
THIRD READING

Bill No: AB 2731
Author: Addis (D)
Amended: 8/18/26 in Senate
Vote: 21

SENATE GOVERNMENTAL ORG. COMMITTEE: 13-0, 6/9/26

AYES: Rubio, Valladares, Archuleta, Ashby, Blakespear, Cervantes, Dahle,
Ochoa Bogh, Padilla, Richardson, Smallwood-Cuevas, Wahab, Weber Pierson

NO VOTE RECORDED: Alvarado-Gil, Hurtado

SENATE APPROPRIATIONS COMMITTEE: Senate Rule 28.8

ASSEMBLY FLOOR: 67-0, 4/27/26 - See last page for vote

SUBJECT: Alcoholic beverage control: neighborhood-restricted on-sale general
licenses

SOURCE: Author

DIGEST: This bill authorizes the Department of Alcoholic Beverage Control (ABC) to issue no more than 5 new original neighborhood-restricted special on-sale general licenses per year to bona fide public eating places located in specified Unites States Census Bureau census tracts in the County of Santa Cruz, until a total of 12 new licenses have been issued, as specified.

Senate Floor amendments of 8/18/26 prohibit a person who currently holds an on-sale general license or an interest in an on-sale general license within the 12 months before the date of the drawing from being eligible for a license issued pursuant to the provisions of this bill.

ANALYSIS:

Existing law:

- 1) Establishes the Department of ABC and grants it exclusive authority to administer the provisions of the ABC Act in accordance with laws enacted by the Legislature. This involves licensing individuals and businesses associated with the manufacture, importation, and sale of alcoholic beverages in this State and the collection of license fees.
- 2) Caps the number of new on-sale and off-sale general licenses issued by the Department of ABC. The ratios are one on-sale general license for each 2,000 persons in the county in which the premises are situated and one off-sale general license for each 2,500 persons.
- 3) Authorizes, beginning January 1, 2017, the Department of ABC to issue no more than five new original neighborhood-restricted special on-sale general licenses, for premises located within specified City and County of San Francisco neighborhoods, subject to certain requirements and restrictions.
- 4) Authorizes, beginning January 1, 2018, the Department of ABC to issue no more than five new original neighborhood-restricted special on-sale general licenses per year, until a total of 30 licenses are issued, to premises located in any of the census tracts, as specified, within the City and County of San Francisco. Subsequent legislation increased the total number of these type of specific licenses to 40 total licenses.

This bill:

- 1) Authorizes the Department of ABC to issue up to five new original neighborhood-restricted special on-sale general licenses for bona fide public eating places per year located in specified census tracts in the County of Santa Cruz until a total of 12 new licenses are issued.
- 2) Provides that to qualify for a license issued pursuant to this bill, the premises for which the license would apply shall be located within the following United States Census Bureau census tracts, corresponding to those identified within the 2020 Census, located within the County of Santa Cruz, subject to the following limitations:
 - a) Specified census tracts located in and around the City of Watsonville. No more than a total of six licenses shall be held at premises located within these specified tracts.

- b) Specified census tracts located in and around Santa Cruz, Capitola, Soquel, Scotts Valley, Ben Lomond, Boulder Creek, Brookdale, San Lorenzo, and Davenport. No more than a total of six licenses shall be held at premises locating within these specified tracts.
- 3) Prohibits a license issued pursuant to this bill from being transferred to any other premises in a different neighborhood. This does not apply to a licensee whose premises have been destroyed as a result of a fire or any act of God or other force beyond the control of the licensee.
- 4) Prohibits a license issued pursuant to this bill from being sold or transferred for a price greater than the original fee paid by the licensee.
- 5) Prohibits a person that holds a license issued pursuant to this bill from exchanging that license for an on-sale license for public premises (bar).

Background

Author Statement. According to the author's office, "Santa Cruz County has hit its cap on the number of on-sale general licenses that it is able to issue to new restaurants and businesses. There is also a disparity in the distribution of licenses throughout the county. According to a report from Watsonville's City Council, despite having a significant share of the county's population, the city has comparatively fewer licenses, highlighting an inequity that limits local business opportunities and constrains the city's economic growth potential. Specifically, Watsonville represents nearly one-quarter of the County's total population but holds only about 10% of the active Type 47 licenses."

Furthermore, the author's office states that, "without a valid on-sale general license, businesses wanting to open or expand their operations in the county cannot proceed with their plans. This takes away potential revenue and job growth that the new businesses would create in the region. When there are no alcohol licenses available for purchase, businesses must turn to the unregulated secondary market where these licenses can sell for hundreds of thousands of dollars, a steep increase from the original price of these licenses which is only \$19,840. When prices are that high, it pushes small businesses out of the market and stops the economic growth and job gains that would occur from these small businesses opening their doors."

Type 47 Alcohol License. An on-sale general eating-place license, or Type 47 license, authorizes the consumption of beer, wine, and distilled spirits for

consumption on the licensed premises. The licensee is required to operate and maintain the licensed premises as a bona fide eating-place, which must include suitable kitchen facilities. The licensee must make actual and substantial sales of meals for consumption on the premises. Generally, this means that the business must generate at least 51% of all gross sales from food. As such, a Type 47 license is one of the most common types of liquor licenses for restaurants in California.

