




Date: February 14, 2020

To: Mayor and Members of the City Council

From: Thomas B. Modica, Acting City Manager 

Subject: **Cannabis Equity Program Update**

This memorandum provides an update on the Cannabis Social Equity Program (Equity Program), which was approved by the City Council on July 10, 2018.

The goal of the Equity Program is to promote equal opportunity in the cannabis industry by making legal cannabis business ownership and employment opportunities more accessible to low-income individuals and communities negatively impacted by the prior criminalization of cannabis. The Equity Program includes three core components, each overseen by different City departments:

- Equity Ownership – Office of Cannabis Oversight (*City Manager's Office*)
- Equity Hire – Workforce Development Bureau (*Economic Development Department*)
- Community Reinvestment – Equity Office (*Health and Human Services Department*)

Overall coordination for the Equity Program is handled by the Office of Cannabis Oversight (OCO). Due to staffing limitations, the OCO has taken a phased-in approach to implementing the Equity Program. As a result, each component of the program is currently at a different stage of development. The successes and challenges that staff have experienced for each component of the program are summarized below:

Equity Ownership

To qualify for the Equity Ownership program, an individual must meet the following criteria:

- Have a family income below 80 percent of the Area Median Income (AMI);
- Have a net worth below \$250,000;
- Satisfy at least one of the following:
 - Lived in a Long Beach census tract for a minimum of three years where at least 51 percent of current residents have a household income at or below 80 percent of the AMI;
 - Was arrested or convicted for a crime relating to the sale, possession, use, or cultivation of cannabis in Long Beach prior to November 8, 2016 that could have been prosecuted as a misdemeanor or citation under California law; and/or,
 - Is a Long Beach resident currently receiving unemployment benefits.

Individuals who qualify for the Equity Ownership program are eligible to receive the following defined benefits during the cannabis business licensing process:

- Application Workshops – Eligible equity applicants can meet individually with staff from the OCO to receive detailed information and resources on how to successfully complete the business license application and permitting process. These workshops typically last 1-2 hours, and provide the applicant an opportunity to ask specific questions from City staff.
- Application Fee Waivers – Approximately \$5,900 worth of application fees are waived for Equity applicants. Fee waivers include annual regulatory fees, application review fees, background investigation fees, and other charges.
- Plan Check Fee Waivers – Equity applicants are eligible to receive up to \$5,000 in fee waivers during the facility plan check process. Typically, plan check fees can range anywhere from \$5,000 to \$10,000, before applying fee waivers.
- Incubation Support – Adult-use cannabis businesses that do not qualify for the Equity Program are required to submit a plan to the City describing how they will support Equity-owned businesses. Incubation plans are then made available to eligible Equity Program applicants through an online portal. Eligible applicants may contact licensed adult-use cannabis businesses to receive the support services identified in each incubation plan. Thus far, the City has received 144 incubation plans. Incubation plans have included such proposed services as business plan guidance, product shelf space, legal support, financial support, software services, operational training, and other types of assistance.

Because the program is intended to support Equity Owners during the application process, the OCO prioritized having all benefits in place prior to opening the adult-use application window on August 13, 2018. Equity Ownership program benefits remain in effect today.

Since August 2018, the City has verified a total of 50 individuals as being eligible for the Equity business ownership program. Among this group, City staff have held approximately 30 equity workshops with prospective applicants to provide them with detailed information and assistance regarding the licensing process. Despite notable interest in the Equity Business Ownership program, the City has received only four business license applications from verified Equity business owners, and issued one business license to an Equity-owned business.

In speaking with prospective applicants, the primary reason for the discrepancy between interest in the program and actual business license applications received, is the substantial amount of capital necessary to start a cannabis business. By some estimates, cannabis businesses require a minimum of \$500,000 in start-up funding to complete the licensing process. This problem is further compounded by the fact that cannabis retail (dispensary) licenses are no longer available in Long Beach. Retail licenses provided the most viable pathway for Equity-owned businesses due to the limited amount of start-up capital necessary to construct a retail facility, relative to other business types. The remaining license types available in the Long Beach (Cultivation, Manufacturing, Laboratory Testing

and Distribution) are capital intensive, highly specialized sectors of the industry. Startup costs for these business types include, but are not limited to:

- Construction (e.g., electrical upgrades, advanced HVAC systems, etc.)
- Heavy equipment (e.g., high-intensity lights, extraction equipment, etc.)
- Professional services (e.g., architectural design, legal support, etc.)
- Business insurance (e.g., worker's compensation, general liability, etc.)
- Real estate (e.g., lease or purchase in Green Zone areas of City)

Recently, the City was awarded \$914,000 from the State of California Bureau of Cannabis Control (BCC) to provide further assistance to cannabis social equity applicants. Pursuant to the terms of the grant, funds may be used to assist local cannabis equity applicants and licensees to "gain entry into, and successfully operate in, the state's regulated marketplace." Staff intend to use these grant funds to further reduce start-up costs for equity businesses through direct reimbursement grants, additional fee waivers, and strengthening the incubation support program. City Council approval will be requested on February 18, 2020, to accept and appropriate grant funds.

