



DATE: May 7, 2019
TO: City Council
FROM: City Manager
SUBJECT: Approval of Round 1, Tier 2 Commercial Cannabis Permits for Cannabis Cultivation, Manufacturing, Distribution, Delivery, and Microbusinesses

RECOMMENDATION

That the City Council adopts the attached resolution (Attachment II) issuing a Commercial Cannabis Permit to the following cannabis companies:

TABLE 1: Recommended Tier 2 Cannabis Companies

#	Company	Proposed Business Type
1	Meristematic, Inc	Cultivation
2	CBRA, Inc.*	Delivery
3	Mijosa, LLC*	Distribution
4	BAS Research	Manufacturing
5	Empress Extracts*	Manufacturing
6	Gurpreet Singh	Manufacturing
7	Always on Time Consulting	Microbusiness
8	Precision Apothecary	Microbusiness

* Applicant(s) previously approved for other activity in Round 1

SUMMARY

Pursuant to HMC Section 6-14.12 (b)¹, following the review and evaluation of commercial cannabis permit applications, the City Manager shall prepare a report to the City Council and provide a recommendation regarding selection of permittees. This report recommends eight companies for a Commercial Cannabis Permit (CCP) for cannabis cultivation, manufacturing, distribution, delivery, and microbusiness, as described in Table 1. No additional retail dispensary uses are being recommended at this time.

BACKGROUND

¹ Review of Cannabis Applications:
https://library.municode.com/ca/hayward/codes/municipal_code?nodeId=HAYWARD_MUNICIPAL_CODE_CH6BUPRTR_ART14COCABU_S6-14.12REAP

On October 30, 2017, the City Council adopted Ordinance 17-13, adding Article 14 to Chapter 6 of the Hayward Municipal Code², which established the request for proposals process by which the City will select commercial cannabis businesses.

The first RFP for Commercial Cannabis Businesses was issued on December 8, 2017, with applications due on January 12, 2018. At that time, the City received 77 total applications for commercial cannabis companies. Four of these applications did not meet the background check requirements of the City's commercial cannabis program. The remaining 73 applications were then sent for neutral, third-party review by City consultants, HdL and ICF. Application review was completed in early May and the top scoring applicants were invited to participate in interviews with City staff. Those applicants that passed the interview panel were recommended for cannabis permits. In June and July of 2018, the City Council approved the first round of commercial cannabis permits for 15 businesses and allowed applicants six months to identify a proposed location and submit applications for land use entitlements.

Since Council approved the first-tier applicants in 2018, staff has received a significant volume of phone calls and emails from applicants and potential applicants for Commercial Cannabis Permits looking to reapply to establish a cannabis business in Hayward. Citing continued interest from commercial cannabis operators, in January 2019, the City Council directed staff to conduct interviews with a second-tier of non-dispensary applicants from the first RFP process, as well as to initiate a second RFP process to solicit additional cannabis operators within 12 months.

In April 2019, staff completed the interview process for the second-tier, non-retail applicants and forwarded that recommendation to the City Manager for review. The eight applicants currently being recommended for commercial cannabis permits represent delivery, distribution, cultivation, microbusiness, and manufacturing activities. No testing laboratory applicants were included in Tier 2, as the only application received for that business type was already awarded a permit in 2018.

DISCUSSION

Applicant Selection: Applications were evaluated based on the Council approved criteria that includes the following:

- Business Plan and Operations (250 points)
- Management Experience (150 points)
- Safety and Security Plan (150 points)
- Community Benefits (150 points)
- Product Testing and Safety (100 points)
- Environmental Plan (100 points)
- Labor and Employment Practices (100 points)

² Commercial Cannabis Businesses:

https://library.municode.com/ca/hayward/codes/municipal_code?nodeId=HAYWARD_MUNICIPAL_CODE_CH6BUPRTR_ART14COCABU

Applications were scored and ranked out of 1,000 points. Based on the overall distribution of scores, the City Council established a minimum score of 500 for companies to advance to the Tier 2 interview process. Thirteen applicant teams qualified for the Tier 2 interview process, based on the numerical scores that they received during the written application review process. The number of applicants that advanced to Tier 2 interviews is listed in Table 2, broken down by business type.

TABLE 2: Score Ranges and Interview Thresholds

Business Type	Score Range	Score Threshold	Advancing Applicants
Cultivation	239-798	500	1
Manufacturing	385-798	500	4
Distribution	578.5-890	500	3
Microbusiness	170-755	500	4
Delivery	349-702	500	1

Interview Process: The mandate of the interview panel was to facilitate a discussion with the applicant teams that would clarify their proposed business activities and qualifications, and then provide recommendations to the City Council regarding which applicants were most qualified to successfully operate a cannabis business in the City of Hayward. Of the 13 Tier 2 applicants, 10 were interviewed and three voluntarily withdrew from consideration.

