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August 12, 2026 Council File 26-0791

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

Attention: Government Operations Committee

PROPOSED ORDINANCE AMENDMENTS TO LOS ANGELES MUNICIPAL CODE ARTICLE 4, CHAPTER X CONCERNING OWNERSHIP TRANSFERS FOR SOCIAL EQUITY INDIVIDUAL APPLICANTS

Dear Honorable Members:

Pursuant to Council File 26-0791 and a request from the Government Operations Committee, the Department of Cannabis Regulation (DCR) hereby submits this report and recommended amendments to Article 4, Chapter X of the Los Angeles Municipal Code (LAMC) regarding the expansion of allowable ownership transfers for Social Equity Individual Applicants (SEIAs).

Background

On May 27, 2026, Councilmember Padilla introduced a motion instructing DCR to report back with a draft ordinance to allow SEIAs to sell ownership interests to any individual or entity.

The cannabis industry is experiencing a national contraction. Additionally, many SEIAs continue to face barriers, including limited access to capital and banking. Since adult-use cannabis remains federally illegal, entrepreneurs in this industry are largely excluded from traditional sources of startup capital, accessing liquidity, or lending that allows traditional entrepreneurs to navigate market fluctuations.

The objective of the Social Equity Program (SEP) is to foster generational wealth and create new opportunities for low-income individuals disproportionately impacted by the enforcement of cannabis laws. The current restriction on Social Equity ownership transfers acts as a structural barrier that, while well-intentioned, prevents participants from raising capital to navigate market instability. Expanding allowable ownership transfers would provide SEIAs with the flexibility to withstand market cycles or provide an exit opportunity.

In reflecting on the trajectory of the SEP, it is clear that while the initiative has successfully created pathways for ownership and economic participation, the program continues to face systemic challenges regarding capital. The SEP continues to effectively bridge the entry barrier for many; however, the lack of viable exit or transfer opportunities after a Social Equity License has been issued has emerged as a shortcoming. These amendments represent an evolution of the SEP, addressing the lesson that for Social

Equity Businesses to achieve long-term viability, they need flexibility and autonomy to make business decisions.

Mandating a one-year holding period prior to allowing a transfer of ownership will help avoid exploitation of the lottery system and prevent dividing licensees into disparate classes based on their ability to sell. Permitting Social Equity Licensees to transfer ownership below the equity share requirements established in LAMC 104.20(b) to non-SEIAs only after holding an Annual License for one year will effectively deter the rapid flipping of licenses. Concurrently, this policy ensures that after an initial one-year License holding phase, Social Equity Licensees gain access to the same ownership modifications available to general Licensees, allowing them to either sell their equity outright or attract external investors by adjusting their ownership stakes.

While some Licensees intend to leave the market entirely, a portion will prefer to remain active in the SEP. To support them, DCR proposes allowing these operators to generate capital by divesting a portion of their equity while retaining their Social Equity License status. Since the State considers a person with an aggregate ownership interest of 20 percent or more in the commercial cannabis business an owner of the business, establishing an aggregate 20 percent Equity Share threshold for Social Equity Annual Licenses older than one year will enable Social Equity Businesses to secure new investment partners while continuing to qualify for essential SEP benefits, such as fee waivers, legal counsel, and educational resources.

Finally, as a licensing body, DCR cannot provide business advice or manage contract negotiations to safeguard social equity individuals planning to leave the market. Consequently, the Department advises linking these participants with the extensive resources, such as free and reduced cost legal services and one-on-one coaching, offered via the SEP.

Recommendation

DCR proposes the following amendments to expand allowable ownership transfers for SEIAs:

