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CANNABIS REGULATION

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SHI YOUNG LIM
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JOSIE TREVIZO
COMMISSION EXECUTIVE ASSISTANT
(213) 978-0738

City of Los Angeles

CALIFORNIA



KAREN BASS
MAYOR

EXECUTIVE OFFICES

221 N. FIGUEROA STREET, SUITE 1245
LOS ANGELES, CA 90012
(213) 978-0738

MICHELLE GARAKIAN
EXECUTIVE DIRECTOR

JASON KILLEEN
ASSISTANT EXECUTIVE DIRECTOR

VACANT
ASSISTANT EXECUTIVE DIRECTOR

<http://cannabis.lacity.gov>

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Council File 24-0600

Los Angeles City Council
c/o Office of the City Clerk
City Hall, Room 395
Los Angeles, CA 90012

Attention: Budget, Finance, and Innovation (BFI) Committee

DEPARTMENT OF CANNABIS REGULATION - MAYOR'S FY 2024-25 PROPOSED BUDGET

Dear Honorable Members:

Thank you for the opportunity to respond to the Mayor's Fiscal Year (FY) 2024-25 Proposed Budget for the Department of Cannabis Regulation (DCR). DCR is extremely grateful to the Mayor for the resources provided to support the Department and maintain current special funded service levels for the Annual Licensing process and expand DCR's capacity to address annual compliance inspections by the Compliance and Enforcement Division.

Since its establishment in 2017, DCR has become a national leader in local cannabis policy and programming designed to provide safe and equitable access to cannabis. Equity is a foundational cornerstone of DCR and the Social Equity Program (SEP) was established by the City Council. DCR supports and regulates the largest municipal SEP in the country, with one-third of the City's active licenses issued to Social Equity businesses. DCR issued 159 new licenses this FY, resulting in a total of approximately 1,500 licenses issued (12% increase from the previous year) across approximately 900 business locations. Over the years, the number of licenses issued has more than tripled (425 licenses issued in 2020 to the present total of approximately 1,500), and includes 499 Social Equity licenses.

This year, the Department's Complaint Portal **has closed or referred 96% of all complaints** received and has also upgraded and augmented its Complaint Portal to include a tracking system where members of the public can get updates on the status of their complaint. To assist applicants and licensees, DCR has continued its educational webinars with **10 Q&A Virtual Lunch webinars and an additional four (4) webinars** on Annual Licensing and Public Convenience or Necessity processes, among other topics. Most recently, the **first set of 16 retailers received approval for Annual Licenses** from the City of Los Angeles Cannabis Regulation Commission (CRC) on April 4. **An additional 13 retailers received approval** for their Annual Licenses from the CRC on April 18. Finally, the Social Equity Program has continued adding to its library of resources for equity-owned small

businesses and included a recent **Equity Week Training Summit** that focused on business strategies for increasing profitability and navigating offers from investors.

Social Equity-owned small businesses in the cannabis industry face unique challenges, from regulatory hurdles, lack of expertise, limited access to capital, and competition from larger, established businesses. Access to technical assistance provided by the Business, Licensing, and Compliance (BLC) Assistance program, such as one-on-one coaching, technical webinars, and Pro-Bono/Low-Bono legal services, is crucial for these entrepreneurs to succeed. The BLC Assistance program offers tailored support to help these small businesses navigate challenges and thrive in the arduous cannabis market.

A General Funded Administrative Clerk that DCR used to support the City of Los Angeles Cannabis Complaint Portal was cut in the Proposed Budget. The elimination of this position may impact DCR's ability to provide support in shutting down illegal cannabis facilities. DCR also did not receive a General Fund appropriation to support the SEP's BLC Assistance program. As such, whole swaths of critical programming to support Social Equity Applicants will no longer be available – and the City may miss the opportunity to maximize cannabis tax revenue potential from applicants who are not able to reach licensure. The BLC Assistance program provides assistance to Social Equity entrepreneurs through programming, curriculum development, and training in the areas of state and local licensing requirements, commercial cannabis regulations, general business development, cannabis-specific business development, and workforce development. To support the BLC Assistance program, DCR requests \$2.5 million from the General Fund.

