



## **CRITERIA TO QUALIFY AS A SOCIAL EQUITY APPLICANT**

The Social Equity Council (“SEC”) is required to review the ownership information and any other information necessary to confirm that a cannabis license application from a Social Equity Applicant qualifies under Connecticut General Statutes § 21a-420 *et seq.*, The SEC prescribes the requirements below to establish the ownership and control, residency, and income requirements for Social Equity Individuals are met. The requirements set forth below are updated and approved on November 8, 2023 and are effective as of February 1, 2024.

### **CHAPTER 1. OWNERSHIP AND CONTROL GUIDANCE**

The SEC issues the following guidance as to how the SEC will evaluate an applicant’s compliance with the ownership and control requirements of Connecticut General Statutes § 21a-420 *et seq.*, as amended.

#### **Section 1: Definitions**

- a. “Affiliate” means a person that directly, or indirectly through one or more business entities is controlled by the applicant or by the applicant’s backer.
- b. “Applicant” means a business entity that has applied for a license, as a social equity owned business, to own and/or operate a cannabis establishment.
- c. “Arms-length transaction” means a transaction conducted in a fair manner where the parties receive adequate time and opportunity to independently (either personally or through separate counsel) review the transaction documents prior to the time of execution.
- d. “Backer” means any individual with a direct or indirect financial interest in a cannabis establishment. “Backer” does not include an individual with an investment interest in a cannabis establishment if (A) the interest held by such individual and such individual’s spouse, parent or child, in the aggregate, does not exceed five per cent of the total ownership or interest rights in such cannabis establishment, and (B) such individual does not participate directly or indirectly in the control, management or operation of the cannabis establishment.
- e. “Commercially reasonable transaction” means a transaction conducted in the usual manner at the price current in the market or subject to terms or conditions usual for the market at the time of the transaction; or otherwise in conformity with reasonable commercial practices among persons in the type of property or industry involved in the transaction. Transactions that are not commercially reasonable for the purpose of Social Equity Criteria review and qualification include, but are not limited to, transactions where:
  - i. A provision causes the Social Equity Individual(s) to be held solely or disproportionately liable for losses or debts incurred by the Applicant if the proportion of liabilities assigned to said Social Equity Individual(s) unfairly exceeds the Ownership Interest of such individual(s);
  - ii. If a third party receives a percentage of the net profits of the Applicant, such percentage of the profits is not commercially reasonable if it exceeds five percent (5%) of the net profits of the business per year;
  - iii. A combination of a flat fee and a percentage of net profits paid to a Third-Party Contractor exceeds, or may exceed within the first three years after receipt of final license, five percent

- (5%) of the net profits of the Applicant;
- iv. The fees charged by the Backer or a Third-Party Contractor for a service or product, including but not limited to, intellectual property, a lease, legal advice, or brand provided is excessive compared to the fair market value of fees usually charged in similar transactions.
  - v. The percentage of the Applicant's anticipated shelf space guaranteed for the products of a Third-Party Contractor or any other entity is not commercially reasonable and is excessive, including, but not limited to, a shelf space guarantee exceeding fifty percent (50%), unless the shelf space agreement or clause provides that the Applicant or Social Equity Individual will be paid a commercially reasonable amount based on fair market value;
  - vi. An obligation by the Applicant or the Social Equity Individual to buy a percentage of its products or materials from a Third-Party Contractor or any other entity where the percentage is not commercially reasonable;
  - vii. An obligation by the Applicant or Social Equity Individual to restrict the purchase or sale of cannabis, cannabis products, or other products or materials from other licensed cannabis establishments;
  - viii. An obligation by the Social Equity Individual to enter into a non-compete agreement with the Applicant or any related entity;
  - ix. A penalty upon an Applicant or Social Equity Individual for noncompliance with the agreement is excessive relative to the degree of harm caused by the noncompliance, including the surrender of assets of the Applicant or Social Equity Individual; and
  - x. A Backer or third party is granted control over the Applicant or the Social Equity Individual such that it may overrule the Social Equity Individual(s) over the most fundamental decisions of the license applicant or license holder, including its strategic plan, and any decision regarding a transfer of ownership interest of an owner. By contrast, a provision which requires a supermajority of the license applicant or license holder's board or of its shareholders to restructure the business entity, take on substantial debt, or make other significant business decisions will generally be acceptable.
  - xi. A provision allowing a Backer to receive distributions, dividends, or other payments substantially out of proportion to the ownership percentage of that Backer, unless such provision involves repayment of debt or equity financing provided to the business at a reasonable interest rate.
  - xii. A provision allowing a Backer or group of Backers to effectively change or dilute a Social Equity Individual's Ownership Interest, through convertible debt or any other means, without reasonable compensation to such Social Equity Individual.
- f. "Control" means the power to direct, or cause the direction of, the management and policies of a cannabis establishment, regardless of whether such power is possessed directly or indirectly. In a cannabis business, control can be exercised through agreement, board membership, contract or voting power.
- g. "Key personnel" means any executive level employee who has authority or power to direct or influence the direction or operation of a cannabis business.
- h. "Management services agreement" means a contract between an Applicant and a Backer to implement an agreement whereby the Applicant grants authority to the Backer to make business decisions for the Applicant as a Management Services Contractor in exchange for a fee not to exceed 5% percent of the net profits. Such agreements may include, but are not limited to, management or supervision, operations, technical assistance, consulting, hiring employees,

