



INFORMATION AND PROCEDURE BULLETIN

SEP-6001-IPB

SOCIAL EQUITY PROGRAM ENTITY ELIGIBILITY VERIFICATION PROCEDURE

This bulletin¹ provides information about the Social Equity Program Entity Eligibility Verification procedure and requirements for a Social Equity Applicant (“SEA”) to comply with Equity Share requirements as established in LAMC Sections 104.20(a) or 104.20(b) before a License is issued or renewed.

The Department of Cannabis Regulation (“DCR”) is responsible for administering the City’s Social Equity Program (“Program” or “SEP”) pursuant to Los Angeles Municipal Code (“LAMC”) Section 104.20. To participate in certain application processing benefits, an individual must first be verified as a Social Equity Individual Applicant pursuant to LAMC Sections 104.20(a)(1) or 104.20(b)(1).

In addition to individual verification, to receive certain application processing benefits, Social Equity Individual Applicants must have the requisite Equity Share in the Business Entity applying for licensure, as defined in LAMC Section 104.20(a)(2), and meet other related requirements established in LAMC Sections 104.20(a)(2) or 104.20(b)(2). These requirements are outlined below.

Equity Share Requirements

Owner(s) shall comply with the ownership percentage requirements in either LAMC Section 104.20(a)(2)(i) or Section 104.20(b)(2)(i) which require that a Social Equity Individual Applicant (“SEIA”) owns no less than a specific percentage Equity Share in the Person, as defined in LAMC Section 104.01(a), to whom the License is issued.

Requirements:

- Unconditional Ownership of Equity Share
- Profits, Dividends and Distributions
- Voting Rights and Control
- Successors
- Additional Equity Share Requirements and Miscellaneous

Described below is a summary of the Equity Share requirements pursuant to LAMC Section 104.20(a):

A. Unconditional Ownership of Equity Share.

1. The SEIA must own the requisite “Equity Share” in the SEA. The SEIA’s ownership of his/her Equity Share shall not be subject to conditions precedent, conditions subsequent, executory

¹ This document is intended to serve as an informational guide only. It does not replace or supersede the Los Angeles Municipal Code and does not constitute legal advice. This document is subject to change and may not constitute the most up-to-date or complete information. Applicants are encouraged to conduct their own due diligence and research to ensure that they are in compliance with all legal requirements.

agreements, voting trusts, restrictions on or assignments of voting rights, or other arrangements causing or potentially causing ownership benefits in the Social Equity Applicant or Licensee to go to another in any circumstance other than after death or incapacity.

B. Profits, Dividends and Distributions.

1. The SEIA shall receive at least their Equity Share percent of the distribution of profits paid to the Owners of the SEA.
2. The SEIA shall receive 100% of the value of each share of stock, member interest, partnership interest, or other equivalent in the event that the stock, member interest, partnership interest is sold.
3. The SEIA shall receive at least his/her Equity Share percentage of the retained earnings. The SEIA shall receive 100% of the unencumbered value of each share of stock, member interest, or partnership interest owned in the event of dissolution.

C. Voting Rights and Control.

1. The SEIA shall hold at least his/her Equity Share percentage of the voting rights on all business decisions, including, but not limited to, long-term decisions, daily business operations, retention and supervision of executive team, managers, and management companies, and the implementation of policies.
2. The SEIA shall hold the highest officer position in the SEA (e.g., CEO or president) unless a natural person is appointed to that position by mutual agreement of the parties.

D. Successors.

1. In the case of death or incapacity, other than the SEIA's surviving spouse, the SEIA shall identify his or her own successor in interest or assignee of their Equity Share.

