

# **WEEDING THROUGH LOS ANGELES' SOCIAL EQUITY PROGRAM**



**Case Study Conducted By: Chris Nani  
& Austin Slutsky**

## **Acknowledgements**

We'd like to thank each and every individual and organization that helped support our case study. From the social equity applicants who shared their intimate journeys through Los Angeles' application process to the government officials who candidly spoke to us about their jobs, thank you for your support. Additionally, we'd like to specifically thank the Minority Cannabis Business Association for sponsoring our case study.

## **Grading System**

This case study examines Los Angeles' social equity program and its efficacy at promoting opportunities for those impacted by the War on Drugs. The program was scored using metrics developed by Chris Nani. Specific factors instrumental to the success of a social equity program are worth twice the amount of points and are denoted in the rubric section by a (2x). The rubric can be found at the end of the report.

The rubric grades individual objective factors that make up a large part of social equity programs. A factor that scores a one is considered severely lacking in numerous areas with no signs of improvement. A score of five typically denotes a factor that has potential, but is still being developed. Full marks may be awarded when a program has been implemented and there are demonstrated results of success.

This case study is a snapshot of Los Angeles' social equity program as of May 1, 2019. Further case studies may be needed in the future to ensure the program is fully implemented and meeting the needs of Los Angeles. Due to the constant evolution of the cannabis industry, scores may change as new regulations are implemented.

## **Executive Summary**

Overall, Los Angeles has a below average social equity program, with the potential of improving as the program continues to roll out. Los Angeles' social equity program inception and framework scored well by providing those impacted by the War on Drugs by providing broad opportunities in the cannabis industry. However, the implementation of the program has not met expectations.

Los Angeles' program received high marks in some Accessibility Factors. The program's expansive eligibility criteria permit the majority of individuals harmed by the War on Drugs access to the program. Los Angeles does little to support the expungement process, but the score benefits from California's automatic expungement review system. The program does a good job reserving licenses for social equity applicants and providing assistance during the application process bolstering their overall score. However, there is anecdotal evidence of applicants being exploited for their equity from shareholders.

Under the Environment Factors, Los Angeles earned less than half the possible points. As the program currently exists, it does not promote the long-term success of applicants and does little to address existing market concerns affecting applicants in the short-term. Educational services offered by the program are minimal. Incubators provide little support and some have allegedly abused their position as Tier 3 applicants. Some government officials and city council members appear to be more interested in promoting their own agendas rather than the future of the social equity program. Los Angeles currently does not have a community reinvestment fund which severely limits the outreach and potential of the social equity program.

**Final Score: 85 out of 140**

## **Accessibility Factors**

*Score: 52 out of 70*

### **Application Process (2x)**

*Score: 6 out of 10*

*Rationale:* Los Angeles is currently in the process of identifying vendors to provide technical assistance to applicants. All three tiers receive priority processing for non-retail licenses, with Tiers 1 and 2 receiving priority processing for retail licenses as well. A fee deferral option is being developed for Tier 1 applicants. However, extensive delays in the process have placed undue hardships amongst applicants.

*Recommendations:* Develop strategic partnerships with local businesses to provide pro bono services to applicants during the application process. Provide additional funding to expand available technical services and expedite the application process. Expand fee deferral options to be more inclusive of applicants. Research the implementation of a low or zero-interest start-up loan program for applicants.

## **Eligibility (2x)**

*Score: 9 out of 10*

*Rationale:* Eligibility is broadly defined and inclusive of the majority of individuals harmed by the War on Drugs. The program encourages individuals who have not been harmed by the War on Drugs to contribute by providing support and assistance to higher tiered individuals.

*Recommendations:* Continue to monitor eligibility requirements and ensure impacted areas from the War on Drugs are represented. Consider expanding eligibility requirements to include immediate family of individuals with non-violent cannabis convictions.

## **Expungements**

*Score: 9 out of 10*

*Rationale:* This score is based on California's automatic expungement review system, Los Angeles does not improve upon the state's mandatory expungement process. Clinics are not routine but information to find clinics is accessible online.