The Proposed Budget will allow DCR to achieve or advance the following key initiatives:

1. Second year of the Annual Application process

In May 2023, DCR's focus officially shifted from a temporary license application process to the annual license application process when [Ordinance 187879 \(CF 21-1083-S1\)](#) became effective. This shift to annual license processing for local businesses ensures that businesses will be able to receive State annual licenses and therefore be able to operate and generate local revenue for the City. The Proposed Budget will enable DCR to develop procedural documents and implement policy adjustments for a more efficient second year of the annual license application process.

2. Meet mandated processing timelines

Alongside the annual license application process, DCR continues to work to further reduce application processing timelines to be in compliance with the timelines mandated by [Los Angeles Municipal Code \(LAMC\) Section 104.03\(j\)](#). DCR's ability to meet these processing timelines is dependent on being able to maintain a manageable vacancy rate, which is heavily impacted by any City-wide restrictions or delays to hiring. However, absent these vacancy issues outside the Department's control, the continued and regularized resources provided in the Proposed Budget will allow DCR to meet these mandated processing timelines.

3. Amend the LAMC to administer another verification window to verify new Social Equity Individual Applicants (SEIAs) and implement a second random selection (lottery) process for SEIAs pursuing retail and/or cultivation annual license applications

DCR will transmit its recommendations to amend the LAMC to revise the SEIA criteria, implement a lottery selection process, and extend retail application deadlines to correspond with the extension afforded under California Senate Bill 51.

4. Focus on compliance through the continued roll-out of regular monitoring of licensed businesses

DCR closed or referred to LAPD 89% of all complaints received. DCR's Compliance and Enforcement Division (CED) implements clear standards to ensure operational compliance with the [Rules and Regulations for Cannabis Procedures](#). In the upcoming fiscal year, CED aims to efficiently handle increased inspections and investigate complaints promptly. Equally crucial is educating licensees to prevent violations and fines, promoting business sustainability. CED's progressive enforcement strategy emphasizes compliance support, especially for equity businesses, aligning with core objectives. The Proposed Budget resources will empower CED to prioritize these efforts, improving oversight, safety, and reducing complaint backlogs.

5. Continue the expansion of DCR's administrative capacity to enable operational personnel in Licensing and Compliance to focus on core activities

At the end of FY 2022-23, DCR was able to fully staff its Administration Division for the first time since receiving the positions in FY 2019-20 and subsequently experiencing hiring delays due to the pandemic. Filling these positions has allowed staff in operational groups to focus on their programmatic duties rather than having to also fulfill various administrative tasks. For FY 2024-25, the Administration Division will emphasize working with DCR subject matter experts to develop procedure manuals and training guides for DCR's licensing, compliance, and commission office staff. These procedure manuals and training guides will help standardize processes as DCR implements the new annual application process and compliance program.

Additionally, the delay across the City for processing contract invoices for payment was identified as a barrier to small business creation, development, and growth in the City as part of Mayor Bass' Executive Directive No. 4 (ED-4). DCR has worked with the ED-4 Working Groups coordinated by the Mayor's Office to develop and implement standard procedures Citywide, and will continue these efforts in the new fiscal year.

Changes DCR Suggests to Proposed Budget:

Provide Critical Funding for the SEP's BLC Assistance Programming

In the last 5 years, the City's support of the BLC Assistance program has demonstrated an excellent return on investment. Specifically, the City's investment of only \$9 million¹ from 2019-2024 may have resulted in nearly \$40 million in cannabis business tax revenues, paid into the General Fund, from Social Equity businesses through March 2024. In fact, tax revenues brought in by Social Equity businesses accounted for 23 percent of all cannabis business taxes collected during the first quarter of 2024. DCR will fully expend the City's initial \$9 million allocation by June 2024. After June 2024, due to the lack of any General Fund support in the Proposed Budget, DCR will be forced to rely solely on limited State grant funding to fund BLC programming. Although the DCR will receive \$3 million in State

¹ [LAMC Section 104.20\(c\)](#) requires that DCR provide BLC Assistance to qualified SEIAs, subject to the availability of funding. The City Council adopted a budget policy in 2019 that pledged an annual allotment of \$3 million for three years ([CF 18-1800-S2](#)).

grant funds this year, the Department can only utilize up to 10% for business and technical assistance. As such, the State grant funding will not be sufficient to support BLC programming to assist our Social Equity Applicants in their entrepreneurial efforts to receive City licenses.

