

Communication from Public

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Council File No: 25-0591
Comments for Public Posting: See Attachment



June 18, 2025

The Honorable Members of the Los Angeles City Council

City Hall, Room 395
200 N. Spring Street
Los Angeles, CA 90012

RE: Concerns Regarding Use of Grant Funds to Cover Cannabis Licensing Fees for Social Equity Applicants (Council File No. 25-0591)

Dear Members of the Los Angeles City Council,

On behalf of Social Equity LA, we write to formally raise concerns regarding the recent recommendation issued by your office in the above-referenced matter concerning licensing fees for Social Equity applicants.

In the CAO's June 11, 2025 report, it is stated that instead of issuing a full exemption from increased Department of Cannabis Regulation (DCR) fees, the City will use *state-funded Cannabis Equity Grant (CEG) dollars* to “cover” those fees on behalf of Social Equity applicants. Respectfully, this decision misrepresents the true definition of a **fee exemption** and raises serious concerns about the integrity of grant fund allocation.

Misrepresentation of Exemption

An **exemption** implies that the applicant is **not obligated to pay**, neither directly nor indirectly. Using CEG funds to cover these costs simply **shifts the burden** from the applicant to the grant, depleting funds that were intended to provide **business development support, technical assistance, and critical operational aid**. These funds were never meant to underwrite routine departmental costs. If applicants are not actually exempt from these fees, the City must cease referring to the policy as such.

Potential Misuse of Grant Funds

Moreover, the CAO's report describes plans to use approximately **\$3.2 million** from both the 2025 and 2024 CEG allocations to retroactively and prospectively cover licensing fee increases. This decision appears to be an administrative workaround to avoid burdening the General Fund. However, it may conflict with **grant use restrictions** and the **intent of the State Legislature**, which designed CEG funds to directly uplift applicants, not sustain departmental budgets.

Request for Clarification and Reconsideration

We urge your office to provide clear written clarification on:

1. **Why is this approach being labeled an “exemption”** when in fact fees are being paid using external funding.
2. **How this decision aligns with allowable uses of CEG grant funding** under State guidelines.
3. **What long-term protections are being developed** to ensure future fee burdens are not simply shifted back onto the backs of Social Equity applicants when grant funds are exhausted.

This workaround sends a troubling message to the very individuals and communities this program was designed to empower. It appears that budgetary convenience is being prioritized over long-term equity and transparency.

We ask that your office **pause implementation of this recommendation** and work with our organization, the community, and CAO to develop a more accountable, sustainable, and truly equitable fee exemption structure.

We are available to meet at your earliest convenience to further discuss potential solutions that serve both administrative needs and the foundational goals of the City's Social Equity Program.

Respectfully,



Social Equity LA

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REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: June 12, 2025

CAO File No. 0220-05258-0021

Council File No. 25-0418

Council District: All

To: City Council

From: *for* Matthew W. Szabo, City Administrative Officer *Yplenda Chavez*

Reference: Government Operations Committee Report dated June 3, 2025 adopted by Council June 11, 2025

Subject: **SOCIAL EQUITY APPLICANTS – EXEMPTION FROM FEE INCREASE**

RECOMMENDATION

That the Council:

1. Instruct the Department of Cannabis Regulation to use Cannabis Equity Grant (CEG) funds to waive and/or subsidize fees consistent with the 2025 Fee Study increase for Social Equity applicants as described in this Report;
2. Request that the City Attorney not include any exemption of fees within the Los Angeles Municipal Code (LAMC) Section 104.19 to avoid creating an annual General Fund liability of up to \$2.4 million.

SUMMARY

On June 11, 2025, the Council adopted the Government Operations Committee (Committee) report dated June 3, 2025, which instructed the City Administrative Officer to report on the feasibility of exempting Social Equity applicants from the increased fees described in the April 29, 2025 report from the Department of Cannabis Regulation (Department), and included in the ordinance being prepared by the City Attorney under this same Council File. The Committee also requested that this Office examine the potential use of Cannabis Equity Grant funds to offset fee increases. This Office worked with the Department and the City Attorney to prepare the information presented in this Report.

BACKGROUND

Full Cost Recovery and Necessity of Fee Increases

This Office issued a report dated May 28, 2025, which provided summary information on the fee increases proposed at that time by the Department. The Department was established as a full cost recovery department, and must therefore increase fees collected to correspond to any increase in

the costs of services provided; if it does not increase fees, then it must decrease services provided. The Department's Fee Study contains proposed new fees that recover but do not exceed the reasonable cost of the services provided by the Department, as required by the City Financial Policies.