*Recommendations:* City and county government officials should work together towards improving the expungement process. Additional legislation aimed at expanding the

eligibility of convictions and providing funding for expediting the expungement process should be implemented.

### **Restricted Licenses**

*Score:* 8 out of 10

*Rationale:* Los Angeles has a 1:1 ratio between social equity applicants and non-social equity applicants. Although Los Angeles has a ratio in place, several hundred licenses were given to businesses, effectively capturing the market, before the social equity program was implemented. Social equity applicants are now exclusively being processed until the 1:1 ratio is met. Delivery licenses must be awarded to verified Tier 1 and Tier 2 applicants before they become available to the public.

*Recommendations:* Provide a timeline of the licensing process to promote stability and transparency for the program. Increase frequency of updates about the licensing process. Continue to incentivize non-social equity applicants through priority processing. When the need for new license types arise, (i.e. consumption lounges or cannabis licenses for restaurants) initial licenses are reserved for social equity applicants.

### **Shareholder/Ownership Requirements**

*Score:* 5 out of 10

*Rationale:* There is evidence of shareholders sidestepping safeguards to have more control over the applicant's business. Although the program has minimum equity baselines, applicants are largely unaware of their equity rights. Shareholders take advantage of this knowledge gap by extorting higher equity from applicants. Shareholders financial disclosure requirements are cumbersome but not to a degree to deter a significant amounts of investors. However, applicants are required to make a good faith effort to compose half their workforce of residents in the nearby vicinity.

*Recommendations:* Develop a system to ensure applicants have meaningful ownership control and equity within their license. Applicants should advocate for higher amounts of equity based on a culmination of the factors below. Draft a document that explains the minimum baseline equity amounts for applicants. The document should also state equity within a company should be allocated based on prior cannabis industry experience, resources contributed, and business acumen. Require social equity applicants to read and sign this document before awarding their license.

## **Environment Factors**

*Score:* 33 out of 70

### **Educational Services (2x)**

*Score:* 5 out of 10

*Rationale:* Currently, Los Angeles' program focuses on helping applicants through the application process with technical assistance. However, the educational services criteria is directed towards post-licensing success and there are concerns applicants will not succeed long-term due to their lack of business acumen. Having an incubator program that requires mentorship is a positive, although the impact of such mentorship is questionable. Additionally, the program provides educational services through websites and workshops. Commissions are also in place to provide updates on regulations and receive feedback.

#### *Recommendations:*

Provide funding to develop financial literacy and other business courses to support applicants' business acumen. Encourage business leaders outside the cannabis industry to provide mentorships with applicants. Incentivize partnerships with businesses to provide supplemental workshops to the program's courses.

## **Incubator Program (2x)**

*Score:* 5 out of 10

*Rationale:* The incubator program encourages applicants and businesses to work together through a tiered system of priority licensing to incentivize partnerships. However, incubators are not designed to ensure post-incubation success of applicants. Additionally, there is evidence of predatory sponsorships being prevalent in the incubator program. In some instances, incubators extort equity from applicants for services or spaces they're obligated to already provide. Applicants are given a temporary space for three years with little directions as to what to do post-incubation.

*Recommendations:* Review and consider the Department of Cannabis Regulation's original proposal to allow Tier 3 applicants to pay the equivalent value of space they would have provided an applicant. The money can then be reallocated to Tier 1 and 2 applicants to secure a site location. Draft a document that explains equity requirements for applicants emphasizing requirements Tier 3 businesses are obligated to fulfill as part of the program. Establish a reporting system to ensure neither social equity applicant nor business abuse their position.

### **Real Estate/Cap Limit**

*Score:* 5 out of 10

necessary to prevent or limit excessive rent increases for cannabis businesses.

### **Government Responsiveness**

*Score:* 5 out of 10

*Rationale:* There are multiple avenues for providing feedback with questions or concerns about the program, but responses are often delayed. Policy-makers are largely informed of the social equity program but may not work to address issues. There is cooperation across political party lines and both parties meaningfully contribute to cannabis legislation. However, interest groups significantly influence individual policy-makers, and there have been allegations of government officials placing private interests above the social equity program. Los Angeles residents have reported city council members have revised regulations to favor personal interests at the expense of the social equity program.

