advocate described, "In these past three years, it's actually created a situation where landlords can monopolize and it just didn't go well for our equity operator. So, I think we just have to realign that." (It's important to note that this higher-than-average rent preceded adult-use legalization, and landlords widely have charged what some have called this "tax" far before 2018, in part taking advantage of the fact that many other landlords will reject applicants for their cannabis involvement.[lxi])

Most jurisdictions ask applicants to have identified and purchased or leased properties to go through the application process, further exacerbating the real estate challenge. Real estate agents and companies have taken full advantage of the licensing premiums to find and claim compliant properties, and sell or rent these at a premium.[lxii] This is layered upon a highly inflated California commercial rental market, where small businesses have minimal protections compared to residential tenants.[lxiii] Some landlords have even gone so far to leverage their access to land to claim a part of licenses, or to come on as partners simply for use of the property.

Potential Solutions to Property Requirements

Participants suggested that eliminating property requirements would give needed time to search for an affordable space that meets their needs. Participants also recommended direct support in obtaining property to support equity applicants. Even more valuable will be creating shared spaces, as Oakland has done with supporting its EquityWorks! shared-use manufacturing facility/kitchen, Oakland Cannabis Kitchen and Oakland Equity Collective shared manufacturing space. These shared use facilities (at various stages of launch) are being utilized by a mix of equity manufacturers with a range of experience, who are also given extensive supported in licensing and launch process. Vacant public LAC lands and buildings would be ideal for this type of community reinvestment, a practice shows significant return on investment in other sectors like food systems planning.[lxiv] While this type of support requires the Board of Supervisors to approve the Type S shared-use manufacturing license not to mention start up investment, in the interim, LAC can give more points in the merit process for innovations like cooperatives.

Several participants also suggested keeping zoning far more simplified and aligned with existing commercial and retail zoning, which aligns with OCM's current approach. The main concern should be ensuring criteria matches the state's sensitive use requirements to avoid conflicts.

Density limits may also be considered to help meet the call by LACDPH and certain community organizations to avoid over-concentration in lower-income communities of color (and in areas with lower scores on the Healthy Places Index).

Recommendation 10: Limit Property Requirements.

- Eliminate initial property requirements and hold lease or title proof until the latter stage of licensing.
- Match zoning to existing commercial and manufacturing zones; do not create "green zones." Align sensitive use requirements with California Department of Cannabis Control criteria to prevent conflicts in the application process. [lxv]
- Institute density requirements for retail operations only, and with sensitivity to the small

Invest in Success

Support Equity Applicants

As one focus group participant put it, "If it's going to be a social equity program, you invest, you identify the entities and you invest in them. In terms of resources, in terms of facility, in terms of technical assistance, in terms of capital." This aligns with key research on equitable implementation that shows that equity-oriented policies must be matched with substantive government dollar investment to succeed.[lxvi] Participants and research both center on several key areas where investment will be necessary up front, even prior to cannabis taxes coming. Because the licensing program will start with a relatively small number of licenses (90 total), LAC can provide intensive support to equity applicants, which will help fast-track start up and attract consumers to this emerging market. It is also important to note that this substantive investment has already shown high return for municipalities like Oakland,[lxvii] and can be done – in ways that County has already modeled in other processes like the COVID-19 response, with private philanthropy partnerships that may even be able to leverage foundations' impact investing arms.

One-Stop-Shop Technical Assistance

In the focus group, numerous participants suggested a "one-stop-shop model" that parallels workforce development and small business administration programs. These would serve, one participant shared, as a "hub of technicians and advocates" who can provide direct assistance, including "legal support, standard operating procedure support, one-on-one consulting, mentorship." Several participants stressed including tax planning support to understand how to survive with current tax rules. The key in technical assistance, a 51-year-old cannabis operator shared, is "collaboration, collaboration, collaboration" among the different service providers, agencies and relevant community organizations. The other is that technical assistance must be provided throughout the process, from pre-application onward, to ensure success.

Several jurisdictions have piloted different programs, often through similar equity consulting, and are experimenting on how to best support applicants in a changing cannabis industry. San Francisc, one of the more comprehensive programs, takes applicants through an analysis of financial, consumer/customer, market, and budget relationships. This program has received favorable reviews, and when matched with actual capital or property, shows the kinds of comprehensive programming that can help equity applicants navigate the financial and regulatory hurdles to operating in the licensed market. Overall, Ecotone and Supernova Women's analysis has shown multi-faceted technical assistance investments do have a specific return on investment in terms of ensuring a business is able to develop its earning power, reinvest in community via taxes, and increase hiring in communities.[lxviii]

These types of supports cannot be built on the premise that cannabis businesses are ignorant of the ways to succeed in an industry that some built for years in the legacy market. Instead, the focus should be centered on the key pain points like technical hurdles associated with regulation and complex problems of capital/investment inherent in commercialized markets and to give space for applicants to share knowledge among each other based on coming from different levels of experience.[lxix]

A Simplified Application Process

Aside from the costs of licensing, research and focus group comments show that compliance itself is hard to navigate—from developing security plans to upgrading equipment. The industry has attracted numerous consultants who promise help navigating these requirements or passing inspections—but such consulting comes at a high price.[lxx]

Direct municipal assistance for free consulting to complete some of the required compliance elements, like building plans, may be another means to offset start-up costs and help businesses launch faster. Participants suggested offering templates, 1-pagers, and blueprints for business plans and other documents that do not necessarily require person-to-person guidance and can be easily used by equity applicants. Other models to examine include incorporating an interview stage in the application process, in lieu of other written elements, to reach equity applicants from different backgrounds and to ensure that equity applicants are playing a key role in their business—a method employed by foundations.

Shared Cultivation, Manufacturing, and Business Spaces

Incubators are designed to seed, support, and help launch ventures, rather than "own" or control applicants. They also allow cannabis businesses to support each other. However, it is important that incubation be tightly defined. Equity advocates note that many investors claimed to be developing incubators when instead they were simply building a multi-sited brand and looking to obtain licenses by locking in social equity applicants via investment mechanisms. A municipally-managed incubation system or public-private partnership like Oakland's multiple shared kitchen and manufacturing spaces offers transparency regarding agencies are supporting applicants, and it will also ensure that the County is tracking progress towards business creation and employment. Such a program can be tied to workforce development programs that are being created to provide a pathway for those in the illicit market and to help meet industry needs for a trained workforce.

As one applicant explained, "[Oakland has] cooperative sites, like community kitchens where multiple businesses can work out of, thus not having to do the heavy lift for manufacturing if they're in the edibles space, or shared kitchens, things like that. They offer workforce development programs, so they're training the community to work for these businesses. All of those things, I think, make Oakland an interesting program to look at." Municipally-supported commercial properties like EquityWorks! show that it is possible for LAC to create direct leases for abandoned LAC properties for shared manufacturing or for cooperative cultivation.[lxxi] Oakland subcontracts incubation in the space for manufacturing brands, including edibles, topicals and extracts, as well as includes workforce development training for those seeking non-entry level employment in these fields. The project supports five equity businesses at a time, screened through an interview process, and a number of workers trained in manufacturing or compliance.[lxxii]

In many early conversations regarding social equity in the City of Los Angeles, incubators were seen as a potential municipally-supported way to cultivate small businesses and support them with capital, real estate, and guidance. The Los Angeles Cleantech Incubator (LACI) provides a model of a city-sponsored small business development program that also tries to address questions of equity and public good.[lxxiii] LACI was created by the City's economic development programming and by Los Angeles Department of Water and Power (LADWP). While it operates to some extent as a private non-profit, it still has significant city oversight and management.

A Community of Support

One of the least discussed parts of cannabis legacy and equity relationships is the ways in which many have relied upon each other and other local networks to survive. In unincorporated areas, as a 55-year-old Black community advocate shared, cannabis economy participants rely upon "peer-to-peer support and neighborhood-based networks and resources." This includes financial support as well as mentorship, emotional support, and care resources. Another participant shared that "meditation, exercise, socializing, and gathering" are key to help applicants make it through the process. This resiliency is an asset that remains untapped by equity programs.

It is also part of healing for those dealing with the years-long impacts of reentry.

Strengthening a social equity supply chain and mentorship ties are critical to creating a robust system of support. By bringing together applicants for equity, LAC can also facilitate relationships among "micro-license" holders to work together toward success. Cooperation-focused processes are part of incubation models and successful training programs like the LACI and Grid110. These community approaches, led by groups like Inclusive Action for the City, have been successful in supporting street vendors through the hard and long process of transitioning to a regulated market.[lxxiv]

Overcome Capital Barriers

Participants stressed the importance of government grants as a fundamental intervention to remove barriers to entry and to meet the economic realities of those being prioritized by equity programs. Based on knowledge of existing operations, participants largely agreed that "a real grant for cannabis business is $50,000 minimum, no payback" and a "minimum loan investment is $250,000 with 1-3% interest." Many applicants thought smaller amounts, like $25,000 and $10,000, were not sufficient to support start-up costs, especially considering the length of time that many applicants wait to open and move through emerging regulatory processes. With startup costs ranging between $500,000 to more than $1 million, small grants are expended by one or two months of rent and other urgent costs.[lxxv]

Despite the extensive need, due to federal criminalization, small business loans backed by the government are not available for cannabis operators. The most common federal loans are up to $5 million (type 7a and 504 SBA loans, the latter being for fixed assets), and the smallest loans are microloans at $50,000.[lxxvi]

Larger cannabis loans and grants by jurisdictions are not unprecedented: A 43-year-old Black female equity operator shared that Oakland's model is important because it offers "both grants and loans of significant value." Oakland offered grants up to $90,000 throughout a multiple-stage timeline (that includes establishment and expansion) and loans up to $150,000 managed through a third party contractor. The City also quickly readjusted its loan repayment timeline when most applicants could not pay within the first few years due to the long length of start-up to solvency time in cannabis. Ecotone's return on investment analysis shows that Oakland's larger grants and loans have overall return to communities impacted by the War on Drugs.[lxxvii]

The San Francisco Office of Cannabis provides dozens of grant awards up to $100,000 to sole proprietorships and single-member LLCs, and up to $48,000 for others, with about $3 million in funding in 2021. By the end of 2021, the city had disbursed $5.5 million in grants between $50,000 to $150,000, and in 2022 had started a process to disburse an additional $2 million.[lxxviii] Recipients used grants for rent, capital compliance, and other areas.

LAC has successfully managed similar programs, including the LAC Regional COVID-19 Relief Fund from the DCBA public-private foundation that provided more equitable results than most Paycheck Protection Programs, with extensive impact in unincorporated areas.[lxxix] DCBA's success in maintaining transparency and in reaching far more small business operators of color suggest that it may be a suitable home to OCM grant and loan programs. Of course, this kind of grant program will require significant fundraising. We suggest considering the DCC as an important source of funds and recommend the State take proactive action to support grants and loans.

> "I think that if we're talking about what a real grant program looks like, it's going to have to be something where we're seeing numbers that are closer to $200,000, $100,000. Anything less is not going to help people get off the ground. And I think that if you can do that with a mix of loan opportunities that have low or no interest loans that don't require payback for the first two years of business, and that can offer those loans that can go up to a half million dollars. I think that they need to step up and stand in the gap for the SBA loans that we're not able to access in this industry.
>
> ***– a 43-year-old Black female cannabis worker/prospective operator***

Recommendation 11: Provide Technical Assistance and Other Supports to Equity Applicants.

- Create a one-stop-shop for cannabis technical assistance that includes LAC-vetted legal support, financial guidance, employee training, tax planning, and business development. Draw upon and include other County agencies/resources, including in small business development, building safety, fire departments, and workplace safety.
- Provide access to this one-stop-shop prior to licensing. Create a 3-stage licensing process that selects equity applicants first, provides training/resources, and then moves forward with licensing applications.
- Develop a simplified application process and provide the public with 1-page explainers and boilerplates for required elements like security or fire plans, in partnership with collaborative agencies.
- After applicants are accepted, build an equity support cohort model that allows all equity applicants to meet, share resources, support each other, and build supply chain relationships. This can include wellness and mental health support at the participant's choosing. Invest LAC funds or state equity funding in a public-private partnership to create an incubator that can support cohorts of cannabis equity applicants.
- To advance these projects, allocate up-front investment from the County – including through potential partnerships with private foundations and from philanthropic capital.

Recommendation 12: Help Equity Applicants Overcome Capital Barriers.

- Raise funds to provide grants or repayable low interest rate loans of significant value that can help equity applicants overcome capital barriers.
- Using registries of potential vacant public lands or properties, identify and help create a shared cultivation, manufacturing, and/or testing space. These shared spaces can also house the "one-stop shop" for cannabis technical assistance.

Support Workforce Development

Develop a Workforce Development Pipeline

For focus group participants, the opportunities to promote equity also require incorporating workers and creating comprehensive pathways to opportunity. They look to "[create] a pipeline of young people interested in learning from seed to sale, employment training that are specifically built to create the pipeline for entrepreneurship" in cannabis. This is especially relevant for targeted unincorporated areas, where incomes are relatively lower and local opportunities scarce.

Both workforce development best practices and focus group participants suggest that community colleges are critical sites for cannabis courses and training. In California, pilot programs are underway in Los Angeles (Southwest College), Long Beach (Long Beach City College), San Francisco (San Francisco City College), and Alameda County (Laney College). These include introductory coursework on cannabis operations in different fields, and the first two are potential partnership sites for LAC given their proximity to unincorporated areas. East Los Angeles College (ELAC) is also considering such programming. LAC Workforce Development programs already have existing relationships with ELAC and Southwest College, and working with them may support adjoining goals, like the development of a biotech and STEM corridor through ELAC.

Several respondents and workforce development research note that paid opportunities are key; it is not enough to create unpaid internships, especially if the end goal is equity. At present, major unions are developing "High-Road Training Partnership" (HRTP) statewide apprenticeships, which centers equity and matches apprentices with supportive programs that recognize challenges faced by Black, Indigenous, and other workers of color, and help workers stay in their positions. Employers participate in a joint apprenticeship committee, pay into a training fund, and are able to hire highly trained equity workers at a starting rate that increases with experience. Including unions guarantees long-term protections for apprentices and empowers equity participants.

> "One Native and Black female and two-spirit participant emphasized the importance of workforce development as a lever for community reinvestment and restorative justice: "How many of those green crosses that are in our community that are paying taxes, how much of those taxes going to end up back in our community? And the only chance we have is through employment development, making sure that if you get employed and you've got a cannabis shop in our neighborhood, somebody better be coming from my neighborhood walking in that shop and getting a paycheck."

Focus group participants stated that businesses should be required to hire directly from communities affected by inequity. This should be determined in alignment with the screening for ownership programs. A zip code based strategy avoids adding illegal questions to the hiring process and third party hiring agencies and intermediaries. The City of Los Angeles and Sacramento are among the few jurisdictions to ask license-holders to consider local hiring and hiring workers through an equity lens. Such programs are similar to community benefit agreement requirements for development that mitigate displacement and may be a way to stop cannabis gentrification.

Equity hiring requirements can be set at a rate such as 40%, mirroring the successful program in Long Beach, with applicants who go double this awarded points in the merit process.[lxxx] Currently, the City of Santa Ana is considering a similar program for reducing taxes based on efforts to support workers and equity. This rate of 40% also was selected as it combines the 30% local hire and 10% target hire set by the County's Local Worker Hire Program for capital projects.[lxxxi]

Protect Workers

The backbone of the industry in LAC is still predominantly people of color, with women of color often working frontline service positions. While cannabis jobs can offer enhanced income earning, skills development potential, and other pathways to equity for target populations, there are several key factors that have made these jobs challenging for Black, Indigenous, and People of Color (BIPOC) workers in particular:

- **Insecurity**, including the constant threat of raids and policing that targets workers equal to operators/investors;
- **Sexual harassment**, by both customers and managers/staff;
- **Wage theft**, through unpaid "internships," lack of meal and rest breaks, failure to provide overtime, use of "by the pound" rate (in cultivation), and other illegal labor practices;
- **Unsafe worksites**, including lack of protections from hazards including pesticide exposure.[lxxxii]

Cannabis workers are also largely responsible for integrating regulatory requirements to keep patients and communities safe, from checking identification to managing the Marijuana Enforcement Tracking Reporting & Compliance (METRC)—the official state track and trace system. Training programs are an important asset to helping guarantee safety, but also to validating the professional nature of work. As a 57-year-old mixed-race female community advocate explained, "For harassing behavior, workers need to know their employment and labor laws and their rights to a safe [workplace] and [the right to] zero tolerance for harassment work environment." Participants suggested that LAC provide training and education on these topics; there are also specific OSHA intensive trainings (OSHA-10 and OSHA-30) provided by worker organizations. Equity employers also have noted the need for supports in how to train workers and budget for paying workers well, and a major union representing cannabis workers is piloting a program in Oakland to train social equity employers in labor-management alongside workers in an innovative new model.

Another worker present at the focus group laid out a simple avenue to protect workers: "Unionize!" Indeed, numerous media have highlighted the surprising presence of unions and democratic worker organizations in the cannabis industry.[lxxxiii] Fortunately, access is built into cannabis, unlike many other industries, through California state laws guaranteeing a "labor peace agreement" for any business with 20 employees; given the average business size locally, Los Angeles City lowered this to 10 workers. At present, the City of Los Angeles has seen one of the highest rates of unionization of cannabis businesses in the country. In-depth qualitative research shows that workers note a marked difference in unionized retail locations from both licensed non-union and unlicensed retail locations, including space to raise grievances, combat harassment, receive overtime and breaks, obtain healthcare benefits, higher wages, and implement protections for transgender workers.[lxxxiv]

Research also demonstrates that workers find value in the cannabis industry itself. Medical cannabis frontline care work, a broader cannabis culture/community, and in-depth knowledge of plant biology, dynamics, and chemical and manufacturing have been cited as valued benefits of working in the industry.[lxxxv] Many of the frontline workers are themselves responsible for the innovations in medical, cultivation, and manufacturing technologies and applications. Given that many are workers of color, creating pathways to cooperative ownership and encouraging other programs like profit sharing are imperative to ensure this is a wealth-building investment.

Recommendation 13: Recruit Workers Equitably.

- Require all applicants to hire at least 40% of their workforce from unincorporated LAC equity-impacted areas (aligned with equity licensing criteria). Incentivize doubling to 80% and/or achieving specific goals for managerial positions, as part of merit-based cannabis social responsibility commitments.
- Tie compliance with equity hiring goals, including in cannabis social responsibility commitments with annual relicensing process.
- Create a targeted outreach program that links to high-road employers through meet-and-greets, job fairs, and other events.

Recommendation 14: Train Workers with Equity.

- Partner with LAC community colleges, state universities, vocational training sites, community-based organizations, and unions to create a cannabis workforce pipeline and paid apprenticeships. Draw from developing models, like the high-road statewide joint apprenticeship model currently being certified by the State.
- Include a budtender/cannabis counselor health certification short course program in community college/workforce development sites. Require participation by at least one worker at each retail site. This can cover "product potency, dosing, evidence of harms to youth, evidence for specific therapeutic effects and when/how to recommend consulting with a physician," in alignment with the 2019 LACDPH report.[xiv]
- Mirror the City of Los Angeles' requirement of a labor peace agreement for 10 or more applicants.
- Partner with worker-led organizations to offer worker know-your-rights training and OSHA 10/30 safety/health, and to offer equity employers in labor-management training, including at LAC-sponsored incubation and shared spaces.
- Include workers, their organizations, and workforce development agencies in the Cannabis Working Group and Community Voice Subgroup.

