

CONCURRENCE IN SENATE AMENDMENTS

AB 2731 (Addis)

As Amended August 18, 2026

Majority vote

SUMMARY

This bill would authorize 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 United States Census Bureau census tracts in the County of Santa Cruz, until a total of 12 new licenses have been issued, as specified.

Senate Amendments

1) Makes a technical change.

COMMENTS*Background.*

An on-sale general license for a business primarily serving food as a "bona fide eating place" (Type 47) allows the licensee to also serve beer, wine and distilled spirits for consumption on the licensed premises. Existing law limits the number of new on-sale general licenses ABC may issue 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. Because many counties have reached their caps, businesses seeking a license may need to buy one on the secondary market, which can cost up to \$400,000. While ABC's formula generally works for most counties, demand for licenses far outweighs the population-based allotment in some counties, generally due to the county's slower population growth or the local economy's reliance on tourism.

AB 471 (Ting), Chapter 442, Statutes of 2017, created a new neighborhood-restricted on-sale general license (Type 87) and allowed ABC to issue a total of 30 new Type 87 licenses, with up to five licenses issued per year and a certain number of licenses reserved for enumerated census tract corridors in the City and County of San Francisco. AB 2359 (Ting), Chapter 393, Statutes of 2024, subsequently increased the total allowable number of Type 87 licenses in San Francisco to 40. Similarly, AB 828 (M. Gonzalez), Chapter 715, Statutes of 2025, created a 40-license Type 87 license program for certain neighborhoods in the County of Los Angeles, but allows the licenses to be issued at a much faster pace of up to 12 licenses per year.

This bill creates a similar, but smaller, Type 87 license program for certain neighborhoods in the County of Santa Cruz, authorizing ABC to issue up to five neighborhood licenses within specified census tracts in the County of Santa Cruz per year until a total of 12 neighborhood licenses have been issued.

Type 47 alcohol license. A Type 47 license is designated for businesses that operate as a "bona fide eating place," meaning the establishment primarily serves food. This license allows the business to serve beer, wine, and distilled spirits for consumption on the licensed premises. To qualify, the license holder must maintain suitable kitchen facilities and make actual and substantial sales of meals for on-site consumption. Generally, this means the business must generate at least 51 percent of its total gross sales from food.

A Type 47 license is one of the most common liquor licenses issued to restaurants in California. Businesses that frequently operate under a Type 47 license include full-service restaurants, hotels and resorts, bowling alleys, golf courses, and other dining establishments. Minors are allowed on the premises. This license type is subject to Responsible Beverage Service requirements and requires alcohol servers and managers of alcohol servers to be RBS certified. Statewide, there are currently 17,097 active on-sale general (Type 47) licenses.

Alcohol license limitation. There are more than 60 different types of ABC licenses authorized in California, each with its own set of privileges and obligations specific to the category of license involved. Existing law provides for a limit on the number of new on-sale general licenses the ABC may issue each year 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 specific year, the department will issue five new licenses in that county.

If the ABC receives more applications than there are licenses available, a public drawing is held. To take part in such a drawing, an applicant must have been a resident of California for at least 90 days prior to the scheduled drawing. The ABC notifies successful drawing participants that they have 90 days to complete a formal application for their specific premises. The cost of these new licenses is \$17,335 each.

Opening a full-service restaurant with a bar can be challenging if an individual can't secure that ABC license through the standard application process. In that case, it would need to be purchased from an existing license holder, typically by working with an alcohol license broker. Because the number of licenses is limited, prices are driven by supply and demand and can reach as high as \$400,000 on the secondary market.

According to the Author

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."

Arguments in Support

The Pajaro Valley Chamber of Commerce & Agriculture writes, "We support efforts to assist small businesses seeking to locate in designated areas of the County and to expand equitable economic development opportunities for these communities. The current allocation of Type 47

licenses across Santa Cruz County is not proportional to population. Although the City of Watsonville accounts for nearly one quarter of the County's residents, bona fide eating places located there hold only about 10 percent of active Type 47 licenses. This imbalance limits Watsonville's ability to attract and support new restaurants and hospitality projects, creating a barrier to South County's economic growth and vitality."

Arguments in Opposition

None on file.

FISCAL COMMENTS

According to the Senate Committee on Appropriations, pursuant to Senate Rule 28.8, negligible state costs.

VOTES:

ASM GOVERNMENTAL ORGANIZATION: 19-0-3

YES: Blanca Rubio, Davies, Alvarez, Berman, Bryan, Carrillo, Dixon, Fong, Gabriel, Gipson, Macedo, McKinnor, Nguyen, Pacheco, Ramos, Michelle Rodriguez, Solache, Ta, Wallis

ABS, ABST OR NV: Gallagher, Soria, Valencia

ASM APPROPRIATIONS: 13-0-2

YES: Wicks, Hoover, Arambula, Caloza, Dixon, Fong, Mark González, Krell, Pacheco, Pellerin, Solache, Ta, Tangipa

ABS, ABST OR NV: Calderon, Muratsuchi

ASSEMBLY FLOOR: 67-0-13

YES: 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

ABS, ABST OR NV: Bains, Bennett, Boerner, Bonta, Bryan, Ellis, Flora, Gabriel, Macedo, Petrie-Norris, Celeste Rodriguez, Sharp-Collins, Stefani

UPDATED

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