*Recommendations:* Funding should be increased to add additional staff at Los Angeles cannabis regulatory agencies. Provide policy-makers with a monthly update highlighting the most important issues impacting the program and what can be done to address them. Foster open and transparent communication between regulatory agencies, elected officials, and interest groups.

### **Community Reinvestment Fund**

*Score:* 3 out of 10

*Rationale:* There is no community reinvestment fund from cannabis tax revenues. However, there are outreach events to increase the visibility of the program. Businesses cannot become involved in the community reinvestment fund due to its non-existence.

*Recommendations:* Establish a fund that earmarks at least 2% of existing tax revenue from cannabis sales for community reinvestment. An example of a proposed community reinvestment fund could be the failed tax ballot initiative “Cannabis Reinvestment Act” from November 2018. Increase outreach efforts in neighborhoods disproportionately impacted by the War on Drugs. Permit cannabis businesses to contribute and engage with their community through the reinvestment fund.

## Scoring Rubric

Accessibility Metric (Out of 70 Points)			
Factors	1-3	4-7	8-10
<b>Application Process (2x)</b>	<p>Overall, the application process is tedious and offers minimal to no support for social equity applicants; the program offers no fee waivers, zero interest business start-up loan, or technical assistance (1) or vaguely provides assistance during the application process with no defined services listed. No legal services are available. Severe delays in the application process are frequent and have consistently impeded applicants ability to start their business.</p>	<p>The application process offers limited assistance such as document review or a help center that can aid applicants in obtaining all requirements necessary to complete the application. Applicants receive priority processing and may be tiered; the program offers fee waivers or zero interest business start-up loans; there is a planned technical assistance component that offers general assistance and potentially legal services. The program may have consultants but additionally relies on volunteers to support it. Funding for support services may either be limited or non-existent. The application process experiences delays that disrupt the timeline of implementation and applicant’s business plans.</p>	<p>The application process is expedited with assistance from trained workers and offers free limited legal or technical services to review the application and ensure accuracy. Additionally, applicants receive priority processing over normal applicants. Applications may also receive a chance to be corrected without loss of priority, status, or incurring a penalty; The program offers fee waivers and zero interest business start-up loan along with industry specific and business ownership technical assistance with allotted funds to hire skilled consultants or an equal equivalent. Legal services are also available either on a pro bono basis or reduced rate. There are infrequent to no delays in the application process.</p>



<p><b>Eligibility (2x)</b></p>	<p>Eligibility is narrowly defined and fails to include a majority of the individuals harmed by the War on Drugs. The criteria severely limits the ways an individual can be eligible for the program.</p>	<p>Eligibility is defined with multiple tiers based on the impact from the War on Drugs. The program is able to successfully include a majority of individuals harmed by the War on Drugs. A successful program will include as part of its eligibility defined geographic areas or zip codes for individuals disproportionately harmed by the War on Drugs, a defined low-income status, and eligibility for certain prior cannabis convictions. Eligibility factors do not take into account the jurisdiction's unique history.</p>	<p>Eligibility is broadly defined with multiple tiers based on the impact from the War on Drugs . Eligibility may be defined by geographic areas or zip codes for individuals disproportionately harmed by the War on Drugs, a defined low-income status, eligibility for certain prior cannabis convictions, and potentially extending eligibility to individuals with immediate family who have certain cannabis convictions. Other eligibility factors are also considered based on the jurisdictions unique history. Additionally, the program permits individuals who have not been harmed by the War on Drugs eligibility to the lowest tier within the program in exchange for providing support and assistance to higher tiered individuals.</p>
--------------------------------	--	---	--

