

Communication from Public

Name: Alfred Torregano

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Council File No: 21-1083

Comments for Public Posting: Though we applaud the initial Motion, the DCR report issued in response by Department Executive Director Cat Packer contains critical recommendations, outlined below, that are not addressed by the City Council motion. Specifically, we are in favor of the DCR's proposal to a "refiling process" for applicants who are unable to move forward with their existing application, the elimination of predatory supermajority voting provisions and harmful "side letter" back door deals. Additionally we believe the City Council's Motion as currently drafted will have UNINTENTIONAL NEGATIVE IMPACTS on social equity applicants.



November 4, 2021

Honorable Members of the Los Angeles City Council
City of Los Angeles
City Hall, Room 395
Los Angeles, California 90012

Council File [21-1083](#)

Attention: Planning and Land Use Committee; Immigrant Affairs, Civil Rights, and Equity Committee; and Budget and Finance Committee, Information, Technology, and General Services Committee

Re: Response to Los Angeles City Council File 21 - 1083 for COMPREHENSIVE SOCIAL EQUITY REFORM

The Social Equity Owners and Workers Association (SEOWA), composed of cannabis social equity applicants and operators across Los Angeles, writes to you in support of a recently [proposed](#) ordinance amendment submitted by the LA Department of Cannabis Regulation (DCR) that aims to strengthen and streamline the cannabis licensing process including a comprehensive reform to the social equity program. These DCR proposed amendments to Los Angeles Municipal Code (LAMC) Section 104 were drafted in direct response to a [motion](#) introduced to the City Council on September 29, 2021 (*CF #21 - 1083*).

Though we applaud the initial Motion, the DCR report issued in response by Department Executive Director Cat Packer contains critical recommendations, outlined below, that are not addressed by the City Council motion. Specifically, we are in favor of the DCR's proposal to a **"refiling process"** for applicants who are unable to move forward with their existing application, the **elimination of predatory supermajority voting provisions** and **harmful "side letter" back door deals**. Additionally, we believe the City Council's Motion as currently drafted will have **UNINTENTIONAL NEGATIVE IMPACTS** on social equity applicants.

SEOWA is incredibly thankful for the City Council's efforts to amend the cannabis licensing process and for bringing to light many of our concerns as social equity owners. Although well intended, the original motion contains provisions that remove important safeguards pertaining to ownership disclosure. We are grateful that the motion has prompted bold action from the DCR thus far and we are hopeful this bold action will continue as the Council and the department collaborate on a new motion that surgically addresses our needs. **We ask that you rescind (CF #21-1083) due to its negative unintended consequences and instead draft a new motion based solely on the new policy recommendations proposed by the DCR.**

A. "Refiling Process"

We are excited to see the DCR propose amendments to the licensing process. These amendments allow Social Equity Applicant's the ability to request a new application if their initial application has been previously abandoned within one calendar year, for one or more activities listed on the original Application, even if the activity is not currently available. ([See DCR page 15 and 24](#)). This is important because "Refiling" would enable an Applicant who is still interested in pursuing Temporary Approval to file a clean, new application when they are prepared to navigate the Temporary Approval process, while allowing DCR to collect necessary information in a manner consistent with the City's procedures and system capabilities.



B. Aggregation of equity ownership shares

DCR proposes an amendment to allow one or more Social Equity Individual Applicants to aggregate their ownership shares to meet a combined total of 51% interest in the licensed business. This would allow a greater number of Social Equity Individual Applicants to participate in the Social Equity Program while ensuring that the business entity qualifies as a Social Equity Applicant and remains predominantly controlled by Social Equity Individual Applicants. This promotes collective and cooperative economics in the marketplace giving applicants an option to pool resources within the community and not just rely on large corporate and/or predatory investors ([See page 29](#))

C. Addressing predatory practices

The DCR has incorporated and expanded upon City Council's idea to require an annual report signed by both the Social Equity Individual Applicant (SEIA) and Non-SEIA owners describing services provided by the Non-SEIA Owner(s). The Reporting process would include an affidavit confirming compliance with all requirements set forth in LAMC 104.20, not just to ownership interest requirements as currently proposed by the City Council motion. ([See DCR page 20](#)).

Additionally, DCR suggests that the compliance affidavit require individuals to state, under penalty of perjury, that they do not have agreements about the management, control or direction of the entity, profits, or loans beyond the agreements that are disclosed to DCR; and the individual understands the Equity Share provisions and will not violate those provisions ([See DCR page 20](#)). This provision will aid Social Equity Applicants in their negotiations and have a deterrent effect on predatory business practices.

Finally the DCR proposes amendments to eliminate the use of supermajority voting requirements used to circumvent safeguards created to maintain social equity voting rights and control. Many operating agreements use supermajority provisions to prevent social equity individual owners from making business decisions and exercising their voting and control rights.

These much needed additional measures, outlined above, are not included in the current ordinance or Motion, but are essential tools that equity applicants need to successfully move forward. These recommendations by the DCR require City Council approval, and cannot be done by the office alone. Therefore, **SEOWA requests that city council rescind CF #21-1083** and instead support the new policy recommendations proposed by the DCR published on October 29th, 2021, which will ensure equity applicants remain on a pathway to licensure while protecting them from bad faith actors that are currently restricting applicant's ability to submit required application documents.

D. Unintended negative impacts on social equity applicants of procedural changes to modification process

There is a false sense of urgency that has been created by the misconception that the provisional licensure application deadline is **March 31, 2022 for Social Equity Individual Applicants**, while in fact, on September 2021, Governor Newsom signed **SB 166** (Committee on Budget), which among other things, **extended the timeline that Social Equity applicants** can apply for, and receive, provisional cannabis licensure from the state Department of Cannabis Control (DCC). Under this new statute, equity applicants approved in their respective local jurisdictions may apply for provisional licensure through **March 31, 2023**, while the DCC may issue provisionals to said equity applicants through **June 30, 2023**.

We are concerned about the Motion's removal of procedural safeguards during the modification process. Competitors, landlords, and unhappy investors have regularly attempted to withdraw, cancel, relocate, and otherwise change pending records



without the consent of the social equity applicants, owners or authorized contacts listed on the record. Sometimes conflict between an Applicant's owners, investors, or property owners stalls the Applicant's ability to move forward in the application process as they work to resolve their respective issues. The Motion's Ownership Modification instructions ([See DCR page 12](#)) eliminates necessary oversight that the City needs to ensure public health and safety and compliance with the requirements of the Social Equity Program. It may even result in situations where the only tether between applications undergoing ownership modifications is a predatory investor or management company who qualifies as an "Owner" under the State's definition. **In addition, we support DCR's recommended addition of a new definition of "Owner" in the LAMC that does not hinge on the State's definition.**

The proposed procedural changes to the modification process may be harmful to social equity applicants. DCR currently allows certain modifications, only at certain stages of the licensing process. This is because each modification type has differing requirements depending on the records, documents, forms, or information needed to process the request. For example, if the Motion's proposed language was enacted, **Applicants would no longer be required to provide DCR agreements with a management company or property owner; this means that businesses subject to the Social Equity Program in LAMC 104.20 may be able to violate, or at least circumvent, core provisions of the Equity Share requirements without DCR's knowledge through a modification request.** ([See DCR page 19](#))

SEOWA looks forward to continued collaboration with the LA City Council and Department of Cannabis Regulation, and urges your support of these critical measures on behalf of LA's social equity community.

For any questions on our position, please contact kika@seowa.org or alfred@seowa.org

Regards,

SOCIAL EQUITY OWNERS & WORKERS ASSOCIATION
EXECUTIVE BOARD OF DIRECTORS

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