Some common businesses that use the Type 47 license include full-service restaurants, hotels and resorts, bowling alleys, golf courses and other eating establishments. As of March 19, 2025, there were approximately 16,175 on-sale general (Type 47) licenses statewide.

Alcohol License Limitation. Existing law provides for a limitation on the number of new on-sale general licenses that may be issued in a given year by the Department of ABC based on the population growth of the county in which the licensed premises are located. The ratio is one on-sale general license for each 2,000 residents. For example, if a county grows by 10,000 people in a given year, the Department of ABC will issue five new licenses in that county.

If the Department of ABC receives more applications than there are licenses available, a public drawing is held. To participate in such a drawing, an applicant must have been a resident of California for at least 90 days prior to the date of the scheduled drawing. Successful drawing participants will be notified that they have 90 days to complete a formal application for their specific premises. The cost of these new licenses is \$15,835 each.

Individuals seeking to open a full-service restaurant with a bar or cocktail menu who fail to obtain a liquor license through this process typically must locate an existing licensed owner willing to sell their license. Usually, that is done by contacting a liquor license broker. The cost of obtaining a license on the secondary market is driven by supply and demand and can reach upwards of \$300,000 to \$400,000 in certain counties.

Over the years, various counties have sponsored legislation to authorize the Department of ABC to issue additional Type 47 licenses in their county. Generally, these bills receive unanimous support in the Legislature and are signed into law. Once those bills become law, the Department of ABC, if there are more applicants than there are licenses available to be issued, holds a random drawing that establishes priority rankings to apply for alcohol licenses. Applicants must

still go through the normal application process, which includes local posting requirements and pay all appropriate fees.

Impact on Cities/Counties. As previously noted, when a county experiences a population growth, the Department of ABC issues additional licenses based on the population growth; currently 2,000 residents per one on-sale license. While this system tends to work for some counties, there are a substantial number of counties where the demand for alcohol licenses far outweighs the current number of alcohol licenses in those counties. The reasons for the lack of licenses are generally a lack of population growth or because of the amount of tourism in the particular county, which results in higher demand for these types of businesses.

For example, in Napa County the number of visitors to Napa continues to increase while the population of the county has not grown. While the majority of visitors to Napa take day trips, more than one million of these visitors spend at least one night in local lodgings. Tourism has therefore become one of the major economic drivers in the region. While legislation in 2017 authorized the issuance of five additional licenses over a four-year span, demand far outweighs the availability of these licenses. In 2018 for instance, while the Department of ABC issued five new licenses to Napa, there were a total of 38 applications for those five licenses. In the County of Santa Cruz, Type 47 licenses are currently listed for sale between \$140,000 to \$175,000.

According to the Department of ABC, in 2022 there were 31 counties that were eligible for more licenses because of population growth and 27 counties that were not eligible for more licenses because of a lack of population. Of those 27 counties, five counties received a handful of licenses through special legislation.

Creation of Type 87 License. Before the enactment of SB 1285 (Leno, Chapter 790, Statutes of 2016), no new alcohol licenses had been issued in San Francisco for over 80 years. In 2017, the Legislature passed AB 471 (Ting, Chapter 442, Statutes of 2017), which established the Type 87 neighborhood-restricted alcohol license program for San Francisco's outer neighborhoods.

This bill initially authorized a total of 30 Type 87 licenses, with up to five issued annually through 2023 in specific census tracts. In 2024, follow-up legislation (AB 359, Ting, Chapter 393, Statutes of 2024) increased the total number of licenses under this exemption from 30 to 40.

Type 87 licenses are exclusively available to bona fide eating establishments and permit the sale of beer, wine, and distilled spirits for on-site consumption. Type 87 licenses carry the same privileges as a Type 47 license but are restricted to specified census tracts. Additionally, a Type 87 license may not be sold for more than the original fee paid by the licensee. This license is subject to RBS requirements and requires alcohol servers and managers of alcohol servers to be RBS certified. An individual applicant may submit only one application for a Type 87 license. In cases where the number of businesses applying within a designated census tract exceeds the limit set for a given year, recipients are selected through a random drawing.

Before these bills were enacted, new restaurants in the designated census tracts generally had to acquire an ABC license by purchasing it from businesses that had either closed or were willing to sell. Last year Governor Newsom signed AB 828 (Gonzalez, Chapter 715, Statutes of 2025) which authorized the Department of ABC to similarly issue no more than 12 new Type 87 licenses in specified census tracts in the County of Los Angeles, until a total of 40 new licenses have been issued. Consistent with prior legislation authorizing additional licenses, AB 828 prohibits the transfer of these licenses to census tracts not identified in the bill and prohibits licensees from selling the licenses for more than the original fee paid.

This bill is modeled after the above-mentioned bills and retains the same general conditions and restrictions.