<p><b>Expungements</b></p>	<p>The program does not offer any expungement services for applicants. (1)</p>	<p>The program requires applicants to affirmatively apply for expungements and may require multiple documents and letters of recommendations for applicants applying for expungement. The expungement program has a low-use rate and requires significant effort. Clinics may be available but they are not consistently available to applicants.</p>	<p>Automatic expungements (10) or the program has a simplified version for expungements that requires minimal effort on the applicant's part. The program offers expungement clinics on a consistent basis that help further expedite the process.</p>
<p><b>Restricted Licenses</b></p>	<p>There is minimal thought to reserving any type of licenses for social equity applicants. Furthermore, the program does not have any ratio for initially processing social equity applicants compared to the general public. (1)</p>	<p>There is a ratio for at least one type of license with priority licensing going to social equity applicants and then businesses willing to incubate them. The program has at least a 1:2 ratio for social equity and is consistently involving applicants in the licensing process.</p>	<p>The program offers an initial 1:1 ratio for social equity applicants requiring 50% of licenses to go to social equity applicants. The program may initially stop the licensing process until a certain number of licenses have been processed for social equity applicants. The program also promotes social equity applicants throughout the process incentivizing investors and non-social equity applicants to partner with them.</p>

<p><b>Shareholder/Ownership Requirements</b></p>	<p>There are no requirements for shareholders or ownership interest (1). The program requires minimal disclosure from shareholders and may not require disclosure of other ownership interests. Shareholders exercise significant influence over management and can control daily events. There is no minimum amount of equity a social equity applicant must own in their business or the amount is less than 20%. Neither applicants nor shareholders may sell their interests.</p>	<p>Shareholders have indirect influence over the business. There may be evidence within the program of shareholders circumventing control-safeguards. The social equity applicant has a minimum amount of equity that cannot be reduced in the business. Social equity applicants may not sell their equity. Minimum equity baselines are established with higher tiers requiring applicants to retain more equity. Shareholders may sell their interest but paperwork and regulations make the process cumbersome and act as a deterrent. Applicants may be required to sign a document acknowledging their rights before receiving a license to allow applicants to make informed decisions about their equity and rights as a social equity license holder.</p>	<p>Shareholders exercise indirect influence over the business as permitted by regulations and there is minimal evidence of shareholders circumventing regulators. Social equity applicants are required to have minimum amount of equity in their business that cannot be reduced with the highest tier requiring at least 51% equity. Social equity applicants may sell their interest to other social equity applicants if permitted by regulations. Social equity applicants may not have an ownership interest in more than three different businesses. Shareholders may sell their interest with regulatory approval and the process permits the sale at a reasonable speed. Applicants are required to sign a document acknowledging their rights before receiving a license to allow applicants to make informed decisions about their equity and rights as a social equity license holder.</p>
--	---	--	--

Environment Metric (Out of 70 Points)			
Factors	1-3	4-7	8-10
<b>Educational Services (2x)</b>	The program offers no educational services (1) or offers limited services with no plan to improve services. Additionally, services maybe either be underfunded or unsustainable.	There are established educational services with the long term goal of helping applicants establish successful business practices. However, educational services lack funding and/or parts of the services are not fully developed. Services may include basic financial literacy, compliance courses, and employee management. The program may work cooperatively with local businesses to provide community classes or seminars.	The program provides educational services that teach applicants to successfully run a business and actively engage other local businesses to support the program. Services may include classes, written materials, and mentorships. Applicants may additionally be required to intern at other cannabis businesses to learn from experienced leaders how to effectively run their business in connection with services provides by the program.

<p><b>Incubator Program (2x)</b></p>	<p>There is no incubator program (1) or there are only occasional classes/meetings where social equity applicants can go to learn more about how to run their businesses. There is no official program for matching applicants with businesses. Businesses can circumvent social equity programs by incubating/sponsoring social equity applicants. Incubators fail to provide any assistance and/or offer very little support.</p>	<p>There is an incubator program that encourages businesses to work with social equity applicants. The goal of the incubator is to help social equity businesses become independent and successful at the end of their incubation period. There may be a simple vetting process for matching businesses and applicants for the incubator program. The SEP requires businesses to provide free or greatly reduced rent or utilities for a minimum amount of specified years and mentorship in business skills. There is infrequent predatory sponsorship. Sponsors provide adequate support for businesses but may lack the resources, knowledge, or time to adequately prepare an applicant to be independent after the sponsorship.</p>	<p>There is a structured, potentially tiered, incubator program that robustly matches the most qualified businesses to social equity applicants. The incubator program must include at least 4 of the 5 following requirements: (i) free or greatly reduced rent and utilities for a minimum amount of specified years; (ii) mentorship in business skills; (iii) technical assistance; (iv) a reporting system to ensure neither social equity applicant nor business abuse or mistreat the other; and (v) a system that allows social equity applicants and businesses to anonymously provide suggestions and complaints about the existing program. There are little to no reported cases of predatory sponsorship and businesses that do incubate applicants fully provide all required services.</p>
--------------------------------------	---	--	---