Protect Youth, Patients, and Communities

Protect and Invest in Youth

Focus group data make clear that young people were particularly harmed by the first iterations of the war on drugs and remain at-risk by current policies. Since the 1990s, zero tolerance laws and increasing police presence in schools have meant that students who utilize cannabis or are found in possession can be easily suspended, expelled, and/or immediately referred to law enforcement.[lxxxvi] Such encounters are not documented in LAPD data utilized by the City of Los Angeles. School police fall under LASD and are often invisible in the conversation on cannabis licensing policy.

Prop 64's architects took a tremendous step forward in attempting to curb the criminalization of youth by ending the arrest or incarceration of children for cannabis violations. Now, youth under 18 can only receive a non-fine infraction that carries consequences such as 5-20 hours of drug education, counseling, or community service.

LAC is well-positioned to build on existing work for a more restorative and effective model of youth engagement. Thanks in part to the active efforts of youth, Los Angeles Unified School District (LAUSD) has put in place a comprehensive Restorative Justice program that tempered the zero-tolerance ethos by establishing alternatives for suspension in the case of first cannabis possession.[lxxxvii] So too are the current efforts to reimagine juvenile justice fundamental parts of the conversation ahead on cannabis.

Researchers and advocates argue that further steps are needed, as youth ages 18 to 21 can still be charged with infractions and misdemeanors for possession. In 2017, Los Angeles City Council unanimously approved a recommendation to reduce any misdemeanors under California Health and Safety Code Section 11357(a)(2) and (b)(2) to citations without a fine (with only community service and participation in a Youth and Safety program).[lxxxviii] The state has yet to take similar action.

LACDPH analysis suggests an approach rooted in youth development and positive motivational interviewing focusing on schools affected by inequity. Agreement across the board seems to show a need to move from penalization to education for youth to understand the adverse impacts of cannabis in ways that support broader goals like "a sense of support, belonging, mastery, self-efficacy, and independence that will help them succeed in all aspects of life."[lxxxix]

Focus group participants recognized that youth themselves should serve as the starting point to develop a youth platform. Much of the anti-drug curricula were written during the height of the drug war and with unbalanced evidence regarding cannabis. Youth participatory research models are an important tool to help build this curriculum, especially if they center systems-impacted youth. Several participants lifted up the work of community-based organizations that place formerly incarcerated youth in a position to help guide restorative justice.

> We literally support and work with those directly impacted by incarceration, and also young people. We literally work to uplift system-impacted young people. Everyone that works at [our organization] is system-impacted in some way. I work [at this organization] because my dad went to prison, forever. We put our money where our mouth is, so everybody in there is directly impacted by the system. We're all people of color, we all work in South Central. And we practice transformative justice, so we do not allow police or any policing type of systems in our space. We've been running for, I think 22 years, I've been with them for 9 years, and we've still continued that mission. We practice transformative justice, so no criminalizing things. We've just been working with the community so long and doing lots of different things. And I think it would be great to have us join.
>
> ***– a 26-year-old Black female community advocate/cannabis consumer/community member***

Protect and Educate Users

Significant concerns are raised in public health scholarship and by community groups that, in particular, Black and other racialized communities have been targeted by tobacco advertising and can be targeted by cannabis advertising. Zoning regulations and an effort to push out retail operators from wealthier areas over time have also led to the reconcentration of both licensed and unlicensed dispensaries in areas like South and East Los Angeles, mirroring similar past concerns with liquor stores.

Helping ensure patients have proper information and communities understand the benefits and potential health implications of cannabis means responding to these needs and barriers comprehensively. Punitive models that carry policing and fines tend to disproportionately harm low-income and unhoused residents.[xc] Harm reduction and other proactive education models seek to break down stigmas and help people feel comfortable seeking services that protect their health and dignity simultaneously, while informing residents of various methods and monitoring of cannabis consumption to support health. LACDPH and its partner agencies have spearheaded this vast, complex, and growing field in other health equity work, including Overdose Education and Naxalone Distribution.[xci]

Medical and adult-use consumers also face risks, like eviction and job loss, that would worsen health "downstream." Landlords and shelters still have the option to evict people who consume cannabis, and residents who are unhoused lack any public spaces to safely consume or to participate in legal home grows (less than 10 plants).[xcii] This often affects those in public housing, shelters, or single-room occupancies. This means that the most economically precarious residents face worsening health disparities. Curbing landlord and shelter practices that lead to greater economic and housing insecurity are an important step, as is exploring public cannabis consumption spaces, especially for medical patients. To note, New York City was among the first jurisdictions to pass an ordinance to protect public housing residents from eviction due to private use and public space cannabis possession, and a wider state law protecting medical cannabis patients.[xciii]

Engage and Protect Workers

Another important and often misunderstood resource in the health equity aspects are cannabis workers themselves and their role in health education. Many frontline cannabis consultants and retailers shared that the driver behind their work is helping others navigate medical aspects of cannabis. This role was shaped extensively by the development of medical cannabis collectives in the 1980s and 1990s, when queer communities created a care model driven by crowd-sourced medical knowledge and person-to-person relationships.[xciv] Many workers have thoughtfully engaged in a process of helping consumers navigate their medical needs, similar to how a pharmacist would (albeit with even more personalized depth).

Providing certified budtender/cannabis consultant training through community college and/or apprenticeship program workshops may be a critical intervention point, and a way to recognize the crucial role these young workers already play in health equity outcomes. Budtender/cannabis consultant training is especially important if one considers that many of these workers are younger Black, Latina/o/x, Indigenous, and Asian Pacific Islander women (including queer and transgender identified people) who would benefit from the kind of boost this would provide to their working conditions and marketable skills. It would also be vital that such training ensure budtenders/consultants understand that they are not providing medical advice (to protect them and their businesses from lawsuits). These programs can be an opportunity to help budtenders and consultants transition to other medical-related higher education and vocational programs.

Such training can parallel effective promotora health models that have been piloted in Los Angeles. Overall, cannabis health education training can be extended to other community health workers, in partnership with local nonprofits.

Worker safety is still a significant issue of concern, given their exposure to pesticides, high-intensity light, chemical fertilizers, and other toxic products. What would help here is investment in pathways to union protections as well as access to comprehensive, in-person OSHA 10/30 training in alignment with state law.[xcv] Sustainable outdoor cultivation also plays a role in mitigating health concerns for workers. Indoor grows produce substantially more pollutants to maintain their space and use much more technology to simulate the outside year-round atmosphere, whereas outdoor or "sun-grown" are known for more regenerative practices. As one of the only metropolitan counties with agriculturally zoned land, LAC may consider taking advantage to support a more sustainable product. At present, there is no differing risk shown in outdoor grows (even the smell itself is not produced until harvest) and indoor grows have proven a more risky environmental and health venture, including massive greenhouse gas emissions correlated mostly to HVAC systems.[xcvi] However, outdoor operations are also water intensive and can be a source of pesticide runoff in non-organic cultivation.[xcvii] It also merits considering the intersection with environmental justice and the location of more industrial zoned lands in LAC. Across the board, the use of hydroponic, aquaponic, organic, regenerative, and other sustainable indoor/outdoor cultivation techniques are critical to minimizing the environmental harm, and can be incentivized via a merit-based system.

Decriminalize Use & Protect Medical Cannabis Patients

A framework for health equity must include cannabis medical patients in an understanding of both the benefits and risks with cannabis access. Patients and other community stakeholders hold vital insights into how to concretely support safe, steady, and affordable care. Recent research shows that low-income people of color lack consistent medical cannabis access. Specifically, they cannot afford price increases in the licensed market and lack access to trusted primary care. Therefore, they are reluctant to enroll in medical cannabis programs, making them more likely to use alternative therapies, non-prescription medications, and non-regulated cannabis.[xcviii] Home grow programs are meant to help bridge this gap, but access to testing for home grows is challenging, as is education overall on how to best implement this.

The costs of cannabis are of major concern to patients from low-income communities across LAC, including actually accessing programs meant to address inequities in medical access. Responding to patients who pressed the importance of integrating these individuals with the changing commercial market, California revamped its regulation to allow untaxed and discount/free medicine programs via the Compassionate Cannabis Donation Program (SB34) to ensure rising costs do not lock out low-income patients.[xcix] Though the Medical Marijuana ID Program (MMID) offers qualifying tax discounts and access to other services, focus group participants noted that the registration system is challenging to navigate and linked to fear of registering cannabis use with a public agency. LACDPH data from 2019 also show dropping enrollment. Community-rooted and health equity area targeted education, enrollment support on MMID programs, and incentives in merit licensing may boost participation in Compassionate Cannabis Donation.

Moreover, there is an ongoing need to consider larger decriminalization processes that ensure those with medical cannabis conditions are not penalized with tickets, loss of housing or access to housing, unemployment, or other dangerous destabilizing realities. Recently passed laws like AB 2188 that ban testing of workers for cannabis, signal a growing statewide understanding of the contradictions of such punitive policies and the need to protect cannabis patients and consumers to ensure equity.

> “Well, as a 3-time cancer thriver, I’ve relied on cannabis for years for my treatment and my alternative therapies. So, what I would say is that question that I hope I never hear again from the medical industry, ‘how do you know it has health benefits? What is the data? Do you have data? Do you have research?’ If I never hear that or the word ‘protocol.’
>
> ***– a 60-year-old Black male cannabis patient***

Recommendation 15: Protect and Invest in Youth.

- Support a public health equity-oriented approach to cannabis use that is rooted in positive youth development models and addresses "upstream factors." Integrate youth in developing related health programming.
- Include LAC medical cannabis, harm reduction, and youth development experts in a collaborative cross-agency working group for cannabis health and social equity.

Recommendation 16: Protect and Educate Users.

- Develop a budtender health certification program, to be piloted in new equity businesses and gradually implement as a requirement for employees in delivery and dispensary sites. Cover "product potency, dosing, evidence of harms to youth, evidence for specific therapeutic effects and when/how to recommend consulting with a physician" in alignment with the 2019 LACDPH report.[xiv]
- Require cannabis retail sites to post comprehensive, balanced information on cannabis use and cannabis effects, including but not limited to the use of cannabis for medicinal and adult-use purposes, safe consumption, awareness of contraindications or drug interactions, potential risks, mental health awareness, and other key elements to protect public health and consumer safety, and promote reliance upon physicians and LAPDH resources versus informal sources.
- Develop similar community health worker (promotora-style) programs in partnership with community organizations for broader education on cannabis use. Ensure physicians and other healthcare providers have access to cannabis continuing medical education (CME) courses through academic partnerships.

Recommendation 17: Decriminalize use.

- Assess and remove cannabis-related "quality of life" tickets that harm unhoused residents from County administrative codes. Explore local ordinances like the New York City and State measures that prevent evictions based on cannabis private consumption, as well to ban the removal of unhoused people from shelters for possession of cannabis.
- Provide affordable venues for testing home grows, especially for qualified medical patients.
- Set a plan for consumption spaces in future licensing and instruct exploration of this, including publicly managed consumption spaces. In the interim, work with LACDPH to identify and designate space for consumptions for qualified patients.

Recommendation 18: Protect Medical Cannabis Patients

- Include business participation in the Compassionate Cannabis Donation Program (SB 34) to donate products to medical cannabis patients in the merit-based licensing program.
- Expand education and access to LAC Medical Marijuana ID (MMID) program. Consider selecting community-based partners in each Service Planning Area to help medical patients enroll in the MMID and determine participating businesses in the Compassionate Cannabis Donation Program.
- Sponsor community-level conversations regarding cannabis that bridge residents, workers, patients and owner-operators to create understanding, increase trust, expand partnerships in equity priority areas.
- Educate the DCBA Office of Labor Equity on implications of AB 2188, which blocks cannabis workplace testing. Provide educational resources through the DCBA to ensure protections.

Bridge Health & Social Equity in Community Reinvestment

The call to invest cannabis tax funds back into drug-war-affected communities was consistent during the focus groups. This can look like "investing in non-profits that are at the front lines of our [drug-war impacted] communities," as well as into public workforce, education, and health institutions. This also includes investment in the kinds of grants, loans, and assistance programs for operators detailed in prior sections. Fortunately, the County has already engaged in building a community-driven investment process through Care First Community Investment Spending Plan (born from Measure J), in which cannabis tax funds can be directed in a way that addresses questions of community disinvestment from the war on drugs.

Together, this framework of reinvestment links health and social equity approaches, benefiting communities harmed by a drug war approach and supporting "upstream" solutions for health equity. Participants also strongly underscored how investment of tax money should not go to further perpetuating the same policing practices that caused harm in the first place. Taking guidance from and linking the Cannabis Working Group (and Community Voice Subgroup) to the Care First and Community Investment Advisory Committee would be a simplified but robust way to engage directly and support the County's already existing work in the direction of repairing the harms of the drug war.

A California youth-led network provided an analysis of current efforts for reinvestment, highlighting existing programs (updated here with information from outside California):

- Santa Ana has set aside a "public benefit fund" in which "revenue from cannabis sales in town would be allocated to libraries, park improvements, and youth services." In 2021, $9.6 million went towards these, including Wi-Fi hotspots for youth, library investment, and a parks program.[c]
- Santa Cruz County invests 20% in early childcare, afterschool programs, and scholarships. This includes the Thrive by Three program, which dramatically strengthens the early childcare program for low-income individuals and their families. It also supports nurses to visit first-time mothers early in their pregnancies and for 2 years after birth. The program started as a 12.5% investment and voters increased the amount to 20% in 2021 when it became a permanent part of the City Charter.[ci]
- Monterey County has invested cannabis taxes in early childhood education and intervention programs, a homeless shelter, and a pilot Whole Person Care program that provides comprehensive case management services to those who are experiencing homelessness or have mental illness, substance use disorders, or multiple chronic diseases.
- Humboldt County uses $400,000 in cannabis revenue per year to fund the Adverse Childhood Experiences (ACEs) Collaborative Partnership, which seeks to address the impact of the intergenerational trauma inflicted by the War on Drugs and deep poverty in the Emerald Triangle region. It provides early childhood mental health supports, training for early childhood educators on social-emotional needs of children, and training for foster parents of children who have experienced trauma.
- Chicago suburb Evanston has funded a historic local reparations program via cannabis revenue, supporting housing ownership for Black communities.

Overall, community investment should be a central pillar in LAC's approach, recognizing the challenges and contradictions in operating in a system that has perpetuated exclusions, while mobilizing public power to create genuine access and inclusion. A 73-year-old two-spirit Native and Black woman provided the following summation of an equity-rooted reinvestment strategy and cannabis tax use:

"How do you take a social equity approach to addressing disparities, addressing criminalization, addressing all of the traumas associated with criminalization of cannabis and you try to create it within a system and a structure that is designed to impede based upon race and gender? ...the question has to be asked, are we going to do the same thing, expecting different results? Are we going to spend our time doing all of the assessment and all of the work and jumping through the hoops and filling out all the documents only to end up where we are right now? Because we're trying to fit a round hole into a square peg and it won't work. So, that will require us to become more civic-minded — civic engagement, working together to dismantle the structure in order to create a social equity platform."

Recommendation 19: Reinvest for Equity.

- With the passage of Measure C (2022) authorizing a cannabis business tax, ensure all cannabis tax revenues go to: 1.) administrative operations of OCM and related LAC programs supporting cannabis social and health equity; and 2.) a comprehensive health and social equity community reinvestment program.
- Direct part of cannabis tax revenues to OCM social and health equity programs, including grants and loans for cannabis license applicants.
- Create an unincorporated LAC community reinvestment stream to support programming at the county that directly addresses the harms of the drug war, prioritizing the Care First Community Investment Spending Plan (Reimagine LA/Measure J). This Investment plan already includes community engagement with those who suffered through disinvestment during the drug war years. The Community Voice Subgroup can liasion with the Care First and Community Investment Advisory Committee to help link processes.
- Develop a mechanism to allow cannabis businesses to invest in a community reinvestment funding stream-much like Community Reinvestment Act credits for financial institutions– as part of merit-based license application and as part of the relicensing process. Link future tax incentives to investment of profits in this funding stream.

Conclusion: A Potential Program Workflow

Building Collaboration & Consenus

- Develop cross-agency Cannabis Working Group with Community Voice subgroup.
- Explore shared incubator and public vacant land availability.
- Develop materials for "Education First" legacy market outreach, including storytelling & education project.
- Develop merit-based cannabis social responsibility criteria for application processes and with public transparency.
- Apply for state funding for grants program & training/technical assistance programs.

Launch Social Equity Licensing Applicant Registration

- Hold community workshops to guide registration for licensing, detailing merit-based processes.
- Launch social equity investor registration/public database.
- Conduct further legacy market outreach to invite applicant registration and help transition workers.
- Recruit youth to engage in health promotion; select Service Planning Area-level (SPA) Medical Mariuajana ID (MMID) liaison organizations.
- Coordinate with the District Attorney and Public Defender to outreach to unhoused and other vulnerable populations regarding expungement services.
- Begin exploring with Board of Supervisors new phases of licensing, including consumption lounges, outdoor grows, and Type S shared-use manufacturing facilities.

Applicant Support, Resourcing and License Preparation

- Select applicants based on registration & transparent merit processes. Post applicant cannabis social responsibility commitments.
- Launch Social Equity Cohort Training Program for all selected applicants and one-stop support.
- Engage qualified applicants in multi-week technical assistance and community building to support application completion, and include investor meet-and-greets and initial startup grants/loans.
- Support participants in identifying rental properties, including offering access to shared space as possible.

Social Equity Licensing Roll-Out

- Process final social equity applications and conduct inspections on site, linking to support resources as needed.
- Launch apprenticeship courses in partnership with community college, union, and community-based organization programs.
- Rollout of cannabis health-equity programming, including budtender/cannabis consultant certification.
- Continue legacy market outreach to support workers, businesses in transition.
- Launch youth development-centered education programs in target equity schools/communities.

Market Advancement

- Integrate cannabis social responsibility merit processes into re-permitting process and new licensing.
- Support worker continuing education on health, safety, and other programs.
- Advance opportunities for consumption lounges, outdoor grows, Type S shared-use manufacturing, and other licenses
- Launch community reinvestment funding via tax revenue, in coordination with Care First Community Investment processes.

APPENDIX 1:

Brief Analysis and Literature Review of Incarceration Approach Impacts

Impacts of the current incarceration approach include:

- Reduced high school completion and **lowered access to post-secondary educational opportunities** in affected communities for those incarcerated and their families.[cii]
- Exacerbation of **racialized disparities in health** through incarceration, including heightened rates of HIV/AIDS and untreated mental illness.[ciii]
- **Increased exposure to risk of deportation** among vulnerable migrant populations, through imprisonment, and the risk of associated social dislocation and dispossession.[civ]
- **Reduced job opportunities** through both direct (i.e., background checks that occur before hiring, even though employers are banned from directly[cv] asking about arrest history on applications) and indirect discrimination against formerly incarcerated peoples.[cvi]
- **Drastically low opportunities for capital access** and small business ownership for wealth creation.[cvii]
- Increased **wage disparities and lessened mobility** opportunities in vulnerable communities. [cviii]
- **Reduced tax base for vulnerable** communities due to joblessness, lack of wealth-creation, lack of home ownership.
- **Expropriation of assets and capital** from vulnerable communities through drug raids and other war on drugs policing tactics, including in continued post-2016 enforcement.[cix]
- Inflation of drug prices through illegalization, creating **market distortions** and making access to medical cannabis more expensive for vulnerable patients.[cx]
- **Production of massive debt,** with $50 million dollars in criminal justice debt nationally, and the average post-incarceration debt amounting to $13,000 and consuming on average 60% of a person's income.[cxi]
- Continued **disenfranchisement of people of color from the electoral process** (though California now allows those in county, not state, jails to vote).
- Increased **distrust of the policing and political system** and frustration with existing arrangements, making political reintegration challenging.[cxii]

APPENDIX 2:

Focus Group Survey

Focus group survey questions exclude display, skip, and other survey logic.

