



CALIFORNIA MINORITY ALLIANCE

BOARD OF DIRECTORS

Darren Parker

Tyrone Freeman

Matt Haskin

Kathy Smith

Ken Jones

Donnie Anderson

Virgil Grant

Hon. Gwen Moore

Meiko Perez

Richard Polanco

Alice Huffman

August 3, 2017

LOS ANGELES CITY CLERK'S OFFICE
RICHARD WILLIAMS-LEGISLATIVE ASSISTANT
200 N. Spring Street, Room 360
Los Angeles, CA 90012

EMAIL: Richard.Williams@lacity.org

REFERENCE: COUNCIL FILE NO. 14-0366-S5

In response to said draft ORDINANCE, the California Minority Alliance, a non-profit corporation (CMA) offers the following written comments regarding the development and implementation of the Social Equity Program Process (SEPP). CMA's focused perspective relative to the SEPP program in these comments should not be construed as an expression of the organization's lack of interest, knowledge, or expertise regarding other issues relative to the cannabis industry. That is, many public comments aside from SEPP related issues express in part or whole CMA's agreement or disagreement on the matter. Contrary, the comments specifically related to the SEPP in most cases have been vague and less descriptive. Inasmuch, CMA will provide focus to the SEPP section of **COUNCIL FILE NO. 14-0366-S5**.

The nascent cannabis industry provides opportunities at promoting equitable ownership and employment opportunities that may decrease disparities in social economics for marginalized communities disproportionately impacted by the war on drugs. In other words, the burgeoning cannabis industry in the City of Los Angeles offers the probability of success and longevity of small businesses, resulting in greater employment and tax generation in the communities in which these businesses operate.

By encouraging minority business development in the cannabis industry, the City of Los Angeles has begun to build a base of minority entrepreneurs with strong

CALIFORNIA MINORITY ALLIANCE

1445 CENTURY BOULEVARD, LOS ANGELES, CA 90047

P : (888) 426-2420 | F : (888) 426-2420

www.californiaminorityalliance.com

business skills. Such a reserve has a positive impact on the state and local economies for the purpose of business development.

Studies by the U.S. Small Business Administration and U.S. Department of Commerce indicate that 80 percent of all new independent businesses fail in the first year, and 92 percent of them fail in the first five years. Conversely, only 20 percent of all new businesses fail in the first five years of business premised on socioeconomic predictors. This is attributable to mitigating many of the stumbling blocks of small business ownerships, such as 1) lack of marketing, 2) undercapitalization, 3) patronage and 4) the ability of smaller businesses to compete with larger or pre-existing businesses in the industry.

SOCIAL EQUITY PROGRAM PROCESSING

Proposition M established the Social Equity Program Processing (SEPP) to be administered by the City of Los Angeles Cannabis Department. The Department shall provide “equitable ownership and employment opportunities in the cannabis industry in order to decrease disparities in life outcomes for marginalized communities and to address the disproportionate impacts of the war on drugs in those communities.”¹

In this regard, the Department may provide appropriate incentives, preferences, application eligibility criteria, and other development programs it considers appropriate; and provide for any advisory services or technical assistance necessary or desirable to carry out the purpose of the program.

The primary objective of the SEPP is to encourage cannabis industry business formation, create employment, and generate tax revenues for the City of Los Angeles. SEPP is designed to benefit cannabis business development by those disproportionately impacted by the war on drugs.

With the passage of Proposition 209 and the many legal challenges to any government program that preferences race, gender, or ethnicity in California, **CMA supports a race-gender-ethnic neutral means of administering the SEPP program by capitalizing on the large overlap between socioeconomic hardship and those disproportionately impacted by the war on drugs.** To that end, CMA offers class-based SEPP processing model that will contribute substantially toward social equity in the City of Los Angeles cannabis industry.

¹ City of Los Angeles. (2017). *Draft Commercial Cannabis Activity Requirement*. Los Angeles: City Clerk Office



SEPP PROGRAM CONCEPTUAL MODEL

The CMA proposed SEPP module is premised on the context of class-based affirmative action; CMA shall help the Department shape regulations that suit its goals, mitigate any legal challenges, and reflects its social equity program purpose.

The design of the CMA class-based SEPP module is guided by “socioeconomics.” In service to this vision, the Department seeks to grant special consideration to those communities in which, persons, and business applicants’ face[d] substantial socioeconomic disadvantage within the City of Los Angeles. To do so, two metrics shall be developed- The Disadvantage Index and the City of Los Angeles Area Applicant Preference Index. In this public comment, CMA shall describe these class-conscious applicant indexes conceptually. For a more technical treatment of the statistical models and empirical data that underlie these measures, CMA leaders will consult with City Council and Department staff .