<p><b>Real Estate/Cap Limit</b></p>	<p>Zoning regulations restrict the amount of licenses for cannabis related businesses preventing a SEP from effectively existing. There are no regulations or controls in place to protect cannabis businesses from rate increases in rent based on their cannabis nature. The governing body does not plan on expanding permits or land for cannabis businesses.</p>	<p>Zoning regulations allow for a SEP to exist but limits on licenses or appropriately zoned land prevent competition and growth. There may be regulations set in place to prevent rent increases but they are either unenforced or are ineffective. The governing body has a set agenda with future plans of expanding permits or land for cannabis businesses. Cannabis businesses may have to receive special zoning permits per business.</p>	<p>Zoning regulations liberally permit cannabis businesses to exist with either no cap on licenses or permit enough businesses to support a SEP program and spur competition. There is some form of protection from rent increases. There are plans to expand license caps if there are any caps. Regulations permit cannabis businesses to be zoned in industrial and business zones at a reasonable rate in comparison to other jurisdictions of similar size.</p>
-------------------------------------	---	---	--

<p><b>Government Responsiveness</b></p>	<p>The program is unresponsive to challenges and complaints. The program frequently fails to address issues and does not attempt to correct them. Decisions are heavily influenced by interest groups and/or the governing body is internally divisive. Government offices and regulators lack communication and general accountability for their actions. Political minority parties are not represented in the government body.</p>	<p>The program has a system to receive general feedback and commentary but may not respond timely. Policy-makers have a general understanding of the program but known issues still exist that have not been addressed. An agenda for addressing issues within the program may be present but is ineffective. Politics play a role in the decision-making process and there is cooperation across political affiliations. Minority parties can voice their opinion but do not significantly contribute to the decision-making process. There is communication between the local and state government to ensure the needs of the community are addressed. Interest groups are present and may significantly influence individual policy-makers.</p>	<p>The program provides multiple outlets for feedback and commentary, responding at a reasonable rate to comments and questions. Policy-makers have an in-depth understanding of community issues. Policy-makers may also provide routine updates on the progress of any proposed regulations or legislation. Political affiliations are minimized and policy-makers base their decisions off public interest. There is significant cooperation across political affiliations. Minority parties are able to voice their opinion and contribute to the decision-making process. Local and state government effectively communicate to prevent any confusion between varying requirements. Interest groups are represented but do not assert an undue influence over policy-makers.</p>
---	---	--	---

<p><b>Community Reinvestment</b></p>	<p>There is no reinvestment of cannabis tax revenues for improving the program or welfare of the community. Additionally, there is no outreach program that promotes the visibility of the social equity program.</p>	<p>Less than 2% of the total tax revenue from cannabis sales or less than two million dollars is allocated to reinvesting in the community with no plans to increase the amount. Alternatively, there may be minimal reinvestment in the community. An outreach program exists and hosts occasional events to draw attention to the social equity program and to encourage diverse applicants to apply. Cannabis businesses are involved in the community reinvestment fund but it's unclear how active or meaningful their involvement is in the community. Cannabis businesses may be involved through volunteer work, pro bono services, or financial contributions.</p>	<p>At least 2% of the total tax revenue from cannabis sales or amounts greater than two million are allocated to reinvesting in the community and there are plans to sustain or grow the amount of funding. The outreach program uses multiple platforms to access the public, including social media, and routinely hosts public events promoting the social equity program, educating the public on cannabis, and actively seeks applicants for the social equity program. Cannabis businesses are actively involved in the community reinvestment fund through multiple means, involvement may be evidenced by leadership in new community projects, recruiting other businesses to support the program, and providing educational seminars to the public.</p>
--------------------------------------	---	---	---