E. Additional Equity Share Requirements and Miscellaneous.

1. Specify or demonstrate that the SEIA's Equity Share shall not be compromised for failure to meet a performance standard.
2. Nothing in the operating agreement, or equivalent document, shall conflict with the following language:
“Any action or inaction taken by a party in violation of the Equity Share Requirements shall entitle the other party to initiate a legal action in the Superior Court of Los Angeles, including, but not limited to, an action for specific performance, declaratory relief, and/or injunctive relief, to enforce the Equity Share Requirements against the other party.”
3. The following language shall be included in the operating agreement or equivalent document:
“To the extent that any provision of this Agreement, or part thereof, is or may construed to be inconsistent with or in violation of the “Equity Share” requirements set forth in Los Angeles Municipal Code Section 104.20, such provision(s) shall be ineffective, unenforceable, and null and void.”
4. No Power of Attorney shall permanently assign voting or any other rights of the SEIA to any other individual unless in the event of incapacity or death. **Information Required for Entity Eligibility Verification**

Social Equity Program – Entity Eligibility Verification Information and Procedure Bulletin

An Applicant must submit the following information, documents and/or forms in order for DCR to conduct Social Equity Program Entity Eligibility Verification and determine compliance with the Social Equity Program’s Equity Share requirements.

An Applicant must submit all required Temporary Approval Application information, documents and forms as described in the Temporary Approval Information and Procedure Bulletin. Applicants should make sure to submit an updated [Ownership and Financial Interest Holder Form \(LIC-4008-FORM\)](#) if necessary.

Please note the following Temporary Approval Application requirements for Social Equity Applicants:

- All Owners, as defined in LAMC Section 104.01(a)(36), must submit notarized signatures on the [Social Equity Program - Owner Compliance Attestation \(SEP-6001-FORM\)](#).
- Equity Share Documents. An applicant must provide all business records and agreements necessary to demonstrate that the Social Equity Individual Applicant owns at least the minimum Equity Share required under LAMC Section 104.20(a)(2).
 - Any business agreement between the Social Equity Applicant and any entity owned by any Owner of the Social Equity Applicant. Business agreements must be disclosed to DCR in their entirety. Failure to disclose all business records and agreements shall be considered a material misrepresentation/omission.

Entity Eligibility Verification Procedure

1. **“Local Compliance Underway.”** Before DCR verifies Social Equity Program entity eligibility, the Applicant must submit all required Temporary Approval Application information, documents, and forms in addition to the Equity Share documents and the Applicant’s record must have a status of “Local Compliance Underway.” Once this record status is updated, DCR will send an email to notify the Applicant that the Applicant has entered the queue for Equity Share Review.
2. **DCR Reviews Equity Share Documents.** During the Equity Share Review, DCR will review all previously submitted Temporary Approval information, forms and documents, including Equity Share documents, to determine if the Applicant is compliant with the Social Equity Program’s Equity Share requirements. During DCR’s review, DCR may identify possible violations of the Social Equity Program’s Equity Share Requirements and may request additional information or documentation. If necessary, DCR will respond to the Applicant with an [Equity Share Review Correction Sheet \(SEP-6001-CS\)](#) documenting any deficiencies or the need for additional information. Applicants who receive an Equity Share Correction Sheet should review the information provided by DCR, make the necessary amendments or clarifications, and submit updated forms, documents or information to the Application/License record within the DCR Licensing Portal.
3. **Equity Share Review Complete.** Once DCR’s Equity Share Review is complete, the Applicant may progress through the Temporary Approval Process. For more information regarding the Temporary Approval process, please refer to the [Temporary Approval Information and Procedure Bulletin \(LIC-4003-IPB\)](#).

Please Note:

Equity Share documents or provisions may violate LAMC Section 104.20 even if not identified by DCR. Applicants must comply with all Equity Share requirements at all times. DCR reserves the right to reconsider Equity Share provisions or documents for compliance at any point and enforce compliance pursuant to LAMC Section 104.20. The Social Equity Applicant has an on-going duty to report changes to or new business agreements between the Social Equity Applicant and any entity owned by any Owner of the Social Equity Applicant. Business agreements must be disclosed to DCR in their entirety. Failure to disclose all business records and agreements shall be considered a material misrepresentation/omission.

Additionally, because the review process is performed for DCR's licensing purposes only, it shall not constitute, or be construed as, any official form of certification and/or legal proclamation concerning parties and/or their rights between and amongst each other.