- Q1 Do you consent to taking this survey? [Yes, No]
- Q2 What is your gender identity? [Man (cisgender), Woman (cisgender), Trans man, Trans woman, Nonbinary/nonconforming, Two-spirit, Intersex, Other (please specify), Prefer not to respond]
- Q3 What was your biological sex at birth? [Male, Female, Intersex, Prefer not to respond]
- Q4 What is your sexual orientation? [Straight/Heterosexual, Gay, Bisexual, Asexual, Queer, Other (please specify), Don't know/Not sure, Prefer not to respond]
- Q5 Do you identify as Hispanic or Latina/o/x? [No, not of Hispanic, Latina/o/x, or Spanish origin; Yes, Mexican, Mexican-American, Chicano; Yes, Puerto Rican; Yes, Cuban; Yes, of another Latina/o/x, origin (please specify - for example, Salvadoran, Guatemalan, Nicaraguan, Peruvian, Honduran, etc.), Prefer not to respond]
- Q6 What is your racial identity? (Select all that apply.) [American Indian, Indigenous or Alaska Native, Asian, Black or African American, Native Hawaiian or other Pacific Islander, White, Middle Eastern or North African, Some other race (please specify), Prefer not to respond]
- Q7 What is your tribal affiliation or indigenous group affiliation? (Select all that apply.) [Cahuilla (Ivilyuqaletem) Tribe, Hopi Tribe, Hupa Tribe, Mohave Tribe, Washoe Tribe, Yurok Tribe, Mayan, Mixteco, Zapotec, Other (please specify)]
- Q8 What are your Asian origins or ethnic identities? (Select all that apply.) [Chinese, Filipino/Pilipino, Indian, Japanese, Korean, Pakistani, Thai, Vietnamese, Other (please specify)]
- Q9 What are your Native Hawaiian or Pacific Islander origins or ethnic identities? (Select all that apply. [Hawaiian, Guamanian (Chamorro), Samoan, Other (please specify)]
- Q10 What are your Black and/or African American origins or ethnic identities? (Select all that apply.) [Beninese, Bissau-Guinean, Ethiopian, Eritrean, Gambian, Ghanaian, Haitian, Jamaican, Malian, Nigerian, Senegalese, Other (please specify), I don't know]
- Q11 What are your White, Middle Eastern or North African origins or ethnic identities? (Select all that apply.) [European, Middle Eastern (includes Armenian), North African, Other (please specify)]
- Q12 What are your countries of origin in Europe? (Select all that apply.) [England, France, Germany, Ireland, Italy, Russia, Spain, Other (please specify)]
- Q13 What are your Middle East country of origins? (Select all that apply.) [Armenian diaspora, Egypt, Iran, Israel, Lebanon, Palestine, Saudi Arabia, Syria, Turkey, Other (please specify)]
- Q14 What are your countries of origin in North Africa? (Select all that apply.) [Algeria, Egypt, Morocco, Libya, Other (please specify)]
- Q15 What was your income before taxes in calendar year 2021? [$0 to $10,000, $10,001

to $20,000, $20,001 to $30,000, $30,001 to $40,000, $40,001 to $50,000, $50,001 to $60,000, $60,001 to $70,000, $70,001 to $80,000, $80,001 to $90,000, $90,001 to $100,000, $100,001 to $250,000, $250,001 to $500,000, $500,001 or more, Prefer not to respond]

- Q16 Have you been a resident of Los Angeles County for at least 5 years? [Yes, No, Prefer not to respond]
- Q17 Have you been ever been incarcerated? [Yes, No, Prefer not to respond]
- Q18 Do you have a prior cannabis arrest or conviction? [Yes, No, Prefer not to respond]
- Q19 Have you had a family member or close relative incarcerated? [Yes, No, Prefer not to respond]
- Q20 Are you a former foster youth? [Yes, No, Prefer not to respond]
- Q21 Are you a veteran of the armed forces? [Yes, No, Prefer not to respond]
- Q22 Are you a person living with a disability? [Yes, No, Prefer not to respond]
- Q23 What is your age? [Select Age]
- Q24 What is the highest level of education you received? [Some High School, High School Diploma/GED, Associates Degree, Bachelor's Degree, Masters or professional (e.g., Law Degree), Doctorate]
- Q25 Are you a fluent English speaker? [Yes, No, Prefer not to respond]
- Q26 Are there other parts of your identity that you would like to share? [Open-Ended Survey Response]
- Q27 Do you self-identify as any of the following? [Existing or Prospective Cannabis Business Operator, Other Business Owner, Cannabis Worker, Community Advocate, Cannabis Medical Patient, Cannabis Consumer, Accredited Investor (if not accredited access to excess of $1 million more to invest in cannabis businesses), Cannabis Attorney (e.g., admitted to Bar of State of California), Community Member, Healthcare Worker Related to Cannabis, Other, None of the Above]
- Q28 When was your first cannabis business formed? [Month/Year. Please write N/A if not yet formed.]
- Q29 What kind of cannabis business do you operate or intend to operate? [Cultivation, Manufacturing, Testing, Dispensary, Delivery only, Distribution, Event Organizer, Consumption Lounge, Not Applicable]
- Q30 Do you have a cannabis business license in California? [Open-Ended Survey Response]
- Q31 What year did you start working in the cannabis industry? [Open-Ended Response]
- Q32 What kind of cannabis business do you work in? (Select all that apply) [Cultivation, Manufacturing, Testing, Dispensary, Delivery only, Distribution, Event Organizer, Consumption Lounge, Not Applicable]
- Q33 Which issue areas are you involved in? [Cannabis equity, Drug war reparations, Abolition/criminal justice reform, Small business access/equity, Health equity, Immigrant rights, Racial justice, Gender or LGBTQ justice, Environmental justice, Other]
- Q34 Do you have or intend to have any financial, legal, consulting, advocacy, health or any other formal ties to the cannabis industry? [Yes, No]

APPENDIX 3:

Focus Group Discussion Methodology

Focus Group Process:

The research protocol was performed in accordance with the Declaration of Helsinki and using a Determination of Research with Human Subjects assessment process, the Ethical & Independent Review Services determined the project was not considered "research" and formal Institutional Review Board review was not required. All focus group participants provided written informed consent prior to participation and recording. Using a community-partnered and community-informed semi-structured guide developed for this study, facilitators asked open-ended questions and led interactive exercises using Jamboard and PollEverywhere to elicit discussion about:

- Definitions of health, social, and racial equity in cannabis;
- Their vision of cannabis social equity;
- The process for creating a social equity licensing program in unincorporated LAC;
- Challenges of past approaches to cannabis equity; and
- Equity models.

To obtain a working framework on health, social, and racial equity, participants were asked to brainstorm and create a word cloud on PollEverywhere responding to the following prompt: "Let's start with the why. What does social equity mean to you, when it comes to cannabis? What does health equity mean to you, when it comes to cannabis?"

In the discussion of their vision for cannabis social equity in unincorporated Los Angeles County, participants were asked: "What does success look like when it comes to cannabis health and social equity in Los Angeles County, 5 years down the road?"

In discussing how to create a social equity program from "scratch, without rules and no base," participants were split into two groups and utilized Jamboard to create digital sticky notes to think through equitable business development, workforce development and worker equity, and finally health equity and reinvestment. Finally, in addressing equity challenges, participants in the complete group were asked to describe the barriers, pitfalls, and traps associated with social equity programming. They were asked: "What do you think is the biggest misconception

[i] Sensitive use requirements can be found in California Business and Professional Code S. 26054 (2021).

[ii] With antiracist intention and attention to language, we respectfully utilize the plant's scientific word "cannabis" in place of "marijuana," a word with a racist history, where appropriate.

[iii] Updated Framework and Recommendations for Regulating Commercial Cannabis in Unincorporated Los Angeles County (December 20, 2021), submitted to Board of Supervisors.

[iv] Research at the national level shows the effects of arrest are deep and do not stop at prison doors. Disparities in arrest and incarceration can reverberate through communities. Research on this is noted in depth in Appendix 1.

[v] Oliver-Ray, Lexis (2020). Blacks and Latinos Still Account for Over 75% of Cannabis Arrests in Los Angeles. LA Taco. November 11. See also: Drug Policy Alliance (2016). It's Not Legal Yet: Nearly 500,000 Californians Arrested for Marijuana in the Last Decade. San Francisco: DPA.

[vi] Oliver-Ray, Lexis (2020).

[vii] Data from publicly-available LASD Cannabis Incident Data, 2005-2021.

[viii] Data from publicly-available LASD Cannabis Incident Data, 2005-2021.

[ix] Following participants in the industry, in this report, we use "legacy" to signify the long- standing presence of this market and its role in shaping the medical, cultivation, and other practices upon which the industry relies.

[x] County of Los Angeles Anti-Racism, Diversity and Inclusion (ARD) Initiative (2021). Los Angeles County Equity Strategic Plan. LA: LAC ARD.

[xi] De La Cruz, Viesca, et al. (2016). The Color of Wealth in Los Angeles. SF: The Federal Reserve in San Francisco.

[xii] Neighborhood Data for Social Change (2017). Bank Deserts: Nearly One in Five L.A. County Neighborhoods Lack Bank or Credit Union. KCET. November 27.

[xiii] Our County LA (2018). Public Health and Wellbeing Briefing. LA: OurCountyLa.org

[xiv] Nicholas, Will, Greenwell, L., et al. (2019). Health Equity Implications of Retail Cannabis Regulation In LA County. LA: Los Angeles County Department of Public Health, Center for Health Impact Evaluation.

[xv] LA Board of Supervisors Motion, February 15, 2022. Implementing an Equitable Commercial Cannabis Regulatory Framework. (Proposed by Supervisors Solis and Mitchell).

[xvi] We define legacy actors as dispensaries, cultivators and other cannabis businesses who have operated since before 2016, which include cooperatives and other retail/delivery actors that operated during the medical cannabis era, and have historically provided for local medical patients and other community members.

[xvii] For example, see Ormseth, Matthew (2022). Killings, robberies, extortion. California can't stop its booming illegal cannabis stores. Los Angeles Times. September 13.

[xviii] Sanchez-Lopez, Alejandro, Robert Chlala, Pamela Stephens and Manuel Pastor (2017). Freeing Our Futures: How Data Can Inform New Economic Strategies for Boys and Men of Color. Los Angeles: RISE Network.

[xix] For examples, see Beverly-Vermont Community Land Trust; Inclusive Action for the City; and Public Bank LA.

[xx] To note, this research has been conducted in Los Angeles County and focused on the best mechanisms to actualize the equitable intent behind recent policies. See: Carter, Vanessa, Manuel Pastor and Madeline Wander (2018). Measures Matter: Ensuring Equitable Implementation of Los Angeles County Measures M & A. LA: USC PERE.

[xxi] Data derived from LA County Equity Indicators Tools, available via the LA Department of Regional Planning site.

[xxii] Braveman, Paula & Gottlieb, Laura (2014). The social determinants of health: it's time to consider the causes of the causes. Public health reports, 129(1_suppl2), 19-31; Williams, David R., Costa, M. V., Odunlami, A. O., & Mohammed, S. A. (2008). Moving upstream: how interventions that address the social determinants of health can improve health and reduce disparities. Journal of public health management and practice, 14(6), S8-S17.

[xxiii] Woolf, Steven H. (2017). Progress in achieving health equity requires attention to root causes. Health Affairs, 36(6), 984-991.

[xxiv] Our County LA, 2018; Corburn, J., Curl, S., Arredondo, G., & Malagon, J. (2014). Health in all urban policy: city services through the prism of health. Journal of urban health, 91(4), 623-636. Marmot, M., Friel, S., Bell, R., Houweling, T. A., Taylor, S., & Commission on Social Determinants of Health. (2008). Closing the gap in a generation: health equity through action on the social determinants of health. The lancet, 372(9650), 1661-1669. And Shah, G. H., Shankar, P., Schwind, J. S., & Sittaramane, V. (2020). The detrimental impact of the COVID-19 crisis on health equity and social determinants of health. Journal of Public Health Management and Practice, 26(4), 317-319.

[xxv] This aligns with best practice research in LA County on equity. See: Carter, Vanessa et al (2018).

[xxvi] This includes research on equitable "just growth" spearheaded by researchers Manuel Pastor and Chris Benner, and affirmed by sources like the Federal Reserve Bank of Cleveland, and the need for "diverse and dynamic epistemic communities," which are key to addressing inequality and spurring growth. For more, see: Benner, C., & Pastor, M. (2013). Just growth: Inclusion and prosperity in America's metropolitan regions. Routledge; Randall Eberts, George Erickcek, and Jack Kleinhenz (2006). Dashboard Indicators for the Northeast Ohio Economy: Prepared for the Fund for Our Economic

Future. Cleveland, OH: Federal Reserve Bank of Cleveland; and Benner, C., & Pastor, M. (2015). Equity, growth, and community: What the nation can learn from America's metro areas. Oakland, CA: University of California Press.

[xxvii] Carter, Vanessa et al (2018).

[xxviii] Carter, Vanessa et al (2018).

[xxix] WG Report: hubs.ly/Q014Zk8K0

[xxix] The Working Group Coalition (2021).

[xxx] For more, see: County of Mendocino, Cannabis Equity Grant (Program Site).

[xxxi] The Working Group Coalition (2021).

[xxxii] Urban Displacement Project: Los Angeles Gentrification And Displacement. Updated 2021.

[xxxiii] For more, see: National Equity Atlas: Poverty Indicators (Los Angeles County). Updated IPUMS Data 2020.

[xxxiv] The Working Group Coalition (2021).

[xxxv] Data derived from LA County Equity Indicators Tools, available via the LA Department of Regional Planning site.

[xxxvi] Lekhtman, Alexander (2019). California Poised to Crack Down Harder on Illicit Medical Cannabis Market. Filter Magazine; Chlala, Robert with Cornejo, J., Cross, B., Lovell, K., and Vine, A. (2019). Repairing the Harms, Creating the Future: Creating Cannabis Social & Health Equity in Los Angeles. LA: UFCW 770.

[xxxvii] Most reporting on unregulated markets interchangeably fails to distinguish between local gangs and cartels, and widely uses the presence of guns as evidence of organized crime. See Ormseth, Matthew (2022).

[xxviii] For broader research on California's unregulated markets, see: Bodwitch, Hekia., Polson, M., Biber, E., Hickey, G. M., and Butsic, V. (2021). Why comply? Farmer motivations and barriers in cannabis agriculture. Journal of Rural Studies, 86, 155-170; Polson, M., and Petersen- Rockney, M. (2019). Cannabis farmers or criminals? Enforcement-first approaches fuel disparity and hinder regulation. California Agriculture, 73(3).

This also includes extensive peer-reviewed interviews and ethnographic research by the authors in LA County.

[xxxix] Chlala, Robert et al. (2019).

[xl] Oliver-Ray, Lexis (2020).

[xli] Data from publicly-available LASD Cannabis Incident Data, 2005-2021.

[xlii] Ormseth, Matthew (2022).

[xliii] This assessment is based on stakeholder focus group comments and prior interview-based research.

[xliv] Rodd, Scott (2022). Sacramento revamps cannabis enforcement system after facing dozens of lawsuits, racism allegations. CapRadio. October 3

[xlv] Yakowicz, Will (2021). Los Angeles County District Attorney To Expunge 60,000 Cannabis Convictions. Forbes. September 28.

[xlvi] California Cannabis Industry Association (CCIA) Diversity, Inclusion and Social Equity (DISE) Committee (2021). California Cannabis Equity Accountability Report. Sacramento: CCIA; Littlejohn, Amber and Eliana Green (2022). MCBA National Cannabis Equity Report 2022. Washington DC: Minority Cannabis Business Association and The Arcview Group; The Working Group Coalition (2021).

[xlvii] Littlejohn, Amber and Eliana Green (2022).

[xlviii] California Department of Cannabis Control, Equity Fee Waivers (Program Site).

[xlix] California Department of Cannabis Control, Application and License Fees (Program Site).

[l] The Working Group Coalition (2021).

[li] The Working Group Coalition (2021).

[lii] Littlejohn, Amber and Eliana Green (2022).

[liii] For examples, see: Krupnick, Matthew (2021). 'A farce of social equity': California is failing its Black cannabis businesses. The Guardian UK. November 4; Orenstein, D. G. (2020). Preventing Industry Abuse of Cannabis Equity Programs. Southern Illinois University Law Journal. 45-69; Phillips, Erica (2022). Can marijuana bring about social equity? In Massachusetts, a case study. CT Mirror. July 3.

[liv] For examples, see: City of Los Angeles, Department of Cannabis Regulation (n.d.). Social Equity Program Entity Eligibility Verification Procedure Memo.

[lv] CCIA DISE Committee (2021).

[lvi] For more, see: Los Angeles Coop Lab.

[lvii] Nash, Meg (2022). Rhode Island Legalizes Cannabis: Key Provisions of the 'Rhode Island Cannabis Act.' JD Supra.

[lviii] ReLeaf Malta and Moviment Graffitti (2022). A Social Equity Approach for Cooperative and Environmentally Sustainable Practices within Maltese Cannabis Associations. Valletta, Malta: Releaf.

[lix] Bodwitch, Hekia, Polson, M., Biber, E., Hickey, G. M., and Butsic, V. (2021). Why comply? Farmer motivations and barriers in cannabis agriculture. Journal of Rural Studies, 86, 155-170.

[lx] Goldstein, Robin and Sumner, Daniel. (2022). Can Legal Weed Win?: The Blunt Realities of Cannabis Economics. Berkeley: Univ of California Press; The Working Group Coalition (2021).

[lxi] See Polson, Michael. (2013). Land and law in Marijuana Country: clean capital, dirty money, and the drug war's rentier nexus. PoLAR: Political and Legal Anthropology Review, 36(2), 215-230. Los Angeles County research on "landlord tax" was also conducted by the author and cited in numerous interviews with medical-era operators. More also in Goldstein and Sumner (2022).

[lxii] CCIA DISE Committee (2021); The Working Group Coalition (2021).

[lxiii] For more, see: Assad, Anna (2018). California Laws Regarding Tenants in a Commercial Building. SF Gate.

[lxiv] Raja, Samina, Picard, D., Baek, S., and Delgado, C. (2014). Rustbelt radicalism: A decade of food systems planning practice in Buffalo, New York. Journal of Agriculture, Food Systems, and Community Development, 4(4), 173-189.

[lxv] Sensitive use requirements can be found in California Business and Professional Code S. 26054 (2021).

[lxvi] Carter, Vanessa et al (2018).

[lxvii] Nielsen, William, et al. (2021). Supernova Women Cannabis Social Equity Programs: Impact Analysis and Social Return on Investment. Minneapolis, MN: Ecotone.

[lxviii] Nielsen, William, et al. (2021).

[lxix] Orenstein, Daniel (2020).

[lxx] Chlala, Robert et al. (2019).

[lxxi] Nielsen, William, et al. (2021); The Working Group Coalition (2021).

[lxxii] Smith, Jeff (2022). Small-scale cannabis social equity success stories emerge amid stumbles among big programs. MJBiz Daily.

[lxxiii] LA Cleantech Incubator.

[lxxiv] For more, see: Inclusive Action for the City.

[lxxv] For a review of these grant programs, see CCIA DISE Committee (2021).

[lxxvi] For more, see US Small Business Administration, 7a Loans and Microloans (Program Sites).

[lxxvii] Carbajal, Felicia, Haywood, K., and Chlala, R. (2022). Cannabis Corporate Social Responsibility: Engaging the Industry's Mandate with Equity. LA: The Social Impact Center; Nielsen, William, et al. (2021);

[lxxviii] CCIA DISE Committee (2021); SF Office of the Mayor (2022). City Awarded $4.5 Million to Support Equity Program and Further Support Cannabis Business Owners. City of San Francisco.

[lxxix] For more, see: LA Regional COVID Fund (Program Site).

