

Communication from Public

Name: Dana Cisneros, Esq.
Date Submitted: 06/30/2020 03:50 PM
Council File No: 20-0782

Comments for Public Posting: Dear Hon. Councilmembers: We are encouraged to see the City of Los Angeles taking active steps to ensure Social Equity applicants are provided with the opportunity to proceed through the licensing process forthwith. We do wish to draw attention to one major issue with the draft ordinance: indefinite restrictions on transfer of ownership held by Social Equity Applicants. The provisions of LAMC §104.20(c)(1)(i) diminish the fair market value of Social Equity owned businesses. As you are likely aware, fair market value is the price a willing buyer would pay a willing seller for the business. LAMC §104.20(c)(1)(i) limits the successful Social Equity applicant from transferring his/her/its/their interest to a third party unless that party meets the same Social Equity eligibility criteria. This significantly reduces the “willing buyer” pool for these businesses. Moreover, the modifications to the Social Equity Program in providing retail licenses to essentially all Social Equity Applicants, and a greater pool of them at that, further diminishes the value of the business. We understand wholeheartedly the need to protect Social Equity applicants from predatory practices and agree with the policy in restricting ownership transfers for the protection of the Social Equity Program. However, the restriction should come with a relevant time period to ensure the Social Equity applicants actually realize the revenue and gains from the business, while at the same time allowing them to create a marketable business. We do not want the Social Equity Program to turn into a time-share “investment.” After nearly fifteen (15) years of business and corporate law practice, we know that successful entrepreneurs always have an exit strategy. LAMC §104.20(c)(1)(i) essentially locks the Social Equity applicant into a business with a reduced fair market value and reduced market in general for what would be one of the most profitable businesses in the country given the Los Angeles consumer market for cannabis. Since you have recognized the need to protect Social Equity businesses in Los Angeles until at least 2025, we recommend that you take a similar approach to LAMC §104.20(c)(1)(i) and restrict ownership transfers to similarly qualified Social Equity applicants for the first five (5) or ten (10) years following actual commencement of operations. In this way, the City can protect Social Equity owners from predatory partnerships, while at the same time, allowing these

individuals the opportunity to grow their business and realize the fair market value upon sale. Frankly, we find LAMC §104.20(c)(1)(i) antithetical to the overall policy objectives of the Social Equity Program; providing Social Equity applicants with an opportunity to obtain a coveted retail license, only to impose restrictions that render said license less valuable than the other 187 retail licenses in the City of Los Angeles sends the message once again that they are not actually afforded the same opportunities as others. We further suggest that you include a provision that allows the business to be sold in the event that cannabis becomes federally legal to ensure these businesses owners capitalize on changes to future market conditions. It makes little sense to only allow the 187 pre-ICO businesses to be eligible for acquisition should large publicly traded American companies enter the market in the future; if you truly wish to enhance the lives of Social Equity applicants, give them the opportunity to become multi-millionaires. Additionally, we noticed a number of provisions that reference State licenses as being required for temporary approval or to relocate the premises. This is not procedurally accurate. The licensing agencies do not permit a change of address without local approval, so this presents a chicken or the egg scenario. Moreover, you seem to be requesting a state license before local approval is obtained or before operations commence. Thank you for your careful consideration of our comments. Sincerely, THE CANNABIS CORPORATE LAW FIRM Dana Leigh Cisneros, Esq.



Cannabis Corporate
— LAW FIRM —

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June 30, 2020

Los Angeles City Council
John Ferraro Council Chamber
Room 340, City Hall
200 North Spring Street
Los Angeles, CA 90012

RE: Council File Nos. 20-0446-S1, 17-0653, 20-0446, 20-0782, 20-0785

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The provisions of LAMC §104.20(c)(1)(i) diminish the fair market value of Social Equity owned businesses. As you are likely aware, fair market value is the price a willing buyer would pay a willing seller for the business. LAMC §104.20(c)(1)(i) limits the successful Social Equity applicant from transferring his/her/its/their interest to a third party unless that party meets the same Social Equity eligibility criteria. This significantly reduces the “willing buyer” pool for these businesses.

Moreover, the modifications to the Social Equity Program in providing retail licenses to essentially all Social Equity Applicants, and a greater pool of them at that, further diminishes the value of the business.

We understand wholeheartedly the need to protect Social Equity applicants from predatory practices and agree with the policy in restricting ownership transfers for the protection of the Social Equity Program. However, the restriction should come with a relevant time period to ensure the Social Equity applicants actually realize the revenue and gains from the business, while at the same time allowing them to create a marketable business. We do not want the Social Equity Program to turn into a time-share “investment.”

After nearly fifteen (15) years of business and corporate law practice, we know that successful entrepreneurs always have an exit strategy. LAMC §104.20(c)(1)(i) essentially locks the Social Equity applicant into a business with a reduced fair market value and reduced market in general for what would be one of the most profitable businesses in the country given the Los Angeles consumer market for cannabis.

Since you have recognized the need to protect Social Equity businesses in Los Angeles until at least 2025, we recommend that you take a similar approach to LAMC §104.20(c)(1)(i) and restrict ownership transfers to similarly qualified Social Equity applicants for the first five (5) or ten (10) years following actual commencement of operations. In this way, the City can protect Social Equity owners from predatory partnerships, while at the same time, allowing these individuals the opportunity to grow their business and realize the fair market value upon sale.

Frankly, we find LAMC §104.20(c)(1)(i) antithetical to the overall policy objectives of the Social Equity Program; providing Social Equity applicants with an opportunity to obtain a coveted retail license, only to impose restrictions that render said license less valuable than the other 187 retail licenses in the City of Los Angeles sends the message once again that they are not actually afforded the same opportunities as others.

We further suggest that you include a provision that allows the business to be sold in the event that cannabis becomes federally legal to ensure these businesses owners capitalize on changes to future market conditions. It makes little sense to only allow the 187 pre-ICO businesses to be eligible for acquisition should large publicly traded American companies enter the market in the future; if you truly wish to enhance the lives of Social Equity applicants, give them the opportunity to become multi-millionaires.

Additionally, we noticed a number of provisions that reference State licenses as being required for temporary approval or to relocate the premises. This is not procedurally accurate. The licensing agencies do not permit a change of address without local approval, so this presents a chicken or the egg scenario. Moreover, you seem to be requesting a state license before local approval is obtained or before operations commence.

Thank you for your careful consideration of our comments.

Sincerely,
THE CANNABIS CORPORATE LAW FIRM



Dana Leigh Cisneros, Esq.