



# LA LICENSING TOP 10 LIST



As the new year moves forward with cannabis legalization and regulation, all eyes have been on the State of California and its local municipalities regarding the implementation of cannabis regulations and ordinances. Arguably, no municipality is more important to the development of sound procedures and policies than the City of Los Angeles as it is the world's single largest municipality to tackle the issue of cannabis legalization. With that, McAllister Garfield, P.C. presents this list of 10 things to know about the Los Angeles cannabis ordinances and regulations.

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## LICENSING WINDOWS

The City of Los Angeles has tiered the application process for businesses seeking a license for commercial cannabis activity into three separate phases. Window 1 (which is currently open until March 4, 2018) is reserved for existing medical marijuana dispensaries (EMMDs) who have been in compliant operation under Proposition D. Window 2 is reserved for supply side businesses (all non-retail operations) that were in operation within the City prior to January 1, 2016 and who meet 12 other requirements. The City has not yet commenced licensing Window 2 qualified businesses. Lastly, Window 3 is reserved for Social Equity Program Participants (who receive priority review in this window) and the general public – those businesses who do not meet the requirements of Window 1 or Window 2. Lastly, if you are planning on operating a testing laboratory in Los Angeles, you do not need to wait for a licensing window to open, and may apply immediately to receive licensure from the city.

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## SOCIAL EQUITY PROGRAM

The City of Los Angeles has developed a priority system affording Social Equity Participants an opportunity to receive their license prior to non-social equity applicants within Window 3. The Social Equity Program contains three tiers of priority with Tier 1 receiving the most favorable

priority and Tier 3 receiving the least. To qualify for Tier 1 the business must be owned (51% interest or greater) by an applicant who is low income with a prior California cannabis conviction OR the applicant is low income and has a minimum of five years cumulative residency in areas of the city that were disproportionately impacted by cannabis prohibition (i.e. the war on drugs). Tier 2 of Social Equity requires that the business be owned (33.3% interest or greater) by an applicant who is low income and has a minimum of 5 years cumulative residency in disproportionately impacted areas OR the applicant simply must have a minimum of 10 years cumulative residency in disproportionately impacted areas. Tier 3 of Social Equity requires that businesses enter into a Social Equity Agreement with the City to provide capital, leased space, business licensing and compliance assistance to Tier 1 or Tier 2 Social Equity Applicants.

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#### TEMPORARY LICENSES

The City will only issue temporary authorizations for commercial cannabis activity to Window 1 applicants and Window 2 applicants so that these businesses may apply for a State temporary license to avoid a shutdown. This temporary authorization comes in the form of a limited immunity from prosecution for violations of the Los Angeles Municipal Code.

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#### LICENSE TYPES AVAILABLE

- Retail:
  - Type 9 – Non-Storefront Retail (Delivery)
  - Type 10 – Retail (standard storefront dispensary)
- Microbusiness – Type 12 (must conduct at least 3 of the following activities to qualify as a microbusiness: retail/delivery; manufacturing; cultivation; or distribution.)
- Cultivation (Only indoor cultivation is permitted by the City)
  - Type 1A – up to 5,000 square feet of canopy
  - Type 1C – up to 500 square feet of canopy
  - Type 2A – greater than 5,000 square feet but less than 10,000 square feet of canopy
  - Type 3A – greater than 10,000 square feet but less than 22,000 square feet of canopy
  - Type 4 – Nursery - cultivation of immature (non-flowering) cannabis plants and seeds
  - Type 5A – greater than 22,000 square feet of canopy (available after Jan. 1, 2023 per state regulations)
- Manufacturing
  - Type 6 – Nonvolatile extraction manufacturing processes
  - Type 7 – Volatile extraction manufacturing processes
  - Type N – Infused products manufacturing (no extraction)
  - Type P – Packaging only
- Distribution – Type 11
- Testing – Type 8

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#### SOFT CAPS ON LICENSE TYPES

While many cities have decided to place hard caps on the amount of businesses eligible for licensing (i.e. a maximum of 10 dispensaries, etc.), the City of Los Angeles has placed the following

“soft caps” on certain license types to prevent an undue concentration of cannabis businesses in any one area of the city. The following are the soft cap license ratios apply within the community based plans based on the 2016 American Community Survey for the City of Los Angeles:

- **Retail** One license per 10,000 residents for Type 10 storefront retail locations.
- **Microbusiness** One Type 12 license per 7,500 residents. A microbusiness that conducts retail operations shall be subject to the restriction of one license per 10,000 residents for retail activity. A microbusiness that conducts cultivation operations shall be subject to the cultivation limits set forth below.
- **Cultivation** One square foot of canopy for every 350 square feet of land zoned M1, M2, M3, MR1, and MR2 per community plan with a maximum aggregate of 100,000 square feet of cultivated area per community plan area, and a maximum aggregate of 15 cultivation licenses per community plan area at a ratio of one license per 2,500 square feet of allowable cultivation area.
- **Manufacturing** One Type 7 (volatile manufacturing) license per 7,500 residents.

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### PUBLIC HEARING REQUIREMENT

Retail businesses and other commercial cannabis businesses whose licensed premises exceed 30,000 square feet are required to go through a public hearing process in the geographic area where the facility is located prior to their license being approved by the City.

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### SENSITIVE USE SETBACKS

All storefront retail locations (except those Proposition D complaint locations grandfathered under Measure M) are required to be outside a 700 foot radius of all schools, public parks, public libraries, alcoholism or drug recovery treatment facilities, day care centers, permanent supportive housing facilities, and other storefront retail locations. However, non-storefront retail (delivery), manufacturing operations, indoor cultivation, distribution businesses, and testing laboratories are only required to be outside a 600 foot radius from schools.

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### PENALTIES FOR UNLICENSED COMMERCIAL CANNABIS ACTIVITY

Each and every unlicensed commercial cannabis activity offense is subject to a maximum penalty of \$20,000 per offense. Each day that the unlicensed business conducts commercial cannabis activity is a new offense. Further, any persons associated with the illegal operations (owners, employees, security guards, etc.) are subject to a fine of not more than \$1,000 for each offense or by imprisonment in County Jail for a period of not more than six months per offense. Further, a person who is caught conducting illegal commercial cannabis activity after April 1, 2018, will not be eligible to apply for a license with the city for a period of 5 years from the date of conviction.

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### TAXATION RATES

Classification	Activity Taxed	Tax Rate
Medicinal Cannabis Sales	All medicinal cannabis sales by Retailers or Microbusinesses with Retail	5% of Gross Receipts
Adult-Use Cannabis Sales	All Adult-Use cannabis sales by Retailers or Microbusinesses with Retail	10% of Gross Receipts
Cannabis Transportation	Transportation or delivery of cannabis products	1% of Gross Receipts
Cannabis Testing	Activities related to the testing of cannabis products	1% of Gross Receipts
Cannabis Cultivation	Wholesale sales related to the cultivation of cannabis	2% of Gross Receipts
Miscellaneous	Sales related to all other cannabis activities such as manufacturing and packaging operations	2% of Gross Receipts

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**THE LOS ANGELES REGULATORS**

It is important to know your regulators. The Department of Cannabis Regulation (the “Department”) is the agency tasked with administering the application process, inspecting commercial cannabis businesses for compliance, and enforcing the regulations and laws promulgated by the City. Further, the Los Angeles Cannabis Regulation Commission (the “Commission”) is tasked with making recommendations to the City for additional laws and regulations, implementing the City’s cannabis ordinances and rules, and conducting hearings (if applicable) for the licensure of commercial cannabis businesses.