accounting, recordkeeping, leasing of equipment or real or intellectual property, and provision of goods or materials.

- i. “Management Services Contractor” means a backer who is contracted by the Applicant to implement a Management Services Agreement.
- j. “Organizing Documents” means business formation documents including but not limited to articles of incorporation, operating agreements, bylaws, resolutions, and any other similar organizational or constituent documents of a business.
- k. “Ownership interest” means the possession of equity in the assets, capital, profits, or stock of an Applicant.
- l. “Social equity individual” means an individual who: (A) Had an average household income of less than three hundred per cent of the state median household income over the three tax years immediately preceding such individual's application; and (B) (i) Is a resident of a disproportionately impacted area for not less than five of the ten years immediately preceding the date of such application; or (ii) Was a resident of a disproportionately impacted area for not less than nine years prior to attaining the age of eighteen.
- m. “Third-party agreement” means a contract between an Applicant and a Third-Party Contractor to implement an agreement, whereby the Applicant grants the Third-Party Contractor authority to make business decisions for the applicant in exchange for a fee not to exceed 5% of the net profits. Such agreements may include, but are not limited to, management or supervision, operations, technical assistance, consulting, hiring employees, accounting, recordkeeping, leasing of equipment or real or intellectual property, and provision of goods or materials.
- n. “Third-party contractor” means any person who is not an owner of the Applicant and is contracted by the Applicant to implement a Third-Party Agreement.

## **Section 2. For Lottery Applications and Other Non-Equity Joint Venture Applications.**

- a. The Social Equity Individuals Must Hold at Least 65% Ownership Interest in a Cannabis Business that is Applying for a License.
- b. The Social Equity Individual(s) Must Exercise at Least a Simple Majority (greater than 50%) Control in the Cannabis Business Applying for a License.

## **Section 3. For Equity Joint Venture Applications.**

- a. The Minimum Ownership Interest for the Social Equity Individual(s) is 50%.
- b. The Social Equity Individual(s) Must Exercise at Least a Simple Majority (greater than 50%) Control in the Cannabis Business Applying for a License.

## **Section 4. Requirements for Agreements Between Social Equity Individuals and Backers.**

- a. All Organizing Documents, Third-Party Agreements and Management Services Agreements shall be bargained for between the parties in an Arms-Length Transaction. Each party shall certify in writing to the SEC, on a form available on the SEC website, that they were given the opportunity to seek the professional advice of a separate and independent legal counsel before executing the Organizing Documents, Third-Party Agreement, and Management Services Agreement. The terms

of the agreements must comply with the definition set forth in section 1(e) of a Commercially Reasonable Transaction.

- b. All Organizing Documents, Third-Party Agreements, and Management Services Agreement must comply with the Ownership and Control criteria provided under Chapter 1, Sections 2 and 3 of this document, the policies and procedures of the SEC, and the Connecticut General Statutes.
- c. All Organizing Documents, Third-Party Agreements, and Management Services Agreements must contain provisions related to alternative dispute resolution, including, but not limited to, mediation or arbitration in the event of a dispute between the owners of the business.
- d. Applicants must submit all agreements electronically at the time of submission of their application, unless directed otherwise by the SEC.

### **Section 5. Requirements for Third-Party Agreements and Management Services Agreements.**

For the purposes of social equity applications review, SEC will apply the same standards to all Third-Party Agreements and Management Services Agreements. Third-Party Agreements and Management Services Agreements shall:

- a. Be bargained for between the parties in an Arms-Length Transaction and shall include the ability for either party to terminate the agreement with due notice. Each party shall certify in writing to the SEC, on a form available on the SEC website, that the party was given the opportunity to seek the professional advice of a separate and independent legal counsel before executing the agreement.
- b. Acknowledge that the Third-Party Contractor or Management Services Contractor and its owners, principals, and staff who are engaged, directly or indirectly, in operating the cannabis business, are supervised in such operations by the Applicant or the Social Equity Individual(s).
- c. Not grant a security interest in a cannabis business being operated, or in any of the assets of the Applicant or licensee; or an ownership interest or any right, including a future or contingent right, to obtain an ownership interest in the cannabis business being operated.
- d. Not include any provision that provides the Third-Party Contractor or Management Services Contractor with an unfair advantage over the social equity individual or applicant or that violates any provisions of SEC policies or Connecticut General Statutes. Provisions that provide an unfair advantage and are prohibited pursuant to this subsection include but are not limited to any provisions of the agreement that are not Commercially Reasonable.