[lxxx] City of Long Beach (n.d.). Cannabis Equity Employment Registry Guide.

[lxxxi] For more see: LA Department of Public Works. Local & Targeted Worker Hiring Program (Program Site).

[lxxxii] Otañez, Marty and Grewal, J. (2021). Health and safety in the legal cannabis industry before and during COVID-19. New Solutions: A Journal of Environmental and Occupational Health Policy, 30(4), 311-323;

[lxxxiii] Fox, Hayley (2019). Unionizing Weed Workers Are Reigniting the Labor Movement. Vice News; Sainato, Michael (2022). Booming US cannabis industry seen as fertile ground for union expansion. The Guardian.

[lxxxiv] Chlala, Robert et al. (2019).

[lxxxv] Chlala, Robert. (2020). Misfit medicine and queer geographies: The diverse economy and politics of cannabis in carceral Los Angeles. Environment and Planning C: Politics and Space, 38(7-8), 1180-1197.

[lxxxvi] Aull IV, Elbert. (2012). Zero tolerance, frivolous juvenile court referrals, and the school-to- prison pipeline: Using arbitration as a screening-out method to help plug the pipeline. Ohio St. J. on Disp. Resol., 27, 179. and Nguyen, Holly, and Reuter, Peter. (2012). How risky is marijuana possession? Considering the role of age, race, and gender. Crime & Delinquency, 58(6), 879- 910.

[lxxxvii] For the listing of alternative approaches employed by LAUSD, see LAUSD (n.d.). Guide to Tier II and Tier III Intervention Supports and Alternatives to Suspension.

[lxxxviii] For both resolutions passed in Nov. 2017, see City of Los Angeles, Council File 17-0002- S107 and Council File 17-0002-S106.

[lxxxix] For more, see Nicholas, Will et al. (2019).

[xc] For more, see: City of Pasadena, Code of Ordinances 8.78.051.

[xci] For more, see: LA County Department of Health Services, Harm Reduction and Community- Based Diversion (Program Site); Meth Free LA County (n.d.), Harms, Risks and Accidental Overdoses.

[xcii] Chlala, Robert et al. (2019).

[xciii] See NY City Council (2022). NYCHA to add unlawful possession of marijuana and criminal possession of marijuana in the 4th & 5th degrees to its list of "overlooked offenses. and Jaeger, Kyle (2020). New York Senate Approves Bill Protecting Medical Marijuana Patients From Eviction. Marijuana Monent.

[xciv] Chlala, Robert (2020).

[xcv] For the latest report on the presence of toxins in non-regulated shops, see Grover, Joel and Corral, Amy (2019). Poisonous Pot Found in Some Los Angeles-Area Stores. NBC News. Many of these shops serve in communities of color, and workers are subjected to handling these products.

[xcvi] Summers, Hailey, Sproul, E., and Quinn, J. C. (2021). The greenhouse gas emissions of indoor cannabis production in the United States. Nature Sustainability, 4(7), 644-650. Other issues have also arisen with regulation, not the least of which is the massive amounts of plastic and glass packaging required to comply with state laws, an especially troubling concern for front-line communities like those in East LA near incinerators and on the pathways of freeways and manufacturing. The County should also consider how to incentivize producers that utilize sustainable packaging or support reuse and recycling methods.

[xcvii] Zheng, Zhongua., Fiddes, K., and Yang, L. (2021). A narrative review on environmental impacts of cannabis cultivation. Journal of Cannabis Research, 3(1), 1-10.

[xcviii] Valencia, Celina I., Asaolu, I. O., Ehiri, J. E., and Rosales, C. (2017). Structural barriers in access to medical marijuana in the USA—a systematic review protocol. Systematic reviews, 6(1), 1-8.

[xcix] Tschorn, Adama (2022). California medical marijuana patients can get free weed. Los Angeles Times.

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[ci] CBS News Bay Area (2021). Measure Increasing Santa Cruz Cannabis Tax Payments to Children's Fund. CBS Bay Area. For the complete analysis of community reinvestment programs in California as of 2020, see Youth Forward & Getting it Right from the Start (2020). California Cannabis Tax Revenues: A Windfall for Law Enforcement or an Opportunity for Healing Communities. Sacramento: Public Health Institute.

[cii] Foster, Holly, and Hagan, J. (2009). The mass incarceration of parents in America: Issues of race/ethnicity, collateral damage to children, and prisoner reentry. The Annals of the American Academy of Political and Social Science, 623(1), 179-194.

[ciii] Golembeski, Cynthia and Fullilove, R. (2005). Criminal (in) justice in the city and its associated health consequences. American Journal of Public Health, 95(10), 1701-1706; Massoglia, Michael.(2008). Incarceration, health, and racial disparities in health. Law & Society Review, 42(2), 275-306.

[civ] Provine, Doris M. (2008). Unequal under law: Race in the war on drugs. University of Chicago Press. Yates, Jeff, Collins, T. A., and Chin, G. J. (2005). A War on Drugs or a War on Immigrants-Expanding the Definition of Drug Trafficking in Determining Aggravated Felon Status for Noncitizens. Md. L. Rev., 64, 875. Sanchez-Lopez, Alejandro, Chlala, R., Stephens, P., and Manuel Pastor (2017). Freeing Our Futures: How Data Can Inform New Economic Strategies for Boys and Men of Color. Washington DC: RISE Research Network.

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[cvii] Wheelock, Darren. (2005). Collateral consequences and racial inequality: Felon status restrictions as a system of disadvantage. Journal of Contemporary Criminal Justice, 21(1), 82- 90.

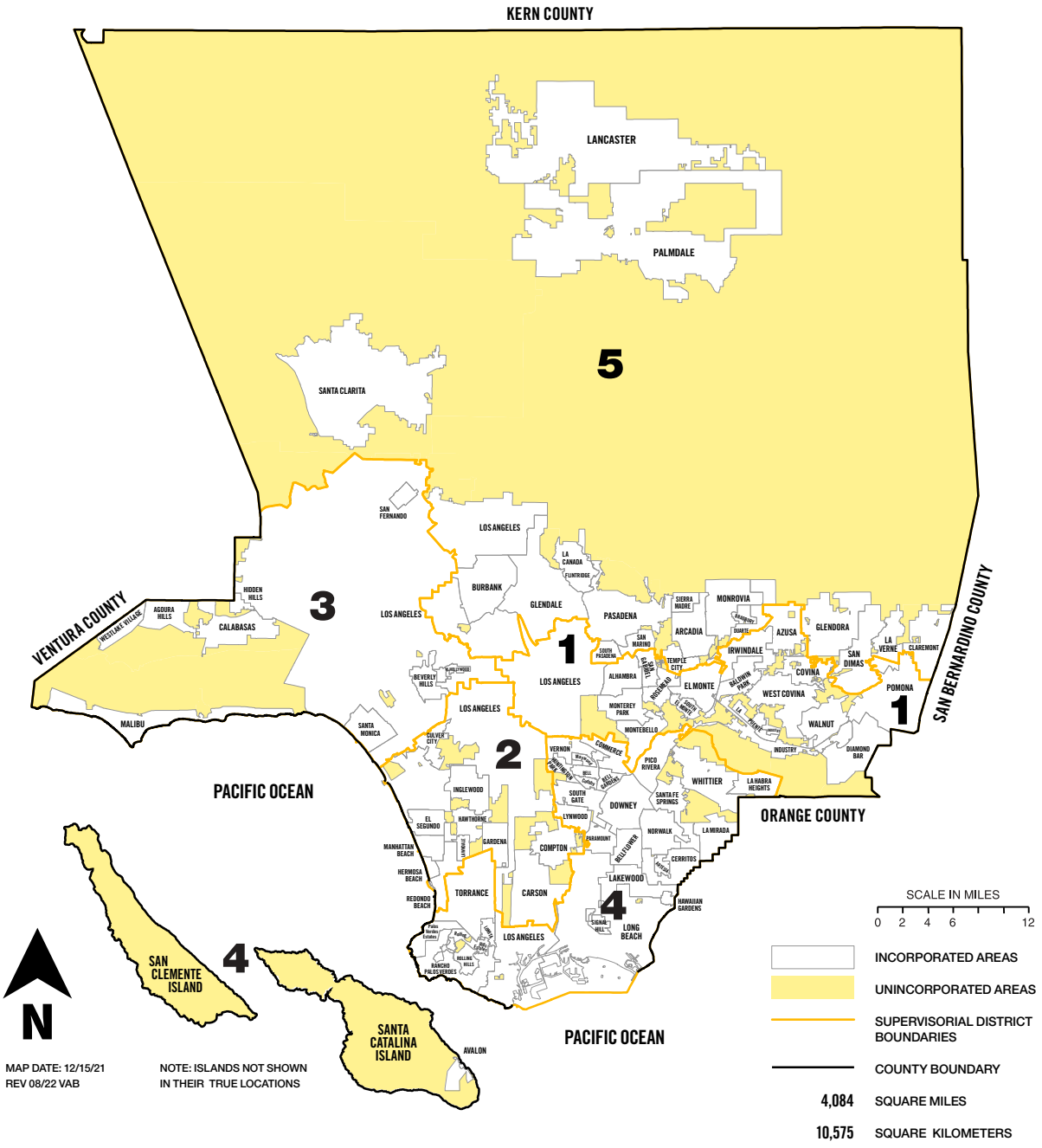
[cviii] Western, Bruce. (2002). The impact of incarceration on wage mobility and inequality. American Sociological Review, 526-546.

[cix] Polson, Michael (2013).

[cx] Polson, Michael (2013).

[cxi] Bastein, Alexandra (2017). Ending the Debt Trap: Strategies to Stop the Abuse of Court- Imposed Fines and Fees. Oakland: Policylink.

[cxii] Clear, Todd. (2009). Imprisoning communities: How mass incarceration makes disadvantaged neighborhoods worse. New York: Oxford University Press. Uggen, Christopher, and Manza, J. (2002). Democratic contraction? Political consequences of felon disenfranchisement in the United States. American Sociological Review, 777-803.


KERN COUNTY
LANCASTER
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SANTA CLARITA
SAN FERNANDO
LOS ANGELES
LA CANADA
FLINTRIDGE
BURBANK
GLENDALE
PASADENA
SIERRA MADRE
MONROVIA
ARCADIA
AZUSA
GLENDORA
LA VERNE
CLAREMONT
SAN DIMAS
IRWINDALE
COVINA
POMONA
WEST COVINA
WALNUT
INDUSTRY
DIAMOND BAR
SAN MARINO
SOUTH PASADENA
TEMPLE CITY
ALHAMBRA
EL MONTE
BALDWIN PARK
MONTEREY PARK
MONTEBELLO
VENTURA COUNTY
WESTLAKE VILLAGE
AGOURA HILLS
HIDDEN HILLS
CALABASAS
3
LOS ANGELES
1
BEVERLY HILLS
MALIBU
SANTA MONICA
CULVER CITY
2
VERNON
COMMERCE
PICO RIVERA
WHITTIER
LA HABRA HEIGHTS
SANTA FE SPRINGS
DOWNEY
SOUTH GATE
LYNWOOD
INGLEWOOD
HAWTHORNE
EL SEGUNDO
GARDENA
MANHATTAN BEACH
HERMOSA BEACH
REDONDO BEACH
TORRANCE
CARSON
COMPTON
PARAMOUNT
BELLFLOWER
NORWALK
LA MIRADA
CERRITOS
LAKEWOOD
HAWAIIAN GARDENS
SIGNAL HILL
LONG BEACH
4
PACIFIC OCEAN
ORANGE COUNTY
SAN BERNARDINO COUNTY
SAN CLEMENTE ISLAND
SANTA CATALINA ISLAND
AVALON
N
SCALE IN MILES
0 2 4 6 12
INCORPORATED AREAS
UNINCORPORATED AREAS
SUPERVISORIAL DISTRICT BOUNDARIES
COUNTY BOUNDARY
4,084 SQUARE MILES
10,575 SQUARE KILOMETERS
MAP DATE: 12/15/21
REV 08/22 VAB
NOTE: ISLANDS NOT SHOWN IN THEIR TRUE LOCATIONS

ATTACHMENT B

Emblem Program Billboard Images

5ft by 11ft- Billboard

14ft by 48ft-Billboard

LOS ANGELES COUNTY
CONSUMER & BUSINESS AFFAIRS

Board of Supervisors

Hilda L. Solis
First District

Holly J. Mitchell
Second District

Lindsey P. Horvath
Third District

Janice Hahn
Fourth District

Kathryn Barger
Fifth District

Director
Rafael Carbajal

Chief of Staff
Joel Ayala

May 15, 2023

To: Supervisor Janice Hahn, Chair
Supervisor Hilda L. Solis
Supervisor Holly J Mitchell
Supervisor Lindsey P. Horvath
Supervisor Kathryn Barger

From: Rafael Carbajal
Director

FIFTH QUARTERLY REPORT REGARDING IMPLEMENTATION OF AN EQUITABLE COMMERCIAL CANNABIS REGULATORY FRAMEWORK (ITEM NO. 6, AGENDA OF FEBRUARY 15, 2022) AND OTHER ACTIVITIES RELATED TO THE LEGALIZATION OF CANNABIS (ITEMS NO. 3 AND NO. 9, AGENDA OF FEBRUARY 7, 2017; ITEM NO. 20, AGENDA OF MAY 21, 2019)

On February 15, 2022, your Board directed the Department of Consumer and Business Affairs (DCBA) and its Office of Cannabis Management (OCM), in consultation with relevant County departments, to proceed with the development of a commercial cannabis regulatory framework and an equity program outlined in the Updated Framework and Recommendations for Regulating Commercial Cannabis in Unincorporated Los Angeles County report (December 2021).[1] Your Board further directed OCM to coordinate with relevant County departments to provide written status updates on a quarterly basis.

OCM filed quarterly reports on May 16, 2022; August 15, 2022; November 18, 2022; and February 17, 2023.[2] The quarterly reports also combine other updates regarding Cannabis Legalization (Items No. 3 and No. 9, Agenda of February 7, 2017) and the Implementation of the Unlicensed Cannabis Business Closure Plan (Item No. 20, Agenda of May 21, 2019),[3] as a single consolidated report to your Board.

[1] Office of Cannabis Management Report, Updated Framework and Recommendations for Regulating Commercial Cannabis, December 20, 2021: http://file.lacounty.gov/SDSInter/bos/supdocs/166359.pdf

[2] Office of Cannabis Management Quarterly Reports (May 16, 2022, August 15, 2022, November 18, 2022, and February 17, 2023): http://file.lacounty.gov/SDSInter/bos/supdocs/166488.pdf

[3] Consolidated Cannabis Legalization and Implementation of Unlicensed Business Closure Plan Reports: http://file.lacounty.gov/SDSInter/bos/supdocs/111534.pdf

This fifth quarterly report provides the latest progress on program design and implementation of an equitable cannabis program. Specifically, the following report includes updates on the following topics:

- Summary of the community feedback sessions to collect input on equity program recommendations included in the recently published Equity Assessment;
- Progress on cannabis business permitting process development;
- Efforts on cannabis compliance and enforcement; and
- Legislative advocacy efforts.

Since the last quarterly report, OCM coordinated and hosted a series of community feedback sessions during the month of March. The sessions focused on presenting some of the key findings from the recently published Equity Assessment and to gather public input on recommendations included in the report. In addition to the feedback sessions, an online survey was made available on OCM's website to provide other opportunities for public feedback on equity program considerations, including program eligibility, workforce development, and tax revenue allocations. Feedback on the equity program continues to be accepted directly through OCM's e-mail: Cannabis@lacounty.gov.

The attached report provides a summary of community feedback collected thus far through the above-mentioned channels. Some of the most common themes from the feedback sessions include concerns with the illicit market and its impact on regulated cannabis businesses; concerns with the low number of initial cannabis business permits to be made available; varying opinions regarding defining communities impacted by the war on drugs; concerns related to zoning requirements and permit distribution; an emphasis on the need for legal protections for equity applicants from predatory investments and local community benefit requirements; and a desire for reinvestment of cannabis business tax revenues going directly back to communities.

OCM is compiling all community feedback collected and will incorporate suggestions as an addendum to the Equity Assessment for final Cannabis Equity Program recommendations, targeted for late summer 2023.

Since the last report, the OCM is also finalizing agreements with identified consultants that will support two critical program needs. One consultant will be tasked with conducting a Programmatic Environmental Impact Report (PEIR) of the County's commercial cannabis business program in compliance with the California Environmental Quality Act (CEQA). Meanwhile, the other consultant will provide services in strategic planning, research, performance measurement, project management, and process improvement on the design and development of the Cannabis Equity Program. Obtaining industry expertise in the design of the equity program and services mentioned in the Equity Assessment will help ensure the County effectively meets the needs of equity operators

and an evolving industry. Both agreements are anticipated to be executed by the end of May 2023.

To support the development of an equitable cannabis business program, OCM recently applied to the State's Retail Access Grant. This grant makes $20 million available to local governments to support the development and implementation of a cannabis retail licensing program and expand access to regulated, tested cannabis in the legal market. Grant funds will be distributed in two phases, with a total of $10 million in funding available in each phase. The County is eligible to receive up to $475,000 in Phase 1 and a maximum of $2 million in Phase 2. If awarded, OCM would utilize grant funds on general program development and equity program costs, including application fee support, technical and legal assistance, and direct financial assistance for equity applicants. OCM will provide an update on the grant application, anticipated in June 2023.

Lastly, OCM continues to promote visibility and participation of the Cannabis Compliance and Enforcement Program (the Emblem Program) through educational billboards and promotional videos and direct outreach to other jurisdictions to encourage participation in the program. OCM continues to work with partnering County departments to respond to concerns related to illicit cannabis activities, including community presentations and exploring additional collaborative opportunities regarding substance use and youth prevention strategies.

OCM will continue to provide quarterly updates to your Board on the progress of these efforts, with the next report scheduled to be submitted in August 2023.

Should you have any questions concerning these matters, please contact me or Laura Magallanes, Acting Deputy Director of the Office of Cannabis Management, at lmagallanes@dcba.lacounty.gov.

RC:JA:LM:FGN
JG:SMB:EV:ph

Attachment

c: Executive Office, Board of Supervisors
Chief Executive Office
Acting County Counsel
Sheriff
Agricultural Commissioner/Weights and Measures
Fire
Public Health
Public Works
Regional Planning

FIFTH QUARTERLY REPORT ON IMPLEMENTING AN EQUITABLE COMMERCIAL CANNABIS REGULATORY FRAMEWORK

INTRODUCTION

On December 20, 2021, the Los Angeles County Office of Cannabis Management (OCM) submitted an updated framework and recommendations for regulating commercial cannabis in unincorporated Los Angeles County,[4] which was subsequently approved by your Board in February 2022. In seeking to create an equitable cannabis business program, the report recommended 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. It further highlighted the need for a centralized and simplified licensing program, a strong and supportive compliance infrastructure, and significant investment into education, job training, technical assistance, and capital for qualified equity candidates.

Since the approval of the updated framework, OCM continues to work with partnering County departments on the development and implementation of an equitable cannabis regulatory framework. OCM provides written quarterly updates to your Board, detailing the latest progress on program design and implementation of an equitable cannabis program.

This fifth quarterly report provides updates on the development of the Cannabis Equity Program, the cannabis business permitting process, cannabis compliance and enforcement efforts, and legislative advocacy efforts.

EQUITY CANNABIS PROGRAM

In the last quarterly report, OCM provided a summary of the recently commissioned Equity Assessment findings and recommendations. The report also contained preliminary considerations for program eligibility, such as justice involvement, income, residency, and ownership requirements. Other topics mentioned included reserving a certain portion of permits for equity applicants, as well as launching the Cannabis Equity Program, with an initial focus on retail and delivery permits. OCM also provided updates on upcoming public outreach and community feedback sessions.

