

GOVERNMENT OPERATIONS COMMITTEE REPORT relative to unauthorized cannabis activity.

Recommendations for Council action:

1. NOTE and FILE the following reports relative to illegal cannabis activity, inasmuch as these reports are for information only and no Council action is required:
  - a. October 4, 2022 Board of Police Commissioners report
  - b. April 28, 2023 joint Office of Finance/Department of Cannabis Regulation (DCR) report
2. INSTRUCT the DCR to report on potential legislative options for license types that would be the most productive for enhancing revenue and reducing the illicit cannabis market within the City of Los Angeles.

Fiscal Impact Statement: None submitted by the Los Angeles Police Department, Office of Finance, nor the Department of Cannabis Regulation. Neither the City Administrative Officer nor the Chief Legislative Analyst has completed a financial analysis of this report.

Community Impact Statement: None submitted.

**(Also referred to the Public Safety Committee)**

Summary:

On February 4, 2025, your Committee considered October 4, 2022 Board of Police Commissioners report and April 28, 2023 joint Office of Finance/DCR report relative to unauthorized cannabis activity. According to the joint report, the DCR was established in 2017 to administer and implement the requirements of the Cannabis Procedures ordinance and the Department's Rules and Regulations. Starting in early 2018, the DCR was instructed to begin issuing licenses to qualifying Existing Medical Marijuana Dispensaries (EMMDs) first. Some of these businesses are vertically integrated and include one or more non-retail activities (manufacturing, cultivation, distribution) at the same location.

As of April 28, 2025, the DCR has issued licenses to approximately 800 businesses. Of these businesses, 270 are authorized to engage in on-site retail sales and 530 locations have one or more commercial cannabis activities, such as delivery, cultivation, and non-volatile manufacturing, but may not engage in on-site sales. In the City of Los Angeles, the number of commercial cannabis licenses available is based on a pre-established cap for retail and cultivation and is further restricted by the distancing requirements from sensitive uses and other retail cannabis businesses. Furthermore, issuance of these license types is limited to Social Equity Applicants until January 1, 2025. The Rodriguez

- O'Farrell Motion (Motion) reflects concerns regarding the increase in illegal cannabis grow houses in residential neighborhoods resulting in more calls for service by LAPD, an increase in water and power utilization, and an infusion of untested, potentially dangerous cannabis products into the market.

Providing a reliable estimate of any tax revenue loss from these cultivation operations is virtually impossible because these businesses are illegal and therefore do not report any sort of data to the City. DCR and Finance had to make rough and extreme assumptions in order to prepare a response. The \$21.24 million in estimated cultivation tax revenue loss does not take into account any initial investments that would affect their bottom line the first few years in operation, such as finding a compliant property, capital, inventory, testing, consulting, permitting and licensing fees and the time to transition into the regulated market. In addition, at this time, there is not enough Citywide capacity to accommodate all these businesses coming into compliance. However, the DCR can look at potential legislative options to bring these illegal cannabis businesses (both retailers and cultivation) into the legal marketplace if requested.

After consideration and having provided an opportunity for public comment, the Committee moved to note and file the two reports as well as to make an additional recommendation to instruct the DCR to report on potential legislative options for license types that would be the most productive for enhancing revenue and reducing the illicit cannabis market within the City of Los Angeles. This matter is now submitted to Council for its consideration.

Respectfully Submitted,

Government Operations Committee

**COUNCILMEMBER VOTE**

PADILLA: YES

LEE: YES

JURADO: YES

ARL

2/4/25

**-NOT OFFICIAL UNTIL COUNCIL ACTS-**