A Third-Party Contractor or a Management Services Contractor may be granted a future right of first refusal to acquire an ownership interest in an Applicant that would cause the Third-Party Contractor to be an owner, where a Third-Party Contractor is licensed as a backer pursuant to CGS 21a-421a and will cease operations as a Third-Party Contractor to become a backer.

At the time of submission of a social equity cannabis license application an applicant shall submit to the SEC through the E-License online portal:

- i. A copy of the Third-Party Agreement and Management Services Agreement; and
- ii. Information detailing any remuneration paid or to be paid to the Third-Party Contractor and Management Services Contractor by the license applicant or license holder.

The Applicant or Social Equity Individual shall retain authority to audit, or use an accounting firm to audit, the Management Services Contractor's record relating to its performance under the Management

Services Agreement.

## **CHAPTER 2. OWNERSHIP AND CONTROL REQUIRED DOCUMENTATION**

The following documents must be submitted at the time of application, and prior to the deadline of the applicable license application period, to establish that the applicant meets the ownership and control criteria. In the event a document is not applicable for a particular business type, the applicant should provide a written explanation and substitute the document with its applicable equivalent. The SEC will review each document to determine whether the proposed ownership and control structure of the business meets the criteria.

- a. Organizational chart (including Affiliates).
- b. List of owners and Ownership Interest.
- c. List of Affiliates.
- d. Résumés (including places of employment with corresponding dates), for all owners, officers, and Key Personnel of the business applying for the license.
- e. Personal net worth statements for each social equity individual.
- f. Personal Federal tax returns for the past 3 years, for each Social Equity Individual.
- g. Federal tax returns (and requests for extensions) filed by each Social Equity Individual.
- h. Federal tax returns (and requests for extensions) filed by any affiliated companies, with related schedules, for the past 3 years.
- i. Documented proof of contributions used to acquire Ownership Interest rights in such cannabis establishment, for each owner (e.g., both sides of cancelled checks, letters of credit, financial agreements, bank statements etc.).
- j. Signed loan and security agreements, and bonding forms related to Ownership Interest in such cannabis establishment.
- k. Documented proof of any transfers of assets to/from the Applicant and/or to/from any of its owners over the past 2 fiscal years of the business.
- l. Bank authorization and signatory cards.
- m. Schedule of salaries (or other remuneration) paid to all owners, officers, and Key Personnel of the business.
- n. List of all employees, job titles, and dates of employment (including Affiliates).
- o. Management Services Agreements (if applicable).
- p. Operating agreements.
- q. Option agreements (if applicable).
- r. Original and any amended partnership or joint venture agreements related to Ownership Interest in such cannabis establishment.
- s. Articles of incorporation.
- t. Both sides of all corporate stock certificates and a copy of the firm's stock transfer ledger.
- u. Shareholders' agreement(s), minutes of all stockholders and board of director's meetings (2 years), Corporate bylaws and any amendments.
- v. Corporate bank resolution and bank signature cards for the applicant business.
- w. Membership certificates (front and back) and ledgers (only required if the LLC has issued membership shares).
- x. Current certificate of good standing (may be called certificate of existence or certificate of status).

### CHAPTER 3. RESIDENCY GUIDANCE

The SEC issues the following guidance as to how the SEC will evaluate an applicant's compliance with the residency requirements of Connecticut General Statutes § 21a-420 *et seq.*, as amended.

In order to establish that they meet the residency criteria, individuals must have resided in an area which, at the time of application submission, is certified by the SEC as a disproportionately impacted area (DIA) for:

- a. **Not less than five (5) full years of the ten (10) years immediately before applying for the license or**
- b. **Not less than nine (9) full years prior to attaining the age of eighteen (18).**

Applicants should refer to the following state website to verify that they currently reside or have resided in a disproportionately impacted area before submitting their application: [Disproportionately Impacted Areas, Identified for Public Act 21-1, An Act Concerning Responsible and Equitable Regulation of Adult-Use Cannabis | Connecticut Data.](#)

### CHAPTER 4. RESIDENCY REQUIRED DOCUMENTATION

The following documents must be submitted to show proof of residency in a DIA. Copies must be legible.

a. **Proof of Identity Documentation**

All Social Equity Individuals must submit a valid form of identification document showing the full name, address, and date of birth of the applicant. The identification document must be issued by a federal, state, or local government. Expired documents are not acceptable to meet this requirement. No other document can be used to substitute this requirement.

b. **Birth Certificate**

Social Equity Individuals must submit a birth certificate that shows at minimum the name of the child, the date of birth of the child, and the names of the parents.