[4] Office of Cannabis Management Report, Updated Framework and Recommendations for Regulating Commercial Cannabis, December 20, 2021: http://file.lacounty.gov/SDSInter/bos/supdocs/166359.pdf

Summary of Community Feedback Sessions

During the month of March, OCM hosted four in-person and one virtual community feedback sessions throughout unincorporated Los Angeles County. The time and locations also mentioned in the last report are included in the chart below.

Date	Time	Location	Supervisorial District
March 13, 2023	5:30 p.m.-7:00 p.m.	East Los Angeles Library 4837 E. 3rd Street Los Angeles, CA 90022	1
March 16, 2023	5:30 p.m.-7:00 p.m.	South Whittier Library 11543 Colima Road Whittier, CA 90604	4
March 18, 2023	12:30 p.m.-2:00 p.m.	Quartz Hills Library 5040 West Avenue M-2 Quartz Hill, CA 93536	5
March 21, 2023	5:30 p.m.-7:00 p.m.	A C Bilbrew Library 150 E. El Segundo Boulevard Los Angeles, CA 90061	2
March 23, 2023	12:00 p.m.-1:00 p.m.	Virtual	All Districts

The community feedback sessions focused on presenting some of the key findings from the recently commissioned Equity Assessment, while providing an opportunity to gather public input on some of the recommendations included in the report. The sessions provided ample time for public input, offering guiding questions related to topics on program eligibility, workforce development, and tax revenue allocation, including:

1. Who should be eligible for the County's Cannabis Equity Program?
2. What business and workforce development resources would you like to see offered by the County's Cannabis Equity Program?
3. What programs or services should be prioritized when allocating cannabis business tax revenue?
4. How can we ensure cannabis businesses benefit the communities where they are located?

While the guiding questions were offered to help facilitate a focused dialogue, attendees also provided other general feedback on any related topics. These sessions were open to the public and included Spanish translation services. The sessions were advertised through County listservs of approximately 81,500 contacts and directly to stakeholder groups, your Board offices, as well as OCM's website.
In all, more than 100 individuals registered for at least one session with a wide interest in the cannabis industry. Attendance at each in-person session varied from 8 to 25 individuals, with the largest number of attendees (40) at the virtual session. A recording of the virtual session is available on OCM's website.

Attendees at the sessions included medical cannabis advocates, current industry participants, community advocates, and residents. The diverse perspectives and opinions highlighted the varied stakeholder interests, both in areas of differences and similarities. Below provides some of the recurring concerns from the community feedback sessions:

- **The unregulated market and its impact on regulated cannabis businesses.** Attendees generally expressed less opposition to regulated cannabis businesses compared to unregulated businesses. Unregulated cannabis businesses were said to blight local communities and increase public health and safety risks. Conversely, attendees at each session expressed a desire to convert unregulated cannabis businesses into the regulated market. Some suggestions from the sessions included pausing enforcement against unregulated cannabis retail businesses, while allowing cooperating owners to pursue a pathway towards compliance.

- **Public health and safety with cannabis business.** Public health and safety, including safe access to legal cannabis, was also consistently discussed throughout the sessions. Some attendees highlighted concerns surrounding mental health, substance abuse, and youth access. Attendees were not in consensus on the solution to such concerns. Some residents called for a recommitment to prohibition or much larger buffers from sensitive uses. Other residents contended that prohibition, or de facto prohibition by virtue of large buffer zones, is a failed public policy; these residents instead advocated for increased legal access to drive out unregulated operators in favor of permitted operators who will be bound by local health and safety regulations.

- **Prioritizing populations impacted by the war on drugs for equity program eligibility, but less consensus around how to define Disproportionately Impacted Areas (DIAs).** Attendees generally agreed that those most disproportionately impacted by cannabis prohibition should receive the first cannabis business permits, and that the most DIAs should be identified using data.

However, there were mixed opinions on how to define those most disproportionately impacted, including whether to use justice involvement, income, housing burden rates, or other criteria. Some attendees argued that only current residents of DIAs should qualify, while others pushed for five- or ten-year residency requirements. Furthermore, attendees disagreed on whether eligibility should be tied to residency in unincorporated Los Angeles County compared to anywhere within the County. In multiple meetings, attendees resisted a low-income eligibility component, contending that such a requirement invites predatory investment and tokenization of equity applicants.

- **The low number of initial cannabis business permits to be made available.** Industry respondents were united in the perspective that the current amount of authorized cannabis business permits is insufficient to meet consumer demand within Los Angeles County. Residents highlighted the number of unregulated cannabis retail businesses currently in operation as proof of consumer demand and the need for safe access. Similarly, attendees at each feedback session warned that lack of access, caused by an inadequate number of permitted retailers, will not reduce consumer demand, but merely drive consumers and entrepreneurs towards the illicit market. As such, attendees urged the County to consider increasing the number of cannabis business permits to be made available.

- **Safe and equitable access to cannabis, zoning requirements, and permit distribution.** Significant discourse surrounding cannabis business locations and concentrations emerged, with a focus on safe and equitable access. Residents urged a methodical approach to determining which business types, and in what quantity, should be located throughout unincorporated Los Angeles County. Attendees supported such considerations as population density, the availability of legal cannabis in areas adjacent to unincorporated communities, environmental hazards, and the predominant zoning of unincorporated areas. Residents also highlighted the need for a nexus between the cannabis business owner and the community in which they operate. Overall, attendees agreed that zoning and permit distribution must be performed equitably, and not necessarily equally.

- **Legal protections for equity applicants from predatory investments and local community benefit requirements**. Attendees offered feedback on proposed support services for the County's Cannabis Equity Program, such as legal and technical assistance. Residents regularly raised concerns surrounding predatory investment and the need for robust regulations, free legal assistance, or both, to address it. Residents also expressed a need for assistance in the context of price-

gouging, specifically rent prices in “green zones”, i.e., relatively limited areas that conform with all applicable cannabis zoning requirements. Attendees also pushed for certain policies to support equity beyond cannabis business ownership, including the need for local protections for medical cannabis donations made pursuant to Senate Bill (SB) 34. Attendees also expressed support for a local targeted hire program, in which cannabis businesses must hire a certain percentage of their workforce from disadvantaged communities. Other suggestions included a business-specific community benefits plan that mandates each business provide some form of direct benefit to the community in which they operate.

- **Cannabis business tax revenues reinvested back into communities.** Attendees overwhelmingly were opposed to allocating Measure C revenues to the County General Fund, citing transparency concerns. Instead, communities consistently raised the importance of allocating tax dollars to the communities that generate them. This priority, it was asserted, must be balanced with ensuring tax dollars are allocated to DIAs, even if it is not where a cannabis business is located. Thus, varying opinions emerged between ensuring tax dollars go back to the communities that generated them, ensuring tax dollars go to DIAs, and not necessarily only placing cannabis businesses in DIAs.

Online Feedback Survey

In addition to the community feedback sessions, OCM offered an online survey for the public to provide input. The survey was posted on OCM’s website over a six-week period and included questions similar to the feedback sessions regarding the Equity Assessment and development of the County’s Cannabis Equity Program. The survey remained available between March 1, 2023 and April 15, 2023, and promoted through the County listserv, OCM’s website, and social media channels. During this timeframe, OCM received nearly 30,000 website pageviews and had nearly 8,300 impressions through social media posts, resulting in 40 online survey responses. Despite the low response rate, the responses generally aligned with concerns expressed during the in-person sessions and illustrated the differing opinions across various stakeholders. A full breakdown of the survey results is included as an attachment in this report **(Attachment A)**.

E-mail Feedback Submissions

OCM also accepted public input submitted directly to OCM’s e-mail account at Cannabis@lacounty.gov. Relatively few residents submitted written feedback via e-mail compared with the survey and feedback session participants. Of the e-mails received,

emphasis was placed on equitably locating cannabis businesses, mental health, and public safety. Submitted written responses are also included as an attachment in this report **(Attachment B)** and will continue to be accepted throughout the development phase of the Cannabis Equity Program.

As a next step, OCM is compiling all community feedback collected and will incorporate suggestions as an addendum to the Equity Assessment for final Cannabis Equity Program recommendations, targeted for late summer 2023.

REGULATORY FRAMEWORK

Cannabis Permitting Process and Development

OCM continues coordinating regular workgroup meetings with Regional Planning, Public Health, Public Works, Fire, and Agricultural Commissioner/Weights and Measures to identify, develop, and implement operational level strategies to support a more streamlined business process, and with a focus on cross-departmental communication, transparency, and customer service.

OCM's previous quarterly report provided an overview of each County department's responsibilities with cannabis business approvals, including plan reviews, on-site inspections, and equipment registrations. OCM estimated the process for obtaining all necessary approvals taking between 6 to 12 months, and costing businesses up to $15,000 or more in County fees. However, these estimates may vary on a case-by-case basis due to numerous factors that could impact the cost and time to open a cannabis business. The report further highlighted certain missteps from other jurisdictions that led to prolonged licensing delays for equity applicants. Although many of the factors influencing overall costs and approval timelines mentioned in the report are out of the County's control, added delays or complexities in the process may result in increased costs for cannabis businesses and challenges for equity applicants with limited resources.

Since the last report, the County department workgroup has discussed implementation of pre-application strategies aimed at reducing delays and complexities of the permitting process, as well as opportunities to reduce costs for equity applicants. These strategies include:

- **Pre-Application Counseling:** The County department workgroup identified pre-application counseling as a strategy to reduce delays and complexities in the land entitlement and permitting process by educating applicants on requirements prior to application submission. In February 2023, OCM began exploring optional pre-

application counseling meetings for cannabis businesses to help applicants determine the clearances required from each department. Historically, pre-application counseling has been used primarily for more complex projects and land development. However, Regional Planning has observed a recent uptick in pre-application counseling requests for less complex projects requiring ministerial approvals, indicating a feasible option for future cannabis business owners.

Pre-application counseling meetings are coordinated by Regional Planning and held virtually on a monthly basis, normally occurring on the second Tuesday of each month. Requests for pre-application counseling can be made online via Planning's Applications & Forms webpage,[5] with an average wait of approximately one and a half to two months for a scheduled meeting. Applicants must also pay a fee to each department that reviews preliminary plans and provides counseling services, which could cost about $1,000 to receive pre-application counseling from Regional Planning, Public Health, Public Works, and Fire.

- **Application Fee Support:** OCM also began exploring the feasibility of subsidizing fees for equity applicants. As previously mentioned, the fees associated with plan reviews and inspections may cost applicants upwards of $15,000, which are based on a full cost recovery model. Thus, subsidizing fees for an equity applicant would require departments to either absorb the loss in revenue or identify another source of funding to offset that cost. To this end, OCM is evaluating grants (*see Retail Access Grant section*) that may be used to pay for equity application fees and offset the initial costs to departments. Subsidizing fees in an efficient customer service friendly manner will require additional research and department coordination.

OCM continues to work with departments on these and other strategies to build a streamlined entitlement and permitting process and report back to your Board with updates and recommendations.

CEQA Environmental and Equity Program Consultants

Since the last report, OCM has been finalizing agreements with identified consultants that will support two critical program needs. The first agreement will task the consultant with conducting a Programmatic Environmental Impact Report (PEIR) of the County's commercial cannabis business program in compliance with the California Environmental Quality Act (CEQA). This work is integral to developing a zoning and land use ordinance, as OCM continues to work with partnering County departments to establish an equitable

[5] Regional Planning Applications & Forms webpage: https://planning.lacounty.gov/applications-and-forms/

commercial cannabis permit program. As part of the project scope, the PEIR and zoning ordinance will be developed simultaneously on parallel tracks. Their adoption will be one of the most significant tasks toward establishing an equitable commercial cannabis permit program. The PEIR project will serve to evaluate the environmental impacts of the County's cannabis business program, identify mitigation measures to reduce adverse impacts, codify mitigation measures into the zoning ordinance, and provide training to Planning staff on how to conduct streamlined project-specific environmental reviews. The project is scheduled to last through June 2024 and will require public hearings before the Planning Commission and your Board prior to adoption. OCM will co-lead the project with Planning, with cross-departmental coordination emphasized throughout the ordinance development and the PEIR review process.

The second agreement will be for consulting services in strategic planning, research, performance measurement, project management, and process improvement on the design and development of the Cannabis Equity Program. Obtaining industry expertise in the design of the equity program and services mentioned in the Equity Assessment will help to ensure the County effectively meets the needs of equity operators and an evolving industry. Both agreements are anticipated to be executed by the end of May 2023.

Software Business Solution

OCM previously detailed the highly complex cannabis regulatory structure that requires coordination between numerous parties, including businesses, state and local governments, and ancillary agencies. To reduce risks and ensure timely implementation, OCM is prioritizing review of permit software platforms with minimal customization "out of the box" to sufficiently address business needs. However, start-up and maintenance costs for such software products are significantly more expensive than anticipated, particularly when considering the low number of permits initially approved by your Board. The high costs may also impact applicants by increasing permit fees to sufficiently recover department costs. To address these concerns, OCM continues to compare other software platforms, while also minimizing costs through a phased implementation approach and pursuing state grants to ensure reasonable fee amounts for applicants.

The ideal permit software platform will enhance the overall user experience and streamline internal business processes through a centralized platform utilized by all departments reviewing and processing business applications. However, several departments have already invested significant time and capital to build out their respective workflows on other platforms, like EPIC LA. While this may make utilization of a centralized platform across departments unlikely, there are some strategies that could be applied that help accomplish the goal of enhanced customer service experience and communication across departments. One strategy would be to implement systems level

integrations between platforms to support information transfer across departments. Additionally, at a minimum, OCM could obtain read-only access to EPIC-LA to quickly determine where an applicant is in the approval process as a short-term option. The latter option was also included as a technology recommendation in a One-Stop Needs Assessment of the Santa Clarita Valley Civic Center in a July report back to your Board.[6] OCM will continue to explore options to procure and implement business solution software that will enhance the program and meet all the identified requirements.

State Retail Access Grant

On March 10, 2023, the California Department of Cannabis Control (DCC) began accepting applications for the Cannabis Local Jurisdiction Retail Access Grant Program. This grant made $20 million available to local governments to support the development and implementation of a cannabis retail licensing program and to expand access to regulated, tested cannabis in the legal market, while reducing demand in the illicit market. Grant funds will be distributed in two phases with a total of $10 million in funding available in each phase.

Phase 1 funding will be disbursed in two payments. The first payment will comprise 80 percent of the initial award upon execution of the grant agreement. The second payment will comprise the remaining 20 percent of the initial award and be distributed after the jurisdiction has established a cannabis retail licensing program. Phase 2 funding will only be made available to jurisdictions that were awarded during Phase 1. During phase 2, local jurisdictions are eligible to receive an additional $75,000 for each cannabis retail license issued or $150,000 for each equity retail license.

The County is eligible to receive up to $475,000 in Phase 1 and a maximum of $2 million in Phase 2. If awarded, OCM will utilize grant funds on general program development and equity program costs, including fee waivers, technical and legal assistance, and direct financial assistance for equity applicants.

OCM submitted its grant application to DCC by the April 28, 2023 deadline and anticipates notification on the grant award in early June. OCM will report back to your Board with additional updates on this grant moving forward.

[6] Chief Executive Office Report, Enhancing Development Services in the Santa Clarita Valley, July 19, 2022: https://file.lacounty.gov/SDSInter/bos/bc/1127406_EnhancingDevelopmentServicesintheSantaClaritaValley.pdf#search=%22pre-application%22

CANNABIS COMPLIANCE AND ENFORCEMENT EFFORTS

OCM continues to collaborate with other County departments to ensure alignment in cannabis enforcement and community engagement efforts. Updates related to these efforts are listed below.

- **Community Presentations:** OCM, County Counsel, and Regional Planning have provided a series of community presentations in response to concerns with illicit activities. Recently, OCM, County Counsel, and Regional Planning participated in a community meeting in the Second Supervisorial District unincorporated Lennox. On March 15, 2023, OCM and County Counsel participated in a Wiseburn Watch community meeting and engaged directly with community members to provide updates on County enforcement efforts and answer questions specific to their community. OCM also participated in the West Rancho Dominguez Community meeting on April 15, 2023 at Roy Campanella Park. County departments such as Regional Planning, Public Works and the Sheriff's Department were also present to support and provide resources to the community. These interactions allow the County to better understand and address the unique needs and concerns of each community. OCM and partnering enforcement departments will continue to work with your Board deputies and community members to identify more opportunities for community presentations.

- **Cannabis Compliance and Enforcement Program (the Emblem Program):** OCM and Public Health's Environmental Health Division continue to focus on increasing visibility and expansion of the Emblem Program throughout the County of Los Angeles. In addition to the most recent public education campaign with the launch of over 255 plus educational billboards and promotional videos[7], additional locations were identified that now have billboards posted in known illicit dispensary and high traffic areas **(Attachment C)**. The educational videos provide information on Public Health inspection processes and compliance of safety codes and requirements aimed to help prevent injury and illness. The videos are available via County online social media platforms, such as County Channel LA36 and on OCM's website: cannabis.lacounty.gov.

- **Youth Prevention Collaboration Efforts:** OCM met with Public Health's Division of Substance Abuse and Prevention and Control (SAPC) and associated coalitions regarding youth prevention strategies to explore collaborative opportunities regarding substance use and youth prevention. Coalition-building efforts address community-level public health issues of drug access and availability, with key strategies targeting risk and protective factors associated with cannabis to ensure public safety. Partnership efforts engage local stakeholders and community

[7] County Emblem Program: dcba.lacounty.gov/cannabisemblemprogram

members that increase community education and awareness of the risks and harms of underage cannabis use. Other coalition efforts advocate for restricted online sales and delivery of substances to minors, advertising and packaging restrictions to minors, safe consumer labeling practices, and increased access to health and social services. Conversations have included options to develop more balanced messaging in promotional materials that acknowledge the health risks associated with cannabis use. As example of these efforts, OCM worked with SAPC to develop a "Stay Informed" flyer for 4/20, a day often celebrated by cannabis consumers, which provided helpful tips to be informed on cannabis use **(Attachment D)**. This flyer was sent via e-mail through the OCM's listserv and posted on its social media platforms and related outlets. These efforts also include working with associated coalitions on developing additional resources that limit youth access and educate the community on responsible use and sales of cannabis products.

LEGISLATIVE ADVOCACY

OCM continues to work closely with CEO-Legislative Affairs and Intergovernmental Relations (CEO-LAIR) to advocate for legislative and budget proposals that support the County's cannabis-related initiatives. The list of County-supported and other relevant legislation is outlined below.

County-Supported Legislation

- **AB 1565 (Jones-Sawyer) – California Cannabis Tax Fund: local equity program grants.** This bill would require, effective July 1, 2028, disbursement of up to $15 million from the California Cannabis Tax Fund to assist local cannabis equity applicants and licensees to gain entry into, and successfully operate in, the regulated cannabis marketplace. Therefore, unless otherwise directed by the Board, consistent with existing policy**,** the Sacramento Advocates will support AB 1565.

- **SB 51 (Bradford) – Cannabis provisional licenses: local equity applicants.** This bill would amend the Business and Professions Code to authorize the California Department of Cannabis Control (DCC), in its sole discretion, to issue a provisional license for retailer activities to a local equity applicant, provided certain requirements are satisfied. This bill would also authorize DCC, in its sole discretion, to renew such provisional licenses until it issues or denies the provisional licensee's annual license, subject to certain requirements, or until 5 years from the date the provisional license was issued, whichever is earlier. OCM worked with CEO-LEIR on a supportive position for SB 51.