The Disadvantage Index quantifies the socioeconomic obstacles applicants have faced. It identifies applicants whose socioeconomic characteristics have reduced the probability they would benefit from the burgeoning cannabis business, employment, and other related opportunities. The City of Los Angeles Area Applicant Preference Index (CLAAAPI), on the other hand, stimulates economic growth and employment opportunities in designated distressed areas throughout the City of Los Angeles. Building on the work of the Target Area Contract Preference Act (TACPA) – California Government Code, Title I, Division 5, Chapter 10.5, Section 4530 et seq., and California Code of Regulations, Title II, Division 2, Chapter 3, Subchapter 9, Article 1, Sections 1896.30-1896.41, it identifies distressed areas through the state of California.

Disadvantaged Index Conceptual Model

The Disadvantage index is based on either descriptive statistical module relating applicants’ socioeconomic characteristics or to their life experience in the City of Los Angeles Area Applicant Preference Index (CLAAAPI) zone. Socioeconomic characteristics shall be measured at both current and past applicant experience level, and include the following:

1. Applicants native language.
 2. Parent status.
 3. Family- income level.
 4. Percentage of students from applicant’s high school eligible for free or reduced-price lunch (FRL).
 5. Educational level.
- 

6. Have siblings residing in CLAAAPI zone for at least three years of the last ten years;
7. Business experience/ownership
8. Percentage of citizens from the applicant's neighborhood council geographical area on Medicaid.
9. Applicant owner/ownership²
10. City of Los Angeles Resident
11. Applicant lived in any combination of CLAAAPI zones for at least 7 of the last 21 years
12. Was arrested after November 5, 1996, and convicted of a cannabis crime committed in City of Los Angeles
13. Was arrested after November 5, 1996, and convicted of non-violent, non-drug related crime committed in the City of Los Angeles within the CLAAAPI zone or adjacent areas as defined.

Thresholds shall be established along the index's characteristic scale to form successive categories of disadvantage (none/moderate/severe). This step shall be taken because the index characteristic's scale may be unfamiliar to a Department applicant reviewer, who has not experienced the impact of the war on drugs directly or in their community of residence, thus, defining categories shall help staffers understand which values represented substantial disadvantage due to the impact of the war on drugs. These thresholds shall be set in consultation with CMA familiar with the socioeconomic makeup of the SEPP applicant pool.

City of Los Angeles Area Applicant Preference Index

The index is based on the premise of the TACPA program established to stimulate growth and employment opportunities. That is, the City of Los Angeles shall establish a preference of issuing cannabis licensure to applicants who have residency (or have had a residence for a consecutive period) and business applicant locations in the Los Angeles area designated distressed areas as defined by TACPA or some variation thereof.

Socioeconomic characteristics of this index shall be measured as followings:

² "Ownership" shall mean the individual or individuals who: (i) with respect to not for –profit entities, including without limitation a non-profit corporation or similar entity, constitutes or constitute a majority of the board of directors; (ii) with respect to a collective has or have a controlling interest in the collective's governing body; (iii) with respect to for-profit entities have ownership interest of 40% and Chief Executive Officer or ownership interest of 50% or more

1. Worksite/Residency

To qualify for a CLAAAPI preference (SEPP processing) the business must be located directly in a City of Los Angeles eligible distressed area(s), located directly adjoining/adjacent, or contiguous to a valid TACPA Census Tract & Block Group boundary (GC4532); or,

To qualify for a CLAAAPI preference (SEPP processing) the applicant whose ownership/owner must at the time of the application submittal have residency in a City of Los Angeles eligible distressed area(s), located directly adjoining/adjacent, or continuous to a valid TACPA Census Tract & Block Group boundary (GC4532).

The Department shall award a 50% preference (on application fees) to applicants/businesses that demonstrate and certify under penalty of perjury that they are in compliance with this index characteristic.

2. Workforce

Applicants shall receive an additional workforce preference of 20% if the applicant certifies under penalty of perjury to hire persons with high risk of unemployment equal to 35% of its workforce during the first two years following the issuance of license(s).

3. Corporate Social Responsibility

Applicants shall certify under penalty of perjury to contribute no less than %.05 of their licensed cannabis business annual budget to either a community beautification project within 799-foot radius related to a School, Public Park, Public Library, and Alcoholism or Drug Abuse Recovery or Treatment Facility or any other cannabis licensed facility; neighborhood council projects (in which the business operates, or church.

4. Insurance

Applicants shall be fully insured with no less than \$2 million dollars aggregate. That is, applicants must have “cannabis” as the understood product insured. This will assist in growing the valuation of the disadvantaged communities relative to business attractiveness. Policies



shall at minimum have no break in operations coverage or somewhat similar requirements.