Fee Exemption for Social Equity Applicants

The Committee requested this Office examine the feasibility of exempting Social Equity applicants from the fee increase. As stated in previous CAO reports, the City Attorney has opined that waiving or subsidizing fees without reimbursement from unrestricted funds could result in potential liability arising from Proposition 218 requirements. Proposition 218 requires that fees be set at a rate reflecting the reasonable cost of providing the services for which the fees were collected. Providing fee waivers to certain customers creates the perception that other customers may be overpaying for services to subsidize the cost of fee waivers.

Pursuant to the City Financial Policies, "in rare circumstances, when permitted by law and based on a finding of clear public benefit, the City Council may decide to waive fees for service for an individual user. If the fee to be waived is for a service funded through a source of funds generated by the collection of that fee, a General Fund appropriation may be required to prevent other service users from improperly subsidizing such fee." As such, this Office does not recommend the exemption of any person or entity from the increased fees as presented by the Department.

Departmental Impact of Reduced Funding

At its June 3, 2025 meeting, the Committee stated that exempting Social Equity applicants from the fee increases would result in an estimated \$2.4 million in reduced revenue to the Department's special fund. As discussed above, any reduction in revenue collected by the Department would necessarily result in the reduction of services as well. The Committee suggested a reduction of \$2.4 million in revenue could be achieved by:

- Eliminating all of the Department's current vacancies (13 positions, approximately \$1.87 million);
- Eliminating all funding in the Department's overtime (\$100,000) account; and
- Eliminating two filled support positions at the Personnel Department (direct and indirect costs, approximately \$428,000).

These offsets would result in a 21 percent decrease in total position authorities for the Department (from 63 to 50), eliminate the Department's ability to pay staff overtime necessary to completing tasks with reduced staff, and require the Department to take on all tasks previously handled by Personnel staff, including hiring for any vacated positions, processing discipline or grievance cases, responding to requests for reasonable accommodations or family and medical leaves, and other human resource functions. The Department would not be able to maintain current service levels, which would negatively affect all applicants.

Such severe reductions to staff within the Department would result in increased processing times for all services currently provided. In addition, these reductions would not achieve the goal of exempting Social Equity applicants from the fee increases since the reduction in costs would

necessarily be spread across all fee-payers, due to the reductions in services being spread across the entire department. Finally, as described in the previous section, any exemption of fees for some applicants opens the City up to potential liability under Proposition 218.

Fee Waivers for Social Equity Applicants

The Committee's discussion of this matter on June 3, 2025, also addressed the possibility of using Cannabis Equity Grant (CEG) funds from the State of California to offset fee increases for Social Equity applicants. The Department reports that, of the \$3.5 million 2025 CEG funds awarded to the Department, approximately \$3.1 million is budgeted for fee waivers for Social Equity applicants. Currently the Department intends to provide fee waivers to Social Equity applicants on a first-come, first-served basis, and allow the waivers to be used towards a variety of fees, including Renewal fees, Annual License Application (ALA) fees, and other ALA related fees during the grant performance period (April 1, 2025 through October 31, 2026).

The Department estimates that providing a fee subsidy to Social Equity applicants to cover the cost increase of fees resulting from the Fee Study would cost approximately \$1.8 million in 2025-26. The Department reports that it could continue to provide full fee waivers for 2026 Renewal fees and ALA fees for all Social Equity applicants (estimated at \$2.8 million), as well as partial waivers to offset fee increases for all other fees for these same applicants (estimated at \$0.4 million). The Department states that the difference between the 2025 CEG funds available for fee waivers (approximately \$3.1 million) and the funding needed to implement waivers as described above (estimated at \$3.2 million) could be met using 2024 CEG funds available for use as fee waivers through October 31, 2025. This appears to be a feasible approach to continue to fully waive Renewal and ALA fees and provide partial waivers for the increased fees on all other fees for Social Equity applicants. The CEG is awarded annually and could be used for this purpose as long as fee waivers remain an eligible use of the funds.

FISCAL IMPACT STATEMENT

There is no fiscal impact associated with the recommendations in this report.

FINANCIAL POLICIES STATEMENT

This report is in compliance with the City's Financial Policies.