OCM continues to work with CEO-LAIR to review and monitor the following bills:

- **SB 508 (Laird) – Cannabis: licenses: California Environmental Quality Act**. This bill would remove CEQA compliance as a prerequisite to the DCC's issuance of an annual license to any cannabis business type, provided that the local jurisdiction assumes the role of lead agency and files with the state a notice of exemption, or notice of determination following a negative declaration or certified environmental impact report, on behalf of the individual cannabis business.

- **SB 512 (Bradford) – Cannabis: taxation: gross receipts.** This bill would prohibit the state from including in its tax definition of "gross receipts" the amount of any state cannabis excise tax and the amount of any local or municipal tax imposed on the privilege of engaging in commercial cannabis activities. Conversely, this bill would also prohibit local jurisdictions from including in their tax definition of "gross receipts" the amount of any state excise tax or other state tax imposed on the privilege of engaging in commercial cannabis activities.

- **AB 623 (Chen) – THC testing variances.** This bill would expand cannabis lab testing requirements to include a variance for cannabis edible products that contain less than 5 milligrams of THC.

- **AB 687 (Hart) – California Cannabis Authority.** This bill would increase Track and Trace requirements by including the zip code of the destination of any direct-to-consumer cannabis delivery. This bill would also appropriate an undetermined amount to the California Cannabis Authority (CCA), a joint powers authority, from the State and Local Government Law Enforcement Account, an account within the California Cannabis Tax Fund. These appropriated funds are to support the CCA's collection, organization, and dissemination of commercial cannabis activity data. This bill would permit municipalities who meet certain requirements, including membership in a joint powers authority and having a cannabis licensing structure, to access such data on a subsidized basis. This bill would also mandate CCA maintain a publicly accessible platform of anonymized commercial cannabis activity data.

- **AB 1719 (Bonta) – Cannabis: California Environmental Quality Act.** This bill would remove CEQA compliance as a prerequisite to the DCC's issuance of an annual license to a cannabis retailer, manufacturer, distributor, or lab tester, provided that (a) the premises is zoned commercial or industrial, (b) the local jurisdiction provides its approval, and (c) the site is an existing structure with limited modifications, as defined in the bill. This bill similarly removes CEQA requirements for local jurisdictions' design and implementation of their cannabis licensing structure, provided the same conditions are satisfied.

FUTURE REPORTS

OCM will continue to provide quarterly updates to your Board on the progress of these efforts, with the next report scheduled to be submitted in August 2023.

LOS ANGELES COUNTY
CONSUMER & BUSINESS AFFAIRS

August 14, 2023

Board of Supervisors

Hilda L. Solis
First District

Holly J. Mitchell
Second District

Lindsey P. Horvath
Third District

Janice Hahn
Fourth District

Kathryn Barger
Fifth District

Director
Rafael Carbajal

Chief of Staff
Joel Ayala

To: Supervisor Janice Hahn, Chair
Supervisor Hilda L. Solis
Supervisor Holly J Mitchell
Supervisor Lindsey P. Horvath
Supervisor Kathryn Barger

From: Rafael Carbajal
Director

SIXTH QUARTERLY REPORT REGARDING IMPLEMENTATION OF AN EQUITABLE COMMERCIAL CANNABIS REGULATORY FRAMEWORK (ITEM NO. 6, AGENDA OF FEBRUARY 15, 2022) AND OTHER ACTIVITIES RELATED TO THE LEGALIZATION OF CANNABIS (ITEMS NO. 3 AND NO. 9, AGENDA OF FEBRUARY 7, 2017; ITEM NO. 20, AGENDA OF MAY 21, 2019)

On February 15, 2022, your Board directed the Department of Consumer and Business Affairs (DCBA) and its Office of Cannabis Management (OCM), in consultation with relevant County departments, to proceed with the development of a commercial cannabis regulatory framework and an equity program outlined in the Updated Framework and Recommendations for Regulating Commercial Cannabis in Unincorporated Los Angeles County report (December 2021).[1] Your Board further directed OCM to coordinate with relevant County departments to provide written status updates on a quarterly basis.

OCM filed quarterly reports on May 16, 2022; August 15, 2022; November 18, 2022; and February 17, 2023.[2] The quarterly reports also included updates regarding Cannabis Legalization (Items No. 3 and No. 9, Agenda of February 7, 2017) and the Implementation of the Unlicensed Cannabis Business Closure Plan (Item No. 20, Agenda of May 21, 2019)[3] into a single consolidated report to your Board.

[1] Office of Cannabis Management Report, Updated Framework and Recommendations for Regulating Commercial Cannabis, December 20, 2021: http://file.lacounty.gov/SDSInter/bos/supdocs/166359.pdf
[2] Office of Cannabis Management Quarterly Reports (May 16, 2022, August 15, 2022, November 18, 2022, and February 17, 2023): http://file.lacounty.gov/SDSInter/bos/supdocs/166488.pdf
[3] Consolidated Cannabis Legalization and Implementation of Unlicensed Business Closure Plan Reports: http://file.lacounty.gov/SDSInter/bos/supdocs/111534.pdf

The previous quarterly report submitted to your Board in May 2023, provided an overview of the community feedback sessions hosted throughout March 2023. The update included a summary of attendee input related to key findings and recommendations for the County's Cannabis Equity Program included in the published Equity Assessment.[4] Other updates on the development of an equity cannabis business program, including the status of finalizing contract agreements with identified consultants to support critical program needs, were also provided.

This sixth quarterly report provides your Board with the latest progress on program design and implementation of an equitable cannabis program. This includes the following major program updates:

- **Onboarding of program consultants:** Since the last report, OCM proceeded with executing contracts with identified consultants for two vital program areas. One consultant is supporting the development of the Cannabis Equity Program. The equity program consultant brings extensive experience and expertise in the cannabis equity industry and will work with OCM to refine frameworks and workflows related to equity applicant selection, eligibility verification processes, permit application review, and outreach and education leading up to the commercial cannabis business permit and equity program launch. OCM anticipates providing your Board with final equity program recommendations by Fall 2023, pending any additional challenges that may arise. The other consultant is tasked with conducting a Programmatic Environmental Impact Report (PEIR) of the County's commercial cannabis business program, and the development of a zoning and land use ordinance. The project will evaluate the environmental impacts of the County's cannabis business program, identify mitigation measures to reduce adverse impacts, codify mitigation measures into the zoning ordinance, and provide essential support and training to conduct streamlined project-specific environmental reviews. The project officially commenced on July 20, 2023 with a kick-off meeting between the environmental consultants and relevant County departments and is scheduled to last through July 2024.

- **Ongoing efforts in developing a cannabis business permitting infrastructure:** OCM continues to build out an infrastructure for internal business permitting and equity approval review processes. As part of this effort, OCM has made progress to identify software business solution platforms for commercial cannabis business permitting. OCM is in the process of comparing product and service offerings from different software companies to assess estimated costs and

[4] Chala, R., Uskup, D.K., Branch, C., & Carbajal, F. "Pathways and Practices for Cannabis Social and Health Equity in Los Angeles County". November 2022. https://dcba.lacounty.gov/cannabis/equityassessment/

implementation timelines, with plans to select a software business solution by the end of August 2023.

- **State Retail Access Grant Award:** OCM previously reported on its application submission to the California Department Cannabis Control's (DCC) Retail Access Grant to support the development of an equitable cannabis business program. Since the last report, OCM was notified it was selected for a Phase 1 award amount of $475,000 — the maximum award amount for the first phase. The award also makes the County eligible to receive a maximum of $2 million in Phase 2 after retail permits are issued to eligible applicants. DCC is currently in the process of developing a grant agreement that will serve as the contract between DCC and the County. OCM will continue to keep your Board notified on next steps and requirements for execution of the grant agreement.

- **Legislative advocacy efforts:** OCM continues to work with CEO-Legislative Affairs and Intergovernmental Relations (CEO-LAIR) branch to identify and monitor, and keep the Board informed about cannabis-related legislation that align with your Board priorities. The attached report provides the latest updates on these legislative advocacy efforts.

OCM will continue to provide quarterly updates to your Board on the progress of these efforts, with the next report scheduled to be submitted in November 2023.

Should you have any questions concerning these matters, please contact me or Laura Magallanes, Acting Deputy Director of Office of Cannabis Management, at lmagallanes@dcba.lacounty.gov.

RC:JA:LM
FGN:JG:SMB:EV:ph

Attachment

c: Executive Office, Board of Supervisors
Chief Executive Office
County Counsel
Sheriff
Agricultural Commissioner / Weights & Measures
Fire
Planning
Public Health
Public Works
Treasurer and Tax Collector

SIXTH QUARTERLY REPORT ON IMPLEMENTING AN EQUITABLE COMMERCIAL CANNABIS REGULATORY FRAMEWORK

INTRODUCTION

On December 20, 2021, the Los Angeles County Office of Cannabis Management (OCM) submitted an updated framework and recommendations for regulating commercial cannabis in unincorporated Los Angeles County (County),[5] which was subsequently approved by the Board of the Supervisors (Board) in February 2022. In seeking to create an equitable cannabis business program, the report recommended 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. It further highlighted the need for a centralized and simplified permitting program, a strong and supportive compliance infrastructure, and significant investment into education, job training, technical assistance, and capital for qualified equity candidates.

Pursuant to the Board's direction, OCM continues to work with partnering County departments on the development and implementation of the approved equitable commercial cannabis regulatory framework and provide written status updates on a quarterly basis.

The following report is the sixth quarterly update on the latest progress towards program implementation. Specifically, the report provides updates on the development of the County's Cannabis Equity Program and of a permitting and regulatory system for commercial cannabis businesses in unincorporated areas of the County.

EQUITABLE CANNABIS PROGRAM

In the last quarterly report, OCM provided a summary of the community feedback sessions that occurred throughout March following the published Equity Assessment recommendations for the County's Cannabis Equity Program (Equity Program).[6] The update included an overview of key themes from the feedback sessions, and additional public input via online survey responses and e-mails, on some of the recommendations.

Since the last report, OCM has onboarded a consultant to support the development of the Equity Program. The equity program consultant brings extensive expertise and understanding of an evolving cannabis industry and social equity needs and will work with OCM to ensure final program recommendations are built on community feedback and on

[5] Office of Cannabis Management Report, Updated Framework and Recommendations for Regulating Commercial Cannabis, December 20, 2021: http://file.lacounty.gov/SDSInter/bos/supdocs/166359.pdf
[6] Chala, R., Uskup, D.K., Branch, C., & Carbajal, F. "Pathways and Practices for Cannabis Social and Health Equity in Los Angeles County". November 2022. https://dcba.lacounty.gov/cannabis/equityassessment/

equitable and best practices that effectively support equity operators. This includes identifying key County and external partnerships for equity program supports essential for equity businesses, such as workforce development training, technical assistance, and legal assistance. Accordingly, OCM continues to meet with potential strategic partners for program planning and to be captured in final program recommendations. OCM is also working with the consultant to develop a community outreach strategy as part of planning for the program's launch.

Additionally, OCM is working with the Internal Services Department's (ISD) Enterprise-GIS group to explore relevant datasets that help identify communities that have been disproportionately impacted by cannabis prohibition as part of the equity program eligibility. OCM will continue to work with ISD, the equity consultant, as well as the Anti-Racism and Diversity Initiative on analyzing the datasets and options for identifying and defining disproportionately impacted areas that align with the intentionality of the state's Cannabis Equity Act.[7]

OCM anticipates final program recommendations to be submitted in the form of an Addendum report to the Equity Assessment in Fall 2023, pending any additional potential challenges that arise.

REGULATORY FRAMEWORK

Cannabis Permitting Process and Development

OCM continues to work on developing internal permitting and equity approval review processes aimed at minimizing administrative barriers to obtaining business permits. With the hiring of the equity consultant, OCM is further reviewing and refining conceptual frameworks and workflows related to equity applicant selection, eligibility verification processes, permit application review, and outreach and education leading up to the commercial cannabis business permit and equity program launch. OCM and the consultants are also scheduling additional meetings with other jurisdictions to gather additional insight on their cannabis business license review and approval processes to identify and integrate best practices. Additionally, OCM onboarded an additional staff member in July 2023, to help enhance capacity in preparation of permitting program implementation, including a Cannabis Business Concierge to provide direct technical assistance and support to applicants.

[7] The California Cannabis Equity Act (Cal. Bus. & Prof. Code Section 26240) outlines the framework for local cannabis equity programs and defines a local equity program as one that focuses on inclusion and support of individuals and communities in California's cannabis industry who are linked to populations or neighborhoods that were negatively or disproportionately impacted by cannabis criminalization. This may include reference to local historical rates of arrests or convictions for cannabis law violation; identification of impacts that cannabis-related policies have had historically on communities and populations within their jurisdiction; and other information that demonstrates how individuals and communities within the jurisdiction have been disproportionately or negatively impacted by the War on Drugs.

OCM also maintains regular communications with Planning, Public Health, Public Works, Fire, Agricultural Commissioner/Weights and Measures, and Treasurer and Tax Collector to establish a streamlined cross-departmental business process and facilitate collaborative policy development. In July 2023, staff from these County departments were invited to the Cannabis PEIR project kick-off meeting (*see California Environmental Quality Act (CEQA) Environmental Consultant).* These departments will be critical partners throughout this project as they lend their diverse perspectives to help shape the operation and development standards for cannabis businesses.

Lastly, on July 1, 2023, the County's Cannabis Business Tax ordinance[8] went into effect, following the approval of Measure C in November 2022 that allowed the County to tax cannabis businesses in the unincorporated areas of the County. The Treasurer and Tax Collector recently launched a dedicated webpage[9] to provide information regarding the new tax ordinance and its related tax collection processes. This includes comprehensive Frequently Asked Questions (FAQ), along with required forms for cannabis businesses to register for and submit to remit the cannabis tax.

OCM will continue to monitor progress on these and other efforts in close collaboration with relevant County departments to develop and implement the complex and multi-faceted regulatory framework, and to make necessary adjustments to streamline processes and address emerging issues.

CEQA Environmental Consultant

On June 21, 2023, OCM executed a contract with a consultant to conduct a PEIR of the County's commercial cannabis business program in compliance with CEQA and to develop a zoning and land use ordinance. The PEIR project will evaluate the environmental impacts of the County's cannabis business program, identify mitigation measures to reduce adverse impacts, codify mitigation measures into the zoning ordinance, and provide training to Planning staff on how to conduct streamlined project-specific environmental reviews. The ordinance will include a range of allowable cannabis business types by zoning district, development standards addressing issues such as building size, setbacks, lighting, access, landscaping, signage and advertising, and operational requirements related to hours of operation, security, noise, odor, emissions control, vehicle access and parking, and water management. The PEIR and zoning ordinance development will include a robust public outreach plan consisting of diverse outreach methods, including in-person workshops in each supervisorial district, digital media, and various other public notices required by CEQA.

Previously, OCM reported the project would be scheduled to last through June 2024; however, due to delays in the procurement process, contract execution was delayed by

[8] Los Angeles County Ordinance No. 2022-0067, adding Chapter 4.71 Cannabis Business Tax. https://library.municode.com/ca/los_angeles_county/ordinances/code_of_ordinances?nodeId=1217377
[9] Cannabis Business Tax website: https://ttc.lacounty.gov/cbt/

several weeks. OCM worked with the contractor to overlap and adjust sequencing of tasks to minimize the impact of delays on the overall project schedule.

The project officially commenced on July 20, 2023 with a kick-off meeting between the consultants and relevant County departments and is scheduled to last through July 2024.

Software Business Solutions

In the previous quarterly report, OCM detailed its approach to selecting a software business solution that prioritized platforms requiring minimal "out of the box" customization to help reduce costs and project timelines. The primary challenge encountered during initial evaluations was the higher-than-expected start-up and maintenance cost estimates that may result in increased permit fees passed onto the user, which could be significant given the low number of permits initially approved by your Board.

Since the last report, OCM conducted research on additional software business solution platforms. Subsequently, OCM met with five different cannabis license software companies to compare product and service offerings and assess estimated costs and implementation timelines. Any vendor chosen should have accommodations for the County's equity program definitions and process, as well as the business approval process. This will include the necessity to house ArcGIS products that define and allow selection of acceptable parcels/areas based on County code. The system will need a document management solution, payment processing connection with the County's vendor Fidelity Information Services, a financial records management process, reporting capabilities, and the ability to interface where possible with other case management and licensure products of DCBA's partners. The system should be reasonably cost efficient, but a high quality and easy to use interface. Additionally, it is highly valued if DCBA can conduct its own system changes, instead of relying on a vendor at ongoing costs for change orders.

OCM anticipates selecting a software business solution by the end of August and beginning the procurement process thereafter. OCM will continue to report back to your Board on progress related to this effort.

State Retail Access Grant

In April 2023, OCM submitted a grant application to the California Department of Cannabis Control's (DCC) Cannabis Local Jurisdiction Retail Access Grant Program. This grant made $20 million available to local governments to support the development and implementation of a cannabis retail licensing program and to expand access to regulated, tested cannabis in the legal market. The grant will distribute funds in two phases. Phase 1 provides funding to support local jurisdictions in the development and implementation of a local cannabis retailer licensing program. Phase 2 awards additional funding after the

local jurisdiction issues cannabis retailer licenses/permits and is only available to recipients of the Phase 1 award.

On June 20, 2023, OCM was notified by DCC that it was selected for a Phase 1 award amount of $475,000 — the maximum award amount for the first phase. The award also makes the County eligible to receive a maximum of $2 million in Phase 2 after retail permits are issued to eligible applicants.

DCC is currently in the process of developing a grant agreement that will serve as the contract between DCC and the County. Prior to the execution of the grant agreement, OCM may be required to formally accept the grant funds from DCC and comply with the requirements of the grant agreement.

OCM will work closely with DCC personnel, the Chief Executive Office, and your Board to identify the appropriate next steps in preparation of accepting grant funds.

LEGISLATIVE ADVOCACY

OCM and the CEO-Legislative Affairs and Intergovernmental Relations (CEO-LAIR) branch continue to work closely in developing advocacy positions for legislative and budget proposals that support the County's cannabis-related initiatives. A summary of County-supported and other relevant legislation is outlined below.

<u>County-Supported Legislation</u>

- **AB 1207 (Irwin) – Cannabis: labeling and advertising.** This bill would prohibit the sale or manufacture of cannabis or cannabis products that are attractive to children and would prohibit the advertisement and marketing of cannabis or cannabis products in a way that is attractive to children.

- **AB 1565 (Jones-Sawyer) – California Cannabis Tax Fund: local equity program grants.** Effective July 1, 2028, this bill would require annual disbursements of up to $15 million from the California Cannabis Tax Fund to assist local cannabis equity applicants and licensees to gain entry into, and successfully operate in, the regulated cannabis industry.

- **SB 51 (Bradford) – Cannabis provisional licenses: local equity applicants.** This bill would amend the Business and Professions Code to permit DCC, in its sole discretion, to issue a provisional license for retailer activities to a local equity applicant, subject to certain requirements. This bill would also authorize DCC, in its sole discretion, to renew such provisional licenses until it issues or denies the provisional licensee's annual license, provided certain requirements are satisfied, or until five years from the date the provisional license was issued, whichever is

earlier. This bill sunsets DCC's ability to issue provisional licenses for retailer activities to a local equity applicant on January 1, 2031.

OCM is also collaborating with the CEO-LAIR branch to review and monitor the following bills:

- **AB 623 (Chen) – Tetrahydrocannabinol (THC) testing variances.** This bill would expand cannabis lab testing requirements to include a variance for cannabis edible products that contain less than 5mg of THC.

- **AB 687 (Hart) – California Cannabis Authority.** This bill would increase Track and Trace granularity by including the ZIP code of the destination of any direct-to-consumer cannabis delivery. This bill would also require DCC to allow access to or provide information from its electronic database to local jurisdictions to assist them in duties and responsibilities related to the local taxation and regulation of cannabis. This bill also provides that, in addition to the information provided to all local jurisdictions, the California Cannabis Authority and similar joint powers authorities are granted "full read access" to the DCC's electronic database. This bill would also require DCC to maintain its electronic database to allow for interoperability between its own and each local jurisdictions' cannabis regulatory software.