The panel held one-hour interviews with each of the ten applicant teams over a three-day period on March 25, 26 and April 2, 2019. Each interview was structured around a series of questions to gather information about any changes to the applicant’s management team or updates to their business plan, and to solicit additional details about key aspects of the applicant’s proposed cannabis operations. The questions related to three critical sections of their applications: (1) Team and Experience; (2) Business Plan and Operations; and (3) Safety and Security Plan.

Upon completion of each interview, the panel discussed the adequacy of the applicant’s responses in each of the three domains and jointly determined whether the applicant should be recommended for award of a commercial cannabis permit in the City of Hayward.

Panel Recommendation: Based on the selection criteria articulated by the Hayward City Council, the panel unanimously recommended awarding commercial cannabis permits to 8 of the 10 applicants that were interviewed during the Tier 2 application process. The applicant name, type of cannabis use, date of interview and panel recommendations is included in Table 3.

TABLE 3: Panel Recommendations

Applicant Name	Type	Interview	Recommendation
Baldwin Partners LLC	Distribution	No Interview	Withdrew
Hayward Industrial Operations	Distribution	No Interview	Withdrew
Doja Dash	Microbusiness	No Interview	Withdrew
BAS Research	Manufacturing	03/25/2019	Award Permit
Empress Extracts	Manufacturing	03/25/2019	Award Permit
Gupreet Singh	Manufacturing	03/25/2019	Award Permit
CBRA, Inc.	Delivery	03/26/2019	Award Permit
Meristematic, Inc.	Cultivation	03/26/2019	Award Permit
Mijosa, LLC	Distribution	03/26/2019	Award Permit
Always on Time Consulting	Microbusiness	04/02/2019	Award Permit
Precision Apothecary	Microbusiness	04/02/2019	Award Permit
Cypress Ventures	Manufacturing	03/25/2019	No Permit
MDLM Consulting	Microbusiness	04/02/2019	No Permit

The eight (8) companies being recommended for award of permit in Tier 2 are in addition to the fifteen (15) applicants who were awarded permits in 2018. Of the eight companies being recommended, three (Mijosa, LLC, CBRA, Inc., and Empress Extracts) were previously awarded permits in July 2018 for other cannabis activities. Two applicants, Cypress Ventures and MDLM Consulting, are not being recommended at this time. However, should either of these applicants choose to apply for Commercial Cannabis permits under any future RFPs, the Interview Panel recommends that the applicant teams further develop and elaborate their identified areas of deficiency, along with other critical components of their plan. A brief summary of each of the recommended businesses, including their proposed business plans, community benefits, and labor and employment practices are included as Attachment III.

FISCAL IMPACT

Last year the City Council adopted Ordinance 18-027 that set the Cannabis Business Tax at 6% of gross receipts. The cannabis related services provided by these businesses will pay this tax, providing some of the City's first sources of revenue from the voter approved Measure EE.

Based on the three-year pro forma estimates provided by the first-round applicants, staff estimates the City will receive approximately \$2.8 million in Year One to \$4.8 million in Year 3 in Measure EE Revenue. These figures are estimates only and should be considered with the understanding that the cannabis market is new, and that reliable market data has not been established and/or validated. It is reasonable to expect similar or slightly reduced revenue projections from the second tier of applicants given potential market saturation.

For FY 2019, the City has budgeted a conservative \$750,000 in revenue generation, which accurately reflects the anticipated time to market it will take for these entities, as these entities still need to complete their land use entitlements. However, it is reasonable to expect that the City will not realize revenue from the 6% cannabis gross receipts tax until the latter part of FY 2019, if at all, given the length of time it has taken for these initial applicants to

compete their land use approvals. The City should maintain conservative revenue projections for this tax until the City has realized revenue and has enough data to form a reliable revenue forecast. The City has included projected revenues from this source of \$250,000 in the FY 2020 Proposed Operating Budget.

In January 2019, City Council authorized a one-time General Fund appropriation of \$70,000 to fund ICF to conduct interviews and other related program costs. Applicants who went through the interview process had to resubmit their \$5,000 deposits, in order to reimburse the General Fund for these application processing expenses.

ECONOMIC IMPACT

Each of the applicants being recommended for approval have articulated the desire to hire local Hayward residents and to pay them a livable wage. From the information provided in each application and through the interview process, these eight companies plan to hire an estimated sixty (60) to 120 new jobs. These jobs will impact the City as these employees pursue their lives in the Hayward community and therefore contribute to the local economy while also remitting City sales, property, utility user, and other City levied taxes and fees.

STRATEGIC INITIATIVES

This agenda item is a routine operational item and does not relate to one of the Council's Strategic Initiatives.

NEXT STEPS

Following approval of the attached resolution, staff will process these applications and confirm to the State Bureau of Cannabis Control that each has been approved to operate a cannabis business within the City. The applicants must now proceed through the land use approval process and obtain the necessary use permit/land use approvals from the Planning Commission/City Council.

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Approved by:



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