DCR's special fund, the Cannabis Regulation Special Revenue Trust Fund No. 60E, is not an eligible use for these activities because funds deposited into Fund 60E may only be used for the application and permit processing activities for which they are charged. As a result, DCR requested \$2.5 million from the General Fund to continue operating the Council-mandated BLC Assistance as part of the Department's FY 2024-25 Proposed Budget. This funding, in part, would have allowed SEP to continue to utilize a bench of vendors that assist SEIAs with on-call business development services. DCR intended to utilize this funding to provide: over 3,500 hours of one-on-one coaching across 20 different coaches, 35 new educational courses and 30 new webinars in the Department's Learning Management System (LMS), 12 "Cannadispatch" newsletters, four (4) promotional and networking in-person events, and over 900 hours of free and subsidized legal services to SEIAs. These programs help Social Equity applicants get to full licensure, thus contributing to the City's General Fund for years to come.

DCR understands, however, the tough choices confronting the City at this time, and that we all must play our part in sharing the sacrifice as a unified City family. While DCR will be unable to continue the BLC Assistance programming in FY 2024-25 without General Fund support, DCR will continue to look for creative solutions to support Social Equity businesses.

Fund Position to Support Citywide Participation in Illegal Enforcement Activities

Beginning in FY 2022-23, DCR was provided position authority and funding from the General Fund for one Administrative Clerk position to assist with the handling of illegal cannabis complaints received by DCR. The Administrative Clerk position was filled through the Targeted Local Hiring Program in May 2023, but the employee was terminated for cause during probation in November 2023. The position was targeted for deletion in the CAO's Proposal to Eliminate Vacant Positions in March 2024 ([CF 23-0600-S118](#)), and the position was not continued in the Mayor's Proposed Budget. DCR receives complaints of Unlawful Establishments operating throughout the city and investigates those complaints of which DCR has received over 500 complaints annually from FY 2020-21 to FY 2022-23. An "Unlawful Establishment" is defined as any business engaged in Commercial Cannabis Activity if that business does not have a DCR-issued Temporary Approval or Operating Permit and a provisional or annual license from the State. Each complaint must be reviewed and a determination made as to whether the complaint will be handled internally by DCR or referred to the LAPD. CED has a small clerical unit of just two (2) employees, and all positions except the Administrative Clerk are paid for using special funds.

The Administrative Clerk position was authorized to provide the minimal resource necessary to review and route complaints for Unlicensed Establishments, while complaints for licensed business are handled internally at DCR by special funded CED staff tasked with conducting inspections for compliance with local and state laws (Health & Safety Code § 11357, 11362.1). Without the Administrative Clerk position, DCR will be unable to review complaints for Unlicensed Establishments, as DCR may not use special funds paid by applicants for work related to unlicensed business (i.e., those who have not paid department fees).

Conclusion

On behalf of the entire Department, I appreciate your consideration of our Proposed Budget, and thank you for the opportunity to address your Committee. Through these budget requests, we strive to continue to provide safe access to cannabis through local licensing of commercial cannabis activity and promote equitable ownership and employment opportunities in the cannabis industry through the City's SEP. This Proposed Budget will ensure DCR is able to keep pace as the City's cannabis-related responsibilities grow and ensure DCR can maintain the City's status as a national leader in municipal cannabis management.

For any questions regarding DCR's Proposed Budget, please contact Assistant Executive Director Jason Killeen at jason.killeen@lacity.org.



MICHELLE GARAKIAN
Executive Director

cc: Carolyn Webb de Macias, Chief of Staff to the Mayor
Rachel Freeman, Deputy Mayor of Business and Economic Development
Matt Hale, Deputy Mayor of Finance and Innovation
Sharon Tso, Chief Legislative Analyst
Matthew Szabo, City Administrative Officer