1) Add a Social Equity License Conversion modification type to LAMC 104.03(c)(8) to permit a Social Equity Annual License to be converted to a general Annual License one (1) calendar year after the Annual License was issued;
2) Amend LAMC 104.20(c)(1)(i) to permit a verified SEIA to transfer their Equity Share in an Annual License to any Person one (1) calendar year after the Annual License was issued and after fulfilling any other requirements in the Rules and Regulations;
3) Amend LAMC 104.20(b)(1)(i) to allow SEIAs to sell up to 100 percent of their Equity Share to any Person one (1) calendar year after the Annual License was issued, provided they met the Equity Share requirements listed in LAMC section 104.20(b); and,
4) Amend LAMC 104.20(b)(1)(i) to allow existing Social Equity Annual License holders to fall below the existing 51 percent Equity Share requirement one (1) calendar year after the Annual License was issued and still be considered part of the SEP, provided one or more Social Equity Individual Applicants own no less than an aggregate 20 percent Equity Share in the entity to whom the Annual License is issued. This will allow a Social Equity Annual License to remain in the SEP provided one or more SEIAs hold a combined Equity Share of at least 20 percent in the Entity receiving the Annual License. SEIAs that no longer want their Annual License to be included in the SEP may still convert their Social Equity Annual License to a general Annual License, although they may lose access to benefits of the SEP such as grants and support programming.

DCR suggests the following measures to safeguard SEIAs:

- New Social Equity Applicants shall continue to be required to meet the existing 51 percent Equity Share requirement when applying for an Annual License and must maintain at least that 51 percent Equity Share for one (1) year after an Annual License is issued before requesting an ownership modification which causes the SEIA Equity Share to fall below 51 percent.
- Mandating that SEIAs intending to sell their Equity Share attest that they consulted with a Social Equity coach, lawyer, or other professional before submitting the modification request; and,
- Require repayment of grant-funded fee waivers issued within the prior 12 months before the modification request is processed. For example, if a Social Equity Licensee is issued a grant-funded renewal fee waiver for their 2027 Annual License in September 2026 and the Social Equity Annual License is converted to a general Annual License in December 2026, the 2027 renewal fee will need to be paid before the License Conversion is processed.

For any questions regarding this report, please contact Michelle Garakian at michelle.garakian@lacity.org.

MICHELLE GARAKIAN
Executive Director

Attachment: Proposed Red-lined Ordinance

EXHIBIT A

LAMC Section 104.03(c)(8) shall be amended to add a new paragraph (i):

8. **Annual License.** Licenses are not transferable or assignable to another Person unless a request is submitted and approved by DCR. Annual Licensees may submit only the Annual License modification request types permitted in the Rules and Regulation.

(i) **Social Equity License Conversion**. Pursuant to Section 104.20(b)(1)(i), a verified Social Equity Individual Applicant shall be permitted to transfer their Equity Share in an Annual License to any Person one (1) calendar year after the Annual License was issued and after fulfilling any other requirements in the Rules and Regulations. The Licensee shall submit an ownership modification request for its Legal Business Entity Record to DCR for approval. The ownership modification request shall only be approved after the Licensee repays any grant-funded fee waivers issued within the prior 12 months.

LAMC 104.20(b)(1)(i) shall be amended to add a new subparagraph (A):

(i) **Ownership Percentage.** One or more Social Equity Individual Applicants shall own no less than an aggregate 51% Equity Share in the Person to whom the License is issued. A sufficient number of Social Equity Individual Applicants, individually or through an entity, shall be disclosed to evidence that the owner(s) of the Applicant or Licensee meets the aggregate 51% Equity Share requirement. Social Equity Individual Applicants with less than a 20% aggregate ownership stake or equity interest in the Applicant or Licensee may be included in the aggregate total. Aggregate means the total ownership interest held individually or through an entity. For example, an individual owning 50% of an entity that owns 50% of a Licensee has a 25% aggregate ownership interest in the Licensee.

(A) A verified Social Equity Individual Applicant shall be permitted to transfer their Equity Share in an Annual License to any Person one (1) calendar year after the Annual License was issued and after fulfilling any other requirements in the Rules and Regulations. If one or more verified Social Equity Individual Applicant(s) do not own at least an aggregate 20% Equity Share in the Person to whom the License is issued, the Licensee shall no longer be considered Social Equity or eligible to receive programming benefits listed in LAMC section 104.20(c)(4).

LAMC 104.20(c)(1)(i) shall be amended as follows:

(i) Social Equity Applicants may only transfer control or ownership to Persons who meet the same Equity Share requirements, and only upon the prior written approval of DCR. DCR shall promulgate Rules and Regulations for the transfer of control or ownership. A verified Social Equity Individual Applicant shall be permitted to transfer their Equity Share in an Annual License to any Person one (1) calendar year after the Annual License was issued and after fulfilling any other requirements in the Rules and Regulations.