

GOVERNMENT OPERATIONS COMMITTEE REPORT relative to allowing Social Equity Individual Applicants to sell ownership interests to any individual or entity in connection with commercial Cannabis activity.

Recommendation for Council action, pursuant to Motion (Padilla – Nazarian):

INSTRUCT the Department of Cannabis Regulation (DCR), with the assistance of the City Attorney, to report with a draft Ordinance to allow Social Equity Individual Applicants to sell ownership interests to any individual or entity.

Fiscal Impact Statement: Neither the City Administrative Officer nor the Chief Legislative Analyst has completed a financial analysis of this report.

Community Impact Statement: None submitted.

Summary:

On June 2, 2026, your Committee considered a Motion (Padilla – Nazarian) relative to allowing Social Equity Individual Applicants to sell ownership interests to any individual or entity in connection with commercial Cannabis activity. According to the Motion, in 2017, the voters of Los Angeles directed the City of Los Angeles to establish a legal pathway for commercial cannabis activity for both medical and adult use. Since then, the City created the DCR, the Cannabis Regulation Commission, and a Social Equity Program.

The Social Equity Program was designed to create pathways for ownership, employment, and economic participation in the regulated cannabis market for Social Equity Individual Applicants (SEIAs). Los Angeles Municipal Code (LAMC) Section 104.20 restricts the transfer or sale of ownership interests in Social Equity businesses, requiring that Social Equity Individual Applicants (SEIAs) only transfer such interests to other qualified Social Equity applicants.

While cannabis remains federally illegal, entrepreneurs in this industry are largely excluded from traditional sources of startup capital. In combination, these constraints significantly limit Social Equity Businesses' ability to access capital, realize enterprise value, or exit the market when facing financial hardship. The cannabis industry is experiencing a national contraction, and locally many SEIAs continue to face substantial barriers, including limited access to capital and banking, burdensome local and state tax obligations, and persistent competition from the illicit market. As a result, many Social Equity Businesses are operating at a loss, struggling to maintain compliance, or facing imminent closure.

The absence of viable exit opportunities places SEIAs at disproportionate financial risk and undermines the intent of the Social Equity Program by effectively trapping

participants in financially unsustainable operations. Updating the LAMC to expand allowable ownership transfers would provide Social Equity Individual Applicants with critical access to liquidity by enabling them to realize the value of their businesses. Critically, SEIAs will be able to negotiate terms that allow them to pay down debt and avoid financial insolvency, addressing a key structural barrier that currently limits economic mobility within the program. Additionally, greater transfer flexibility would support business continuity by allowing financial burdened SEIAs to transition to well-capitalized operators rather than closing, thereby persevering jobs, maintaining compliant operations, and preventing further contraction of the regulated cannabis market. After consideration and having provided an opportunity for public comment, the Committee moved to recommend approval of the Motion. This matter is now submitted to Council for its consideration.

Respectfully Submitted,

Government Operations Committee

COUNCILMEMBER VOTE

PADILLA: YES

LEE: YES

JURADO: YES

ARL

6/2/26

-NOT OFFICIAL UNTIL COUNCIL ACTS-