- **SB 508 (Laird) – Cannabis: licenses: CEQA**. This bill would remove the current requirement that DCC serve as a CEQA-compliant responsible agency prior to issuing an annual license to a cannabis business, provided that the local jurisdiction assumes the role of lead agency and files with the state a notice of exemption or notice of determination following a negative declaration or certified environmental impact report, for the individual cannabis business.

- **S. 1323 (Merkley) – SAFE Banking Act of 2023.** This bill would prohibit federal regulators from penalizing financial institutions and insurance providers solely because they provide services to state-sanctioned cannabis businesses or individuals whose income is derived from a state-sanctioned cannabis business, whether as a business owner or an employee. Similarly, this bill would ensure that, for the purpose of assessing whether to issue a federally backed mortgage, financial institutions consider income derived from a state-sanctioned cannabis business in the same manner as income derived from any legal source. This bill also requires an annual diversity report on services provided to minority-owned cannabis businesses.

FUTURE REPORTS

OCM will continue to provide quarterly updates to your Board on the progress of these efforts, with the next report scheduled to be submitted in November 2023.

LOS ANGELES COUNTY
CONSUMER & BUSINESS AFFAIRS

Board of Supervisors

Hilda L. Solis
First District

Holly J. Mitchell
Second District

Lindsey P. Horvath
Third District

Janice Hahn
Fourth District

Kathryn Barger
Fifth District

Director
Rafael Carbajal

Chief of Staff
Joel Ayala

November 17, 2023

To: Supervisor Janice Hahn, Chair
Supervisor Hilda L. Solis
Supervisor Holly J. Mitchell
Supervisor Lindsey P. Horvath
Supervisor Kathryn Barger

From: Rafael Carbajal
Director

SEVENTH QUARTERLY REPORT REGARDING IMPLEMENTION OF AN EQUITABLE COMMERCIAL CANNABIS REGULATORY FRAMEWORK (ITEM NO. 6, AGENDA OF FEBRUARY 15, 2022) AND OTHER ACTIVITIES RELATED TO THE LEGALIZATION OF CANNABIS (ITEMS NO. 3 AND NO. 9, AGENDA OF FEBRUARY 7, 2017; ITEM NO. 20, AGENDA OF MAY 21, 2019)

On February 15, 2022, your Board directed the Department of Consumer and Business Affairs (DCBA) and its Office of Cannabis Management (OCM), in consultation with relevant County departments, to proceed with the development of a commercial cannabis regulatory framework and an equity program outlined in the Updated Framework and Recommendations for Regulating Commercial Cannabis in Unincorporated Los Angeles County report (December 2021).[1] Your Board further directed OCM to coordinate with relevant County departments to provide written status updates on a quarterly basis.

OCM filed quarterly reports on May 16, 2022; August 15, 2022; November 18, 2022; February 17, 2023; May 15, 2023; and August 14, 2023.[2] The quarterly reports also combine other updates regarding Cannabis Legalization (Items No. 3 and No. 9, Agenda of February 7, 2017) and the Implementation

[1] Office of Cannabis Management Report, Updated Framework and Recommendations for Regulating Commercial Cannabis, December 20, 2021: http://file.lacounty.gov/SDSInter/bos/supdocs/166359.pdf
[2] Office of Cannabis Management Quarterly Reports (May 16, 2022, August 15, 2022, November 18, 2022, February 17, 2023, May 15, 2023, and August 14, 2023): http://file.lacounty.gov/SDSInter/bos/supdocs/166488.pdf

of the Unlicensed Cannabis Business Closure Plan (Item No. 20, Agenda of May 21, 2019)[3] into a single consolidated report to your Board.

The previous quarterly report submitted to your Board in August provided updates on contract execution with program consultants, including equity consultants for the development and implementation of the Cannabis Equity Program, and an environmental consultant for the purposes of conducting a Programmatic Environmental Impact Report of the County's commercial cannabis business program and drafting a zoning and land use ordinance. Also included in the report was information on the recent grant award from the State's Local Jurisdiction Retail Access Grant.

This seventh quarterly report provides your Board with the latest progress on the development and implementation of an equitable commercial cannabis regulatory program, including updates on the following:

- **Progress on the Development of the Cannabis Equity Program:** Since the last quarterly report, OCM has focused on assessing data sets that identify disproportionately impacted areas (DIAs) with historically high rates of arrests or convictions for cannabis law violations. OCM staff is working closely with the Internal Services Department's (ISD) Enterprise-GIS group and its equity program consultant to narrow down identified justice-relevant data sets, including the Justice Equity Need Index (JENI), the Justice Equity Services Index (JESI), and cannabis-related arrest data recently obtained from the Los Angeles County Sheriff's Department and other available law enforcement agencies in the County, including the cities of Los Angeles and Long Beach. OCM and ISD are finalizing the analysis and working to produce a local map of recommended DIAs that align with the intention of the State's Cannabis Equity Act and that directly identifies communities disproportionately impacted by discriminatory enforcement of cannabis criminalization. The map and methodology for identifying DIAs will be included in the final Cannabis Equity Program recommendations as an Addendum report to the County's previously released Equity Assessment for your Board's consideration, anticipated by the next quarterly report in February 2024. Additionally, OCM is also engaging other County departments regarding the implementation of Cannabis Equity Program components, including the Department of Economic Opportunity (DEO), as part of its creation of business development training and workforce development programs. OCM will continue collaborating with other County departments to ensure coordination and alignment of programs, roles, and opportunities to leverage and merge available resources.

[3] Consolidated Cannabis Legalization and Implementation of Unlicensed Business Closure Plan Reports: http://file.lacounty.gov/SDSInter/bos/supdocs/111534.pdf

Plans for the County's Programmatic Environmental Impact Report and Development of Commercial Cannabis Ordinances: With the onboarding of an environmental consultant, OCM is proceeding with the implementation of the Programmatic Environmental Impact Report (EIR) of the County's commercial cannabis business program in compliance with the California Environmental Quality Act (CEQA), and the development of commercial cannabis ordinances, including amendments to Title 22 of the County Code. Since the program kick-off in July 2023 with relevant County departments, OCM has worked with the consultant to gather relevant data and information, such as County Code enforcement of illicit cannabis sites, case data on illicit cannabis operations, energy and water demand from cannabis activities, GIS files, and lists of community and industry stakeholders. The consultant is currently also drafting a zoning ordinance in close coordination with OCM, Planning Department, and other impacted County departments, which will form the basis for the EIR. The consultant and OCM staff are also finalizing an outreach plan, scheduled for early 2024, which will include both in-person and virtual outreach meetings aimed at raising awareness of the current project and soliciting public feedback on the commercial cannabis ordinance's development. OCM is also updating its website to create a dedicated page to centralize information and post upcoming event details throughout the ordinance development and EIR process and will work with your Board offices to coordinate and promote public outreach meetings. Lastly, as part of program implementation, OCM staff is also finalizing a contract agreement with an identified software business solution vendor for the administration of a cannabis business application and licensing system software. OCM anticipates the contract will be finalized and signed by both parties before the end of the calendar year. Following contract execution, it will take approximately six months to configure and validate the software.

- **Plans for a Community Outreach Campaign:** OCM continues to make regular adjustments to its community outreach efforts, recognizing the need to raise community awareness of cannabis-related matters as part of the transition to a sustainable and well-regulated market. The outreach strategy aims to provide educational awareness workshops on cannabis-related topics, including data-driven health risks and long-term effects of cannabis use, emerging best practices in responsible and informed usage and storage, existing State requirements and plans for local County regulations, promotion of the County's Emblem Program, and ultimately information on the County's Cannabis Equity Program, once approved by your Board. Continued community outreach will highlight the importance of responsible cannabis use and create a clear and recognizable way for consumers to signal the difference between licensed and unlicensed retailers and products across all jurisdictions.

- **Legislative advocacy efforts:** OCM continues to work with CEO-Legislative Affairs and Intergovernmental Relations (CEO-LAIR) branch to identify and monitor cannabis-related legislation that align with your Board priorities. The attached report provides status updates on relevant legislation.

OCM will continue to provide quarterly updates to your Board on the progress of these efforts, with the next report scheduled to be submitted in February 2024.

Should you have any questions concerning these matters, please contact me or Laura Magallanes, Deputy Director of the Office of Cannabis Management, at lmagallanes@dcba.lacounty.gov.

RC:LM:FGN
JG:SMB:EV:ph

Attachment

c: Executive Office, Board of Supervisors
Chief Executive Office
County Counsel
Sheriff
Agricultural Commissioner / Weights & Measures
Economic Opportunity
Fire
Public Health
Public Works
Regional Planning
Treasurer and Tax Collector

SEVENTH QUARTERLY REPORT ON IMPLEMENTING AN EQUITABLE COMMERCIAL CANNABIS REGULATORY FRAMEWORK

INTRODUCTION

On December 20, 2021, the Los Angeles County Office of Cannabis Management (OCM) submitted an updated framework and recommendations for regulating commercial cannabis in unincorporated Los Angeles County (County),[4] which was subsequently approved by the Board of the Supervisors (Board) in February 2022. The approved framework included strategies to address both the administrative and system infrastructure barriers contributing to inequitable outcomes exacerbated by the war on drugs. Such strategies included the development of a centralized permitting program, a strong and supportive compliance infrastructure, and investments toward education, job training, technical assistance, and financial resources to adequately support qualified equity business candidates and a well-regulated market.

The implementation of an equitable commercial cannabis regulatory framework requires significant planning and coordination across various County departments, as well as a deep understanding of a complex and evolving industry. Accordingly, OCM continues to work with County departments and external partners on the development and implementation of the approved framework components.

Pursuant to the Board's direction, the following report is the seventh quarterly update on the latest progress towards program implementation. Specifically, this report provides the following program updates:

- Development of the County's Cannabis Equity Program;
- Progress on conducting a Programmatic Environmental Impact Report and development of the County's commercial cannabis ordinances;
- Plans for a community educational outreach campaign; and
- Legislative advocacy efforts.

EQUITABLE CANNABIS PROGRAM

In the last quarterly report, OCM provided updates on the onboarding of its equity program consultant. The consultant brings extensive expertise and experience in both the overall evolving cannabis industry as well as local cannabis social equity programs. OCM is working with the consultant to ensure final program recommendations are formulated from best practices, and to develop internal protocols and program supports that will

[4] Office of Cannabis Management Report, Updated Framework and Recommendations for Regulating Commercial Cannabis, December 20, 2021: http://file.lacounty.gov/SDSInter/bos/supdocs/166359.pdf

effectively support equity operators. This includes business development training, system navigation services, access to legal representation and business technical assistance, access to financial assistance, as well as workforce development pipeline programs. The report also provided a summary of its collaborative efforts with the Internal Services Department's (ISD) Enterprise-GIS group to explore relevant datasets to identify communities that have been disproportionately impacted by discriminatory enforcement of cannabis criminalization.

Since the last report, OCM has continued working with its consultant and ISD to narrow down identified justice-relevant data sets, including exploration of the Justice Equity Need Index (JENI)[5] and the Justice Equity Services Index (JESI).[6] OCM also relied on the County's Equity Assessment,[7] as well as the State's Cannabis Equity Act,[8] for further direction and recommendations for identifying disproportionately impacted areas (DIAs) with historically high rates of arrests or convictions for cannabis law violations. Driven by these guidelines, OCM and ISD also examined cannabis-related arrest data recently derived from the Los Angeles Sheriff's Department (LASD) and other available law enforcement agencies in the County, including the cities of Los Angeles and Long Beach. Predictably, this law enforcement data is available in a more cohesive and exhaustive manner for areas of the unincorporated County under LASD jurisdiction than it is for the County at large, for which some incorporated areas have relatively incomplete or overly broad arrest data. Additionally, household income,[9] and housing-burdened rates[10] were also explored as other proxy measures for cannabis-related arrest data, as recommended by the Equity Assessment. OCM and ISD are finalizing the analysis and working to produce a local map of recommended DIAs that align with the intention of equity programs and that directly identify communities disproportionately impacted by cannabis criminalization. OCM will also work with the Anti-Racism, Diversity and Inclusion Initiative (ARDI) in finalizing the DIA map. The map and methodology for identifying DIAs will be included in the final Cannabis Equity Program recommendations as an Addendum report to the Equity Assessment for your Board's consideration, anticipated by the next quarterly report in February 2024.

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[5] The JENI uses methodology to rank ZIP Codes by need by using three components to measure different contributing factors to justice equity need: System Involvement (Adult and Youth Probation); Inequity Drivers (Racial and economic disparities); Criminalization Risk (Mental Health, Substance Use-Related Hospitalizations, Homelessness Rate)l

[6] The JESI uses methodology to rank ZIP Codes to examine justice-related, care-first providers into different categories based on their self-identified primary activity into four components: Health & Wellness; Housing & Employment; Prevention & Intervention; and Community Services & Advocacy.

[7] The County's Equity Assessment recommends examining arrest, income, and housing-burden data to ascertain which communities were most impacted by the drug war. https://dcba.lacounty.gov/cannabis/equityassessment/

[8] The State's Cannabis Equity Act identifies communities most harmed by cannabis prohibition as those with "historically high rates of arrests or convictions for cannabis law violations. Cal. Bus. & Prof. Code Section 26240(e)(1)

[9] Household income was derived from the Department of Housing and Urban Development (HUD) State and Local Program income limits for Los Angeles County. Utilizing this information, the team identified census tracts within the County in which a certain percentage of households earn 50% or less of the Los Angeles County AMI, which is the federal "low-income" status threshold.

[10] Housing costs and income data were used to determine housing burden rates, which is the percentage of households in which at least 50% of the household income is spent on housing.

OCM is also engaging the Department of Economic Opportunity (DEO) as part of its creation of business development training and workforce development programs. These programs are critical to the long-term success of equity businesses and will greatly benefit from the expertise and resources currently offered by the DEO. OCM will continue to work closely with the DEO to ensure coordination and alignment of programs, roles, and opportunities to leverage and merge available resources.

REGULATORY FRAMEWORK

CEQA Environmental Consultant

OCM previously reported on the onboarding of an environmental consultant to conduct a Programmatic Environmental Impact Report (EIR) of the County's commercial cannabis business program in compliance with the California Environmental Quality Act (CEQA) and to develop commercial cannabis ordinances, including amendments to Title 22 of the County Code. On July 20, 2023, OCM hosted a kickoff meeting with relevant County departments to initiate the project. Representatives from all impacted County departments were invited and in attendance including the Planning Department, Department of Public Health, Public Works, Agricultural Commissioner / Weights and Measures, Fire Department, and County Counsel. During the meeting, OCM and the consultant presented the goals of the project, the EIR process, approach, components, and a preliminary project schedule.

As a first step following the kickoff meeting, the consultant worked with OCM staff to request various relevant data to better understand the County's current landscape as it relates to cannabis. Some of the requested data included information pertaining to the County Code enforcement of illicit cannabis sites, case data on illicit cannabis operations, energy and water demand from cannabis activities, GIS files, and lists of community and industry stakeholders.

In October, the consultant also began drafting an ordinance in close coordination with OCM and the Planning Department, which will form the basis for the EIR. Following the completion of a draft ordinance, all impacted County departments will have an opportunity to provide feedback and recommendations on the draft prior to conducting community outreach.

Concurrently, the consultants are finalizing an outreach plan which includes both in-person and virtual outreach meetings aimed at raising awareness of the current project and soliciting public feedback on the zoning and land use ordinance's development. OCM will coordinate with the Board offices to plan for at least one in-person outreach meeting in each Supervisorial District, one virtual meeting for those who could not attend an in-person meeting, and an additional virtual meeting focused on industry stakeholders. Spanish language interpretation services will be provided by the consultant at all events.

These sessions are currently scheduled for early 2024. OCM will circulate the outreach plan with each Board office once finalized.

In addition to the feedback sessions, community stakeholders will have at least two other opportunities to provide public comment during the CEQA process. The first will be a scoping meeting and the other will be a presentation of findings of the Draft EIR later in the process. Finally, OCM is working with its Public Information Office to update its website and create a dedicated page to centralize information throughout the ordinance development and EIR process and to post upcoming events.

Software Business Solutions

In the previous quarterly report, OCM provided updates on identifying a viable software business solution that is high quality, cost efficient, and meets all the technical requirements necessary to process cannabis business permit applications and administer some aspects of the Equity Program. As part of this process, OCM met with five different potential vendors to compare products, timelines, and project cost estimates.

In August, OCM selected a software business solution that adequately balances the priorities described above and is provided by a vendor with demonstrated experience deploying municipal licensing software solutions for jurisdictions around the country, including cannabis permitting in Desert Hot Springs, California; Pueblo County, Colorado; and Nye County, Nevada. Since then, DCBA's contracts, IT, and OCM staff have worked closely with the vendor to develop, refine, and negotiate the scope of the project to ensure the end-product meets the business permit program requirements. Once this process is complete, DCBA will exercise its delegated authority to enter into an agreement with the vendor.

OCM anticipates executing the contract before the end of the calendar year. Following contract execution, it will take approximately six months to configure and validate the software. OCM will continue to report back to your Board on progress related to this effort.

PUBLIC EDUCATION AND OUTREACH

OCM is working with its equity consultants and public health partners to develop a robust community outreach campaign as part of its implementation of the Commercial Cannabis Regulatory Framework. The campaign will center on educational awareness workshops on cannabis-related topics, including data-driven health risks and long-term effects of cannabis use, emerging best practices in responsible and informed usage and storage, existing State requirements and plans for local County regulations, promotion of the County's Emblem Program, and ultimately information for the County's Cannabis Equity Program, once approved by your Board. Extensive outreach is essential in fostering relationships with community, increasing understanding of a complex industry, and

promoting the health and safety of communities during the transition to a sustainable and well-regulated market. Community outreach will highlight the importance of responsible cannabis use and create a clear and recognizable way for consumers to signal the difference between licensed and unlicensed retailers and products across all jurisdictions. Messaging will include discussion points that balance the increase in the commercialization of cannabis with the exposure of under-invested communities to substance use-related harms, inclusive of the risks associated with cannabis.

The outreach campaign implementation plan will include three different phases:

- **Phase 1. Marketing and Branding:** The first phase will focus on developing an updated and comprehensive website that will serve as a central hub for resources, materials, information, calendars, and other useful details. This will also include the development of social media and traditional promotional advertisements for program events and services.

- **Phase 2. Cannabis Conversation Workshops:** The second phase will include the launch of the "Cannabis Conversations" workshop series to provide in-depth knowledge and insight into various aspects related to cannabis. The workshops will aim to educate community members about data-driven health risks and impact of long-term cannabis, community involvement in policy solutions to restrict youth access and availability of cannabis products, best practices in responsible cannabis use and storage, awareness on cannabis industry testing and packaging standards, as well as OCM's role and plans for local regulations and programs. OCM plans to partner with other County departments on the development of these workshops. This series will also include panels of equity industry representatives to provide real life examples of the opportunities and challenges of operating a cannabis business as an equity operator.

- **Phase 3. Cannabis Equity Program Outreach:** The final phase will focus on promotion of the County's Equity Program to foster a safe and ethical industry for those who are interested in entering the cannabis market. This phase is characterized by focused outreach to provide information on program fundamentals, eligibility requirements, application processes, timelines, and adherence to State and local regulations.

LEGISLATIVE ADVOCACY

OCM continues to collaborate with the CEO-Legislative Affairs and Intergovernmental Relations (CEO-LAIR) branch to identify advocacy positions for legislative and budget proposals that support the County's cannabis-related priorities. A summary of County-supported proposals and updates on relevant legislation is provided below.