Despite the infusion of State funds, staff cautions that the additional resources may not result in a significant increase in the number of Equity-owned businesses, given significant and ongoing barriers to entry into the cannabis industry. Recognizing this challenge, the City Council may wish to consider the following policy options to strengthen the program:

1. *Reduce the minimum Equity percentage ownership requirement.* Currently, only businesses with Equity ownership greater than 50 percent are eligible to receive program benefits. The percentage ownership requirement was established to ensure that Equity owners maintain a controlling interest in their business. In practice, however, this requirement has served to limit the ability of individuals who qualify for the Equity Program to raise capital by restricting their ability to partner with other owners or investors. City Council may consider reducing the minimum ownership requirement to a lesser amount, which could provide equity applicants additional flexibility to secure investment capital.
2. *Offer business licenses to less capital-intensive business types, such as shared-use manufacturing.* City Council recently directed staff to prepare a feasibility study on allowing shared-use manufacturing in Long Beach. Staff expect to release this report in mid-2020. If approved, shared-use manufacturing could provide a pathway for less capitalized business owners to participate in the cannabis industry.

Moving forward, staff will continue to provide Equity Ownership program benefits to eligible cannabis applicants, and update the City Council on the results of the program. In addition, staff will continue to explore new opportunities to further strengthen the Equity Ownership program through grant funding, organizational partnerships, and other methods.

Equity Hire

The City requires all adult-use cannabis businesses to make a good faith effort to hire individuals who qualify for the Equity Program (Equity Employee) for a minimum of 40 percent of the total annual work hours performed at the business. To qualify as an Equity Employee, an individual must meet the same requirements as the Equity Ownership program. For businesses, the 40 percent Equity Hire requirement takes effect one year after the issuance of the adult-use business license. Because most businesses have not yet reached this milestone, staff from the OCO and Workforce Development Bureau have focused initial efforts on developing the regulatory framework for the program. This includes:

- Designing the Equity Hire Website www.lbcannabisjobs.com;
- Adopting rules and regulations for the Equity Hire program, found at www.longbeach.gov/marijuana;
- Creating an Equity Hire Registry to verify and track individuals who qualify for the program;
- Developing program materials including a Job Order Form, FAQ, Best Efforts Exemption Form, and other materials to help businesses meet the 40 percent goal;
- Hosting weekly information sessions for residents to learn about the program;
- Hosting bi-weekly employer sessions to offer training on program requirements to licensed adult-use cannabis businesses; and,
- Identifying a third-party vendor to track certified payroll records of businesses for compliance with the 40 percent Equity Hire requirement.

In addition to developing the regulatory framework for the program, the Workforce Development Bureau successfully hosted two citywide Cannabis Job Fairs in calendar year 2019. Both job fairs received significant interest from jobs seekers and local cannabis businesses. On average, a total of 245 job seekers and 16 employers attended each event. Given the large turnout, the Workforce Development Bureau intends to continue hosting Cannabis Job Fairs in 2020.

Unfortunately, the City is not yet able to confirm the total number of Equity Employees that have been hired at licensed cannabis businesses in Long Beach. This is because most cannabis businesses manage their recruitment process independent of services offered by the Workforce Development Bureau. It will not be possible for the City to measure overall compliance with the program until businesses begin submitting payroll records to the Workforce Development Bureau during their second year of operation, as mandated by the Equity Program.

Ultimately, it is the responsibility of each adult-use cannabis business to meet the Equity Hire requirements. Businesses that make a good faith effort to meet the 40 percent goal will be considered compliant with the program. Starting in 2020, as more adult-use cannabis businesses enter their second year of operation, staff will begin monitoring

individual businesses to verify that businesses are meeting program goals. Staff will report back to the City Council as more information becomes available.

Community Reinvestment

The third component of the Equity Program involves Community Reinvestment by local cannabis businesses. Pursuant to Section 5.92.1540 of the Long Beach Municipal Code (LBMC), adult-use cannabis businesses are required to submit a Community Reinvestment plan to the City describing how they intend to support adjacent neighborhoods and communities within eligible equity program areas.

The Community Reinvestment program is overseen by the Office of Equity in the Department of Health and Human Services. To date, staff from the Office of Equity and OCO have drafted implementing policies and procedures for the Community Reinvestment program. Implementing policies and procedures are necessary due to the limited program requirements outlined in the LBMC. Specifically, staff have developed procedures for the following areas:

- Guidelines on what to include in the Community Reinvestment plan;
- Deadlines for submitting the plan to the City;
- Eligible forms of Community Reinvestment (e.g., donations, volunteer hours, etc.);
- Evaluation criteria for Community Reinvestment plans;
- Standards for tracking and reporting on plan implementation;
- Methods to publicize Community Reinvestment plans;
- Annual renewal process of Community Reinvestment plans.

The Office of Equity plans to adopt final Community Reinvestment rules and regulations and begin accepting plans in mid-2020. Adult-use cannabis businesses will be required to submit plans to the City within three months of release of the program rules and regulations. Thereafter, adult-use cannabis businesses will be required to submit a Community Reinvestment plan to the City within three months of receiving a business license. Staff will report back to the City Council with additional information on the Community Reinvestment program as it is further developed.

Should you have any questions, please contact Acting Administrative Deputy to the City Manager Ajay Kolluri at (562) 570-6406, or via email at ajay.kolluri@longbeach.gov.

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