Social equity individuals whose birth certificates are not in the English language must submit a copy of the original birth certificates accompanied by an English translation.

c. **Residential Real Estate Documents Including but Not Limited to Deeds, Leases, and Similar Documents.**

Social equity individuals may submit a copy of deeds that show the address of the property, the legal description of the property, and the name of the Social Equity Individual or their parent(s) or guardian(s) if the Social Equity Individual was a minor child at the time of residency.

Applicants may submit a copy of a lease agreement(s) demonstrating residency during the relevant time period. The lease agreement must contain the name of the parties and the address of the property. The Social Equity Individual must be identified by name on the lease agreement for the lease agreement to be accepted and counted as valid evidence of residency, except that in the event that the Social Equity



Individual was a minor child, the lease agreement must identify the name of a Social Equity Individual's parent or guardian.

A Social Equity Individual may also submit housing authority records that show either the name and address of the Social Equity Individual or their parent or guardian if the Social Equity Individual was a minor child.

Additionally, in the event that an applicant was incarcerated during the required years of residency, the SEC may extend the period of residency by the number of years the applicant spent in incarceration. Time spent in a correctional institution located in a DIA shall not count towards the required time of residency.

**d. Other Records.**

The SEC may accept other documents to satisfy the residency criteria. Applicants should note that any one of these particular documents, by themselves, may not provide sufficient evidence to satisfy the requirement that a Social Equity Individual resided in a DIA for the full number of years set forth in General Statutes section 21a-420. Examples of documents the Council may accept to augment or clarify an application are as follows:

- i. School records reflecting years of attendance, with the name and address of the Applicant;
  - ii. Utility bills (i.e., water, electricity, phone, cable, etc.) that include the name and address of the Applicant;
  - iii. Bank records that include the name and address of the Social Equity Individual;
  - iv. Tax records that include the name and address of the Social Equity Individual;
  - v. Dated notices or correspondence from a state or local government entity that includes the name and address of the Social Equity Individual.
- e. Social Equity Individuals may submit affidavits from persons other than themselves to support their residency claim. The Council reserves the discretion to weigh the credibility of an affidavit based on indicia of reliability, such as supporting documentation submitted with the affidavit.**

## **CHAPTER 5. INCOME GUIDANCE**

The SEC issues the following guidance as to how the SEC will evaluate an applicant's compliance with the income requirements of Connecticut General Statutes § 21a-420 *et seq.*, as amended.

To meet the income criteria, an individual must have an average household income of less than 300% of the state median household income for the three tax years immediately preceding the application.

**a. Household Income Requirements**

The SEC defines household income to include the income of all members of the household 21 years and older.



The state median household income considered for the 2023-2024 application cycle is \$88,429.00, while three hundred percent (300%) of this average state median household is \$265,287.00. Therefore, A Social Equity Individual, in addition to all individuals residing in the household, must have less than \$265,287.00 in income each year during the three tax years immediately preceding the application in order to meet the income criteria. Income shall be calculated based on the adjusted gross income shown on tax documents submitted by the individual members of the household.

## **CHAPTER 6. INCOME REQUIRED DOCUMENTATION**

The following documents will be considered in support of the income criteria.

- i. Tax Returns (Federal and State Forms 1040 or 1040 EZ, including all schedules) covering the three (3) most recent years. Applicants may also submit the IRS record of account transcript in lieu of the actual IRS form 1040 or 1040EZ. Tax transcripts can be ordered online at <https://www.irs.gov/individuals/transcript-types-and-ways-to-order-them>.
- ii. Wage and Tax Statement - (W-2) for the three (3) most recent years.
- iii. Notarized income verification from all employers for the three (3) most recent years.
- iv. Pay Stubs for the three (3) most recent years.
- v. Pension/Retirement Distribution Statement covering the three (3) most recent years.
- vi. Annuity Statements which include the social equity individual's name.
- vii. Court-Ordered Agreements
- viii. Unemployment Benefits document which includes the social equity individual's name.
- ix. Workers Compensation letter which includes the Social Equity Individual's name.
- x. A Social Equity Individual who receives social security income must submit proof of such income by submitting a social security proof of income letter covering the three (3) most recent years.

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