

**DEPARTMENT OF  
CANNABIS REGULATION**

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October 15, 2018

Honorable Members of the Rules, Elections, and Intergovernmental Relations Committee  
City Clerk  
City Hall, Room 395

**DEPARTMENT OF CANNABIS REGULATION - REQUEST FOR AMENDMENTS TO THE  
CITY'S CANNABIS PROCEDURES (C.F. 14-0366-S5)**

Dear Honorable Members:

On September 17, 2018, the Department of Cannabis Regulation (DCR) submitted a report to this committee requesting several technical amendments to the Cannabis Procedures ordinance and the implementing Rules and Regulations. In advance of this committee's meeting on October 19, 2018, DCR would like to request two additional amendments. They are: (i) a prohibition on all future location changes by an Existing Medical Marijuana Dispensary (EMMD) until it has received an annual license; and (ii) a more specific definition of the term "equity share" as it is used in the Social Equity Program.

Prohibition on EMMD Location Changes

Under City law, an Existing Medical Marijuana Dispensary may only operate at the one location on its original or amended BTRC during the time period in which it is applying for a City license. Since DCR began issuing Temporary Approval to EMMDs to engage in commercial cannabis activities, it has granted multiple requests from EMMDs to move to a location on an amended BTRC, provided that the new location meets applicable zoning requirements and sensitive use restrictions. In certain instances, an EMMD has re-located to a business premises within 700 feet of a location a Phase 3 applicant has secured as a potential retail business premises. Because the City does not permit a Phase 3 retailer to be within 700 feet of another retailer, in those instances, the Phase 3 applicant must abandon the location it has secured and find an alternate location. As this re-location issue may impact the Tier 1 and Tier 2 Social Equity Applicants applying for retail licenses, DCR recommends that the City Council either instruct DCR to stop processing EMMD re-location requests or amend Sec. 45.19.7.2 of Article 5.1 of Chapter IV of the LAMC to prohibit EMMD re-locations as of January 1, 2019.

Definition of "Equity Interest" in the Social Equity Program

The City's Social Equity Program is designed to provide equitable access to the City's cannabis licensing system to those who were disproportionately impacted by prior government drug prohibition policies. Applicants who qualify as Tier 1 or Tier 2 Social Equity Applicants

must own no less than 51 percent or 33 1/3 percent equity share, respectively, of the business that would benefit from issuance of the license. "Equity share" is a broad term that does not necessarily mean that the person owning the share has any right to control the business or to share in the business's profits or the proceeds from a sale of the business. Over the last year, DCR has received numerous reports from individuals within the cannabis industry that Tier 1 and Tier 2 Social Equity Applicant are being presented with predatory and exploitative business agreements that would grant them the required "equity shares" in a business, but would deny them actual control of the business or any of the financial benefits generated by the business. Should these exploitative practices proliferate, Social Equity businesses could largely fall under the control of persons who do not meet any of the requirements for Tier 1 or Tier 2 status.

To preserve the intention of the Social Equity Program, DCR strongly recommends that City Council adopt a more specific definition of "equity share," such that a 51 percent or 33 1/3 percent equity share must entitle the owner to an equivalent share of (i) the business's profits, including dividends, distributions or other payments, (ii) the proceeds of a sale of the business's assets, liquidation of the business, merger of the business into another business, or another transaction that would signify the end of the original business, and (iii) the voting rights on fundamental decisions relating to the business.

## **Recommendation**

It is recommended that the City Council:

1. Instruct the Department of Cannabis Regulation to cease processing EMMD location requests or request the City Attorney, with the assistance of the Department of Cannabis Regulation, to prepare and present an ordinance to amend Section 45.19.7.2 of Article 5.1 of Chapter IV of the Los Angeles Municipal Code to prohibit EMMD re-locations as of January 1, 2019.
2. Request the City Attorney, with the assistance of the Department of Cannabis Regulation, to prepare and present an ordinance to amend Section 104 of Article 4 of Chapter X of the Los Angeles Municipal Code to further define "equity share" to mean a share of all of the following:
  - (i) the business's profits, including dividends, distributions or other payments;
  - (ii) the proceeds of a sale of the business's assets, liquidation of the business, merger of the business into another business, or another transaction that would signify the end of the original business; and
  - (iii) the voting rights on fundamental decisions relating to the business.

If there are any questions, please contact Michelle Garakian, Assistant Executive Director of the Department of Cannabis Regulation, at 213-978-0738 or by e-mail at [michelle.garakian@lacity.org](mailto:michelle.garakian@lacity.org).

Sincerely,

A handwritten signature in black ink that reads "Cat Packer" with a horizontal line extending from the end of the name.

CAT PACKER  
Executive Director & General Manager  
Department of Cannabis Regulation