Related/Prior Legislation

AB 445 (Aguiar-Curry, Chapter 153, Statutes of 2025) authorizes the Department of ABC to issue no more than 10 new original on-sale general licenses for bona fide public eating places in the County of Colusa, as specified.

SB 395 (Wiener, Chapter 412, Statutes of 2025) authorizes the Department of ABC to issue up to 20 additional new original on-sale general licenses for bona fide public eating places located within a designated hospitality zone, as specified, in the City and County of San Francisco, as specified.

AB 828 (Mark Gonzalez, Chapter 715, Statutes of 2025) authorizes the Department of ABC to issue no more than 12 new original neighborhood-restricted special on-sale general licenses per year to bona fide public eating places located in specified United States Census Bureau census tracts in the County of Los Angeles beginning on January 1, 2026, until a total of 40 new licenses have been issued, as specified.

AB 1008 (Addis, 2025) authorizes the Department of ABC to issue no more than 10 new original on-sale general licenses for bona fide public eating places in the County of San Luis Obispo, as specified. (Pending on the Governor's Desk)

SB 1028 (Alvarado-Gil, 2024) would have authorized the Department of ABC, in counties that have reached its limit of on-sale general licenses, to issue up to 10 additional new original on-sale general licenses for bona fide eating-places, as specified. (Held in the Senate Appropriations Committee Suspense File)

AB 2359 (Ting, Chapter 393 Statutes of 2024) revised an existing exemption in law authorizing the Department of ABC to issue no more than five new original neighborhood restricted special on-sale general licenses (Type 87 licenses) per year, until a total of 40 licenses (currently 30) are issued, to premises located in specific census tracts within the City and County of San Francisco, as specified.

AB 2589 (Joe Patterson, Chapter 312, Statutes of 2024) authorizes the Department of ABC to issue up to 10 additional new original on-sale general licenses for bona fide public eating places located in a retail center, in both the County of El Dorado and the County of Placer, as specified.

AB 1668 (Patterson, Chapter 282, Statutes of 2023) authorizes the Department of ABC to issue no more than 10 new original on-sale general licenses for bona fide public eating places in the County of Placer, as specified.

SB 787 (Dahle, Chapter 113, Statutes of 2023) authorizes the Department of ABC to issue no more than 10 new original on-sale general licenses for bona fide public eating places in the County of Nevada, as specified.

FISCAL EFFECT: Appropriation: No Fiscal Com.: Yes Local: No

According to the Senate Appropriations Committee, staff notes that the Department of ABC's activities are funded by regulatory and license fees and generally the department does not receive support from the General Fund. New legislative mandates, although modest in scope, may in totality create new cost pressures and impact the department's operating costs and future budget requests.

SUPPORT: (Verified 8/18/26)

Appenrodt Commercial Properties
Aptos Chamber of Commerce
Capitol Business Alliance
City of Watsonville

Family Winemakers of California
Los Dos Potrillos Mexican Restaurant
Pajaro Valley Chamber of Commerce & Agriculture
Tewstorff Construction, Inc.
Vallarta Supermarkets

OPPOSITION: (Verified 8/18/26)

None received

ARGUMENTS IN SUPPORT: According to the City of Watsonville, “citywide, Watsonville is seeing renewed interest from private developers and entrepreneurs across multiple neighborhoods. Providing additional Type 47 licenses supports the City’s broader economic and community development goals by enabling more diverse dining, cultural, and entertainment options that residents have expressed strong interest in. The Downtown Watsonville Specific Plan serves as a guide for fostering a vibrant, mixed-use downtown, but the benefits of expanded license availability extend across the City, supporting a thriving hospitality sector and enhancing opportunities for social and cultural engagement communitywide.”

ASSEMBLY FLOOR: 67-0, 4/27/26

AYES: Addis, Aguiar-Curry, Ahrens, Alanis, Alvarez, Arambula, Ávila Farías, Bauer-Kahan, Berman, Calderon, Caloza, Carrillo, Castillo, Chen, Connolly, Davies, DeMaio, Dixon, Elhawary, Fong, Gallagher, Garcia, Gipson, Jeff Gonzalez, Mark González, Hadwick, Haney, Harabedian, Hart, Hoover, Irwin, Jackson, Johnson, Kalra, Krell, Lackey, Lee, Lowenthal, McKinnor, Muratsuchi, Nguyen, Ortega, Pacheco, Papan, Patel, Patterson, Pellerin, Quirk-Silva, Ramos, Ransom, Michelle Rodriguez, Rogers, Blanca Rubio, Sanchez, Schiavo, Schultz, Solache, Soria, Ta, Tangipa, Valencia, Wallis, Ward, Wicks, Wilson, Zbur, Rivas

NO VOTE RECORDED: Bains, Bennett, Boerner, Bonta, Bryan, Ellis, Flora, Gabriel, Macedo, Petrie-Norris, Celeste Rodriguez, Sharp-Collins, Stefani

Prepared by: Felipe Lopez / G.O. / (916) 651-1530
8/19/26 9:55:52

**** **END** ****