Applicants identified by the Disadvantage or CLAAAPI Indexes shall be granted **PRIORITY** review and consideration in the SEPP process. In addition, they shall be given a boost in the SEPP investment “funding projects” process. The size of boost depends on the level of disadvantage(s). In some cases, identification by the indexes can constitute a primary factor for SEPP processing. When an applicant exhibits no CLAAAPI compliance or low disadvantage, the applicant moves to the GENERAL PUBLIC PROCESSING.

Given sufficient disadvantage, CLAAAPI or both, the class-based application process (SEPP program) can be quite substantial in addressing social equity in the cannabis industry.

II. SOCIAL EQUITY PROGRAM INVESTMENT FUND

The Department in meeting the goals of the social equity program shall encourage business formation, create employment, and generate tax dollars in the CLAAAPI zones through financial and technical assistance to SEPP licensed applicants.

The Department shall establish a **SEPP INVESTMENT FUND (SEPPIF)** overseen by the Cannabis Commission that will utilize investment vehicles that include without limitation, notes, subordinated debt with and without equity options, preferred stock, limited partnership and investment guarantees.

SEPPIF’s investment shall be limited to forty-five (45) percent of the total capital needed or \$100,000, whichever is less. SEPPIF should be used to compliment not replace, other sources of funds.

SEPPIF should make investments and loans with terms ranging from two (2) to seven (7) years.

FUNDING PROJECTS

The Cannabis Commission would normally approve the funding of:

- Working capital requirements
 - Purchase of inventory
 - Construction or major renovation
 - Marketing expense
 - Leasehold improvements
- 

- Furniture and fixtures

NOTE. Applicant must meet the disadvantage criteria of “severe” and operate in a CLAAAPI zone.

Additionally, the SEPPIF shall spend at least 15% of funds collected on corporate social responsibility aimed at preventing the use of cannabis targeted at youth between the ages of 10-15.

The revenue for the investment fund shall be acquired by a 1% service fee on industry gross receipts (paid by licensees) beginning in 2019.

All projects submitted to SEPPIF shall be evaluated considering the following factors:

- Adequacy of the proposed capital structure
- The equity contribution of the principles and others
- Fulfillment of SEPP purpose

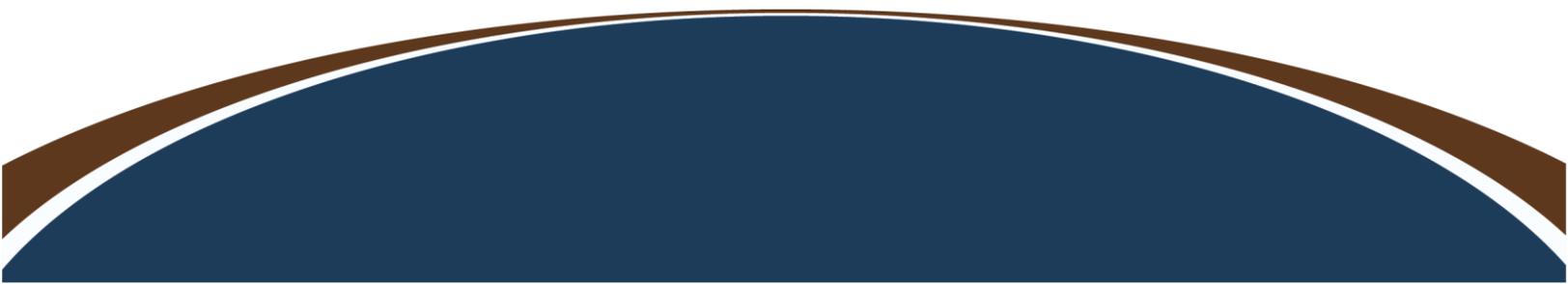
III. SEPP INCUBATOR PROGRAM

The Department shall establish an equity incubator program overseen by the Cannabis Commission with the goal of assisting to SEPP applicants and licensees. The SEPP incubator program shall consist of the following:

- Training/ Education components focused on business development, management skills, industry intelligence, etc., and; other industry business competencies.
- Workshops/Seminars, business locations, and other operational assistance.
- Mentorship/ Business-to-Business networking and more.

The same Department reviewer shall process general public applicants that serve as incubators for SEPP applicants at the same time as the SEPP applicants. General applicants shall meet **all** of the following conditions in order to be process during the SEPP period:

1. Provide free rent or real estate for no less than five years (agreement in writing).
2. The general applicant must comply with all licensing requirements.



3. The general applicant shall not hold any ownership interest in the SEPP applicant business.
4. Comply with the SEPP's *corporate social responsibility, insurance, and workforce provisions*.

CMA is appreciative of your time in this matter; should you have any questions, please contact us at info@californiaminorityalliance.com.

Donnie Anderson, President
CMA

Virgil Grant, Secretary
CMA

Tyrone Freeman, Executive Director
CMA