County-Supported Legislation

- **AB 1207 (Irwin) – Cannabis: labeling and advertising.** This bill aimed to prohibit the sale or manufacture of cannabis or cannabis products that are attractive to children. This bill also looked to prohibit the advertisement and marketing of cannabis or cannabis products in a way that is attractive to children. *The Governor vetoed this bill in October 2023.*

- **AB 1565 (Jones-Sawyer) – California Cannabis Tax Fund: local equity program grants.** This bill would require, effective July 1, 2028, annual disbursements of up to $15 million from the California Cannabis Tax Fund to assist local cannabis equity applicants and operators to gain entry and successfully operate in the regulated cannabis industry. *This bill was held in the Senate Appropriations Committee on suspense file and will not proceed.*

- **SB 51 (Bradford) – Cannabis provisional licenses: local equity applicants.** This bill would amend the Business and Professions Code to allow the California Department of Cannabis Control (DCC), in its sole discretion, to issue a provisional license for retailer activities to a local equity applicant, provided certain requirements are satisfied. This bill would also permit DCC, in its sole discretion, to renew such provisional licenses until it issues or denies the provisional licensee's annual license, subject to certain requirements, or until five years from the date the provisional license was issued, whichever is earlier. This bill sunsets DCC's ability to issue provisional licenses for retailer activities to a local equity applicant on January 1, 2031. *The Governor signed this bill into law in October 2023.*

- **SB 508 (Laird) – Cannabis: licenses: California Environmental Quality Act.** This bill would eliminate the current requirement that the DCC serve as a CEQA-compliant responsible agency prior to issuing an annual license to a cannabis business, provided that the local jurisdiction assumes the role of lead agency and files with the state a notice of exemption or notice of determination following a negative declaration or certified environmental impact report, for the individual cannabis business. *This bill is a two-year bill currently in the Assembly Committee on Appropriations. It can be considered again in 2024.*

OCM is also working with the CEO-LAIR branch to review and monitor the following bills:

- **S. 2860 (Merkley) – SAFER Banking Act of 2023.** This bill would forbid federal regulators from penalizing financial institutions and insurance providers solely because they provide services to state-sanctioned cannabis businesses or individuals whose income is derived from a state-sanctioned cannabis business, whether as a business owner or an employee. Additionally, this bill would ensure

that, for the purpose of assessing whether to issue a federally backed mortgage, financial institutions consider income derived from a state-sanctioned cannabis business in the same manner as income derived from any legal source. This bill would also require an annual diversity report on the availability of access to financial services provided to minority-owned, veteran-owned, women-owned, Tribal community-owned and small state-sanctioned cannabis businesses. *This bill passed out of the Senate Committee on Banking, Housing and Urban Affairs, and it is now awaiting a Senate floor vote.*

FUTURE REPORTS

OCM will continue to provide quarterly updates to your Board on the progress of these efforts, with the next report scheduled to be submitted in February 2024.

LOS ANGELES COUNTY
CONSUMER & BUSINESS AFFAIRS

Board of Supervisors

Hilda L. Solis
First District

Holly J. Mitchell
Second District

Lindsey P. Horvath
Third District

Janice Hahn
Fourth District

Kathryn Barger
Fifth District

Director
Rafael Carbajal

Chief Deputy
Joel Ayala

February 12, 2024

To: Supervisor Lindsey P. Horvath, Chair
Supervisor Hilda L. Solis
Supervisor Holly J Mitchell
Supervisor Janice Hahn
Supervisor Kathryn Barger

From: Rafael Carbajal
Director

EIGHTH QUARTERLY REPORT REGARDING IMPLEMENTION OF AN EQUITABLE COMMERCIAL CANNABIS REGULATORY FRAMEWORK (ITEM NO. 6, AGENDA OF FEBRUARY 15, 2022) AND OTHER ACTIVITIES RELATED TO THE LEGALIZATION OF CANNABIS (ITEMS NO. 3 AND NO. 9, AGENDA OF FEBRUARY 7, 2017; ITEM NO. 20, AGENDA OF MAY 21, 2019)

On February 15, 2022, your Board directed the Department of Consumer and Business Affairs (DCBA) and its Office of Cannabis Management (OCM), in consultation with relevant County departments, to proceed with the development of a commercial cannabis regulatory framework and an equity program outlined in the Updated Framework and Recommendations for Regulating Commercial Cannabis in Unincorporated Los Angeles County report (December 2021).[1] Your Board further directed OCM to coordinate with relevant County departments to provide written status updates on a quarterly basis.

OCM filed quarterly reports on May 16, 2022; August 15, 2022; November 18, 2022; February 17, 2023; May 15, 2023; August 14, 2023; and November 15, 2023.[2] The quarterly reports also combine other updates regarding Cannabis Legalization (Items No. 3 and No. 9, Agenda of February 7, 2017) and the

[1] Office of Cannabis Management Report, Updated Framework and Recommendations for Regulating Commercial Cannabis, December 20, 2021: http://file.lacounty.gov/SDSInter/bos/supdocs/166359.pdf
[2] Office of Cannabis Management Quarterly Reports (May 16, 2022, August 15, 2022, November 18, 2022, February 17, 2023, May 15, 2023, and August 14, 2023): http://file.lacounty.gov/SDSInter/bos/supdocs/166488.pdf

Implementation of the Unlicensed Cannabis Business Closure Plan (Item No. 20, Agenda of May 21, 2019)[3] into a single consolidated report to your Board.

The previous quarterly report submitted to your Board in November 2023 provided updates on the process of identifying data-driven disproportionately impacted areas, partnership development for equity program services, and the project launch for the Programmatic Environmental Impact Report and zoning ordinance development.

This eighth quarterly report provides your Board with the latest progress on the development and implementation of an equitable commercial cannabis regulatory program, including the following major updates:

- **Social Equity Program Development:** OCM is in the last stages of finalizing the Social Equity Program recommendations for Board consideration and adoption. Since the last quarterly report, OCM has worked with Internal Services Departments' Enterprise-GIS group to analyze identified cannabis-related data sets previously mentioned, such as the number of cannabis-related arrests in a particular Sheriff's reporting district, to help identify concentrated disproportionally impacted areas (DIAs). They have also met with County Counsel to discuss proposed program eligibility criteria, and will also meet with the Anti-Racist, Diversity, and Inclusion (ARDI) initiative to ensure the final product reflects the equity priorities of your Board. Final recommendations for a Los Angeles County Social Equity Program, including DIA data and processes used to create the map, and recommended program eligibility criteria, will be included as an Addendum report to the Equity Assessment for your Board's consideration. This Addendum report is expected to be submitted on or prior to the next quarterly report in May 2024.

- **Programmatic Environmental Impact Report and Commercial Cannabis Ordinances Updates:** OCM has established a Workgroup with the environmental consultant and relevant County departments to move forward with the Programmatic Environmental Impact Report and commercial cannabis ordinance development projects. The Workgroup meets biweekly to address key policy and programmatic recommendations, including amendments needed in existing County codes, appropriate options for land use approval for each type of cannabis businesses (i.e., Conditional Use Permits versus Ministerial Approval), and

[3] Consolidated Cannabis Legalization and Implementation of Unlicensed Business Closure Plan Reports: http://file.lacounty.gov/SDSInter/bos/supdocs/111534.pdf

specific uses near residents and youth-sensitive areas that necessitate a buffer zone from cannabis storefront retail stores. The Workgroup is currently discussing options to address the County's Specific Plan Areas where commercial cannabis permits may be appropriate. The zoning ordinance is anticipated to be drafted in early February 2024, followed by a review from relevant County departments, and a final recommendation on addressing Specific Plan challenges. Additionally, community outreach planning continues as part of ordinance development. The outreach plan will include multiple community meetings and a dedicated webpage for the project to include updates and details of future meetings. OCM will work with all the partnering County departments, and your Board offices to ensure outreach efforts are promoted across a variety of listservs, contacts, and notification outlets.

- **Community Outreach Campaign Implementation:** OCM continues to collaborate with Public Health through the Substance Abuse Prevention and Control (SAPC) on the development of community education workshops. The purpose of the workshops is to increase awareness and understanding of a complex industry (e.g., the differences between regulated and unregulated markets). Workshops will discuss responsible cannabis retail practices to increase understanding of compliance requirements and their community impacts for cannabis retailers. Workshops will focus on informed adult consumption to increase community knowledge of the various types of cannabis products sold (e.g., product labels and dosage amounts), especially those that do not meet the standard quality and safety controls. Workshops shall increase community awareness of the data-driven research on associated health risks, including health effects associated with cannabis, in order to help retailers and consumers make informed decisions on cannabis use. Additional workshop topics will center on youth prevention in order to provide information on cannabis-related health risks of youth use, safe storage, and community impacts of underage use. OCM is also working with its equity consultants on developing workshops specific to Social Equity Programs, including opportunities and challenges facing cannabis businesses from the equity operator perspectives. The workshops will be offered virtually and in-person, anticipated to begin in May or June 2024.

OCM will continue to provide quarterly updates to your Board on the progress of these efforts, with the next report scheduled to be submitted in May 2024.

Should you have any questions concerning these matters, please contact me or Laura Magallanes, Deputy Director of the Office of Cannabis Management, at lmagallanes@dcba.lacounty.gov.

RC:LM:FGN
JG:AS:EV:ph

Attachment

c: Executive Office, Board of Supervisors
Chief Executive Office
County Counsel
Sheriff
Agricultural Commissioner / Weights & Measures
Economic Opportunity
Fire
Public Health
Public Works
Regional Planning
Treasurer and Tax Collector

EIGHTH QUARTERLY REPORT ON IMPLEMENTING AN EQUITABLE COMMERCIAL CANNABIS REGULATORY FRAMEWORK

INTRODUCTION

On December 20, 2021, the Los Angeles County Office of Cannabis Management (OCM) submitted an updated commercial cannabis regulatory framework centered around social equity.[4] The framework identified strategies to address administrative barriers and gaps in educational, technical, and financial supports that obstruct opportunities for populations disproportionately impacted by the war on drugs to participate in the legal marketplace. These strategies included the development of a streamlined business permitting process, a strong and supportive compliance infrastructure, as well as business development, technical and legal assistance, job training, and access to capital that adequately supports qualified equity business owners and a responsible, regulated market.

On February 15, 2022, your Board of Supervisors (Board) approved a motion directing OCM to collaborate with relevant County departments to implement the updated commercial cannabis regulatory framework. Pursuant to your Board's direction, OCM continues to work in close coordination with County and external partners on the implementation of the approved framework components. Accordingly, OCM provides written quarterly reports on the status of the program's implementation.

The following report is the eighth quarterly update on the latest program developments, which includes the following information:

- Advancements on the development and implementation of a Social Equity Program for the County's unincorporated areas;
- Updates on the Programmatic Environmental Impact Report and zoning ordinance development projects;
- Progress on the implementation of a community education outreach campaign; and
- Current legislative advocacy efforts.

[4] Office of Cannabis Management Report, Updated Framework and Recommendations for Regulating Commercial Cannabis, December 20, 2021: http://file.lacounty.gov/SDSInter/bos/supdocs/166359.pdf

EQUITABLE CANNABIS PROGRAM

In the last report, OCM provided updates on its collaboration efforts with the Department of Economic Opportunity (DEO) towards the creation of business and workforce development programs to support the County's cannabis business marketplace and employees. DEO's expertise is instrumental in helping design necessary entrepreneurial support, including technical assistance and aid in accessing financial resources that are available through the Social Equity Program. In December 2023, OCM and DEO partnered with the Center for Strategic Partnerships to meet with philanthropic and private sector partners to share and garner support for critical program components. Follow-up meetings with the Center for Strategic Partnerships are being scheduled to discuss next steps for potential partnerships. OCM and DEO will begin meeting regularly to finalize program support, training, potential partners, and identify options to leverage existing programs and resources for the program. The availability of alternative funding sources, program needs for the Social Equity Program, and other relevant considerations will be detailed in a forthcoming report for your Board's consideration.

The last report also provided updates regarding the development of cartographic tools designed to help identify individuals and communities who have been most directly and disproportionately impacted by past cannabis criminalization policies of the County. To this end, OCM has been working with the Internal Services Department's Enterprise-GIS group to analyze identified cannabis-related data sets mentioned in the previous report, such as the number of cannabis-related arrests in a particular Sheriff's reporting district, to help identify concentrated disproportionally impacted areas (DIAs). As these DIA maps come to fruition, OCM will work with the Anti-Racism, Diversity, and Inclusion (ARDI) initiative to ensure the final product reflects the equity priorities of your Board. Final recommendations for a Los Angeles County DIA map, including data and processes used to create the map, will be included as an Addendum report to the Equity Assessment for your Board's consideration. This Addendum report is expected to be submitted on or prior to the next quarterly report in May 2024.

Since the last report, OCM has continued making progress toward developing final recommendations for individual eligibility criteria to qualify for the County's Social Equity Program. The purpose of the eligibility criteria is to identify those most directly and disproportionally impacted by the County's enforcement of past cannabis criminalization policies within its unincorporated areas. In producing these recommendations, OCM has conducted robust research, met with a variety of advocates and regulators, reviewed the County's Equity Assessment, engaged local communities, and led a County Working

Group in identifying drug war harms. In addition to these inputs, OCM has also met with County Counsel to discuss the proposed options for Social Equity Program eligibility criteria. Given the complexity and potential legal issues surrounding program criteria, OCM is working with County Counsel before submitting final Social Equity Program recommendations for your Board's consideration, now anticipated to be provided on or before the next quarterly report.

REGULATORY FRAMEWORK

Zoning Ordinance Development

OCM previously highlighted the kick-off meeting in July 2023 with relevant County departments to commence the Programmatic Environmental Impact Report (EIR) and Zoning Ordinance development projects. Throughout October, OCM continued working with its environmental consultant and Planning staff to gather information regarding prospective cannabis business types and evaluate appropriate zoning for those land uses.

OCM has been meeting regularly with the environmental consultant and a workgroup comprised of County departments representatives from Planning, Public Works, Agricultural Commissioner/Weights and Measures, County Counsel, Fire, and Public Health to discuss the drafting of a zoning ordinance amendment and regulatory permit requirements. Each department's unique expertise ensures a comprehensive understanding of the public health, safety, environmental and community impacts of allowing commercial cannabis businesses in certain zones.

The workgroup meetings to date have focused on identifying specific sections of the County Code requiring amendments, refining proposed commercial cannabis uses in commercial and manufacturing zones throughout the County, and discussing the most appropriate options for land use approval for certain types of cannabis businesses. The workgroup also continues to identify standards for development, including maximum size requirements for cultivation facilities, and buffer areas between certain uses, including youth-sensitive areas, from retail cannabis businesses. This work will also extend to other critical areas, ensuring that all aspects of cannabis regulation are comprehensively and thoughtfully addressed through a collaborative and detailed analysis.

Currently, the workgroup is discussing options to include cannabis businesses in County's Specific Plan areas.[5] Planning has helped to identify certain Specific Plans and zones

[5] A Specific Plan is a form of land use overlay and is often used by Planning as a tool to address neighborhood specific issues and offer additional planning regulations aligning with the County's General Plan.

within each plan where commercial cannabis permits may be appropriate. OCM will continue working with the workgroup and the environmental consultant to gather information and explore best options to address Specific Plans.

As a next step, OCM will work with the environmental consultant, and Planning, to map proposed zones for various cannabis business types throughout the unincorporated County, including the Specific Plan areas, and the location of buffer constraints. The mapping exercise will serve to further refine the zones suitable for commercial cannabis businesses. OCM is also developing community outreach plans for the purposes of community feedback on draft ordinance amendments and scope of the EIR. The plan will incorporate multiple in-person and virtual meetings, as well as a dedicated webpage for the project to provide updates and details for scheduled meetings. OCM will work with all the partnering County departments, and your Board offices to ensure outreach efforts are promoted across a variety of listservs, contacts, and notification outlets.

Software Business Solutions

OCM previously provided updates on the selection of a software vendor to administer the cannabis business application and permitting system that facilitates a more effective and simplified permitting process. Since then, DCBA staff has worked with County Counsel and the vendor to finalize the contract agreement, which is anticipated to be executed in February or March 2024. Following contract execution, it will take approximately six months to configure and validate the software.

To maximize time efficiency for program implementation, OCM has prepared a business permit application workflow, including required application questions and documentation to verify Equity program eligibility in preparation of onboarding the software vendor. Additionally, OCM is working to develop internal operating procedures, educational material to guide applicants, and coordinating with DCBA's data and analytics team to further refine each application. OCM will continue to report back to your Board on progress related to this effort.

PUBLIC EDUCATION AND OUTREACH

In the last report, OCM outlined plans for a community education outreach campaign, in collaboration with Public Health partners. This campaign will include the development of educational workshops aimed to increase awareness and understanding of a complex industry (e.g., the differences between regulated and unregulated markets), and data-driven research on associated health risks in a rapidly evolving landscape of cannabis products that can help consumers make informed decisions.

In January 2024, OCM met with Public Health's Substance Abuse Prevention and Control and some of their network of providers to brainstorm ideas for educational workshop topics that will help provide critical information on the health risks and impacts of cannabis use, and to prevent disproportionate impacts on community health in the transition to a sustainable and well-regulated market. This includes targeted workshops aimed around youth prevention, informed adult consumption, and responsible cannabis retail practices. Examples of potential topics for these workshops, to be further refined, include cannabis-related health risks of youth use, delta-8 THC education, safe storage, understanding product labels and dosage, and compliance of regulations (minimum age requirements, the prohibition of labeling that may be attractive to youth, maximum THC content in retail products) in a regulated market. OCM and SAPC will meet monthly to build out these workshops, with the goal of launching workshops (virtual and in-person) around May or June 2024. OCM will also meet monthly with SAPC, Tobacco Control and Prevention Program, and Environmental Health to discuss additional partnership opportunities to incorporate public health programs and best practices.

OCM is also working with its equity consultants on the design of educational workshops specific to Social Equity Programs, including opportunities and challenges facing cannabis businesses from the equity operator perspectives. This includes identifying relevant representatives and experts in the social equity industry. This will be followed with plans for direct outreach of the Social Equity Program, once approved by your Board, focused on providing information on program fundamentals, eligibility requirements, application processes, timelines, and adherence to State and local regulations.

OCM will continue to report back on the latest progress on the development of its community outreach campaign plans prior to the next quarterly report submission.

LEGISLATIVE ADVOCACY

At this early stage in the second year of California's legislative session, there are not yet any cannabis-specific State bills that the County is formally supporting. OCM and the Chief Executive Office - Legislative Affairs and Intergovernmental Relations Branch (CEO-LAIR) will continue monitoring proposals to identify any potential impacts on the County's cannabis regulatory framework.

OCM is continuing to collaborate with CEO-LAIR to review and monitor the following federal legislation:

- **S. 2860 (Merkley) – SAFER Banking Act of 2023.** This bill would prevent federal regulators from penalizing financial institutions and insurance providers solely because they provide services to state-sanctioned cannabis businesses or individuals whose income is derived from a state-sanctioned cannabis business, whether as a business owner or an employee. Also, for the purpose of assessing whether to issue a federally backed mortgage, this bill would ensure that financial institutions consider income derived from a state-sanctioned cannabis business in the same manner as income derived from any legal source. This bill would also require an annual diversity report on the accessibility of financial services provided to minority-owned, veteran-owned, women-owned, Tribal community-owned and small state-sanctioned cannabis businesses. *This bill passed out of the Senate Committee on Banking, Housing and Urban Affairs on September 27, 2023, and it is now awaiting a Senate floor vote.*

FUTURE REPORTS

OCM will continue to provide quarterly updates to your Board on the progress of these efforts, with the next report scheduled to be submitted in May 2024.