



**DATE:** June 26, 2018

**TO:** City Council

**FROM:** City Manager

**SUBJECT:** Approval of 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 Cannabis Companies**

| #  | Company                       | Recommended Use             |
|----|-------------------------------|-----------------------------|
| 1  | Mijosa, LLC                   | Cultivation & Manufacturing |
| 2  | Empress Extracts              | Cultivation                 |
| 3  | Hidden Farms, Inc             | Cultivation                 |
| 4  | Stoned Aged Edibles Co, Inc.  | Manufacturing               |
| 5  | Green Haven, LLC              | Delivery                    |
| 6  | CBRA, Inc.                    | Distribution                |
| 7  | Manifest, LLC                 | Distribution                |
| 8  | Vista Development Enterprises | Distribution                |
| 9  | Green Grizzly                 | Microbusiness               |
| 10 | Sticky Thumb Delivery         | Microbusiness               |
| 11 | American Holdings             | Microbusiness               |

### SUMMARY

Pursuant to Hayward Municipal Code SEC. 6-14.12 (b), 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 eleven businesses for a Commercial Cannabis Permit (CCP) for cannabis cultivation, manufacturing, distribution, delivery, and microbusiness as described in Table 1.

## **BACKGROUND**

On October 30, 2017, the City Council adopted Ordinance 17-13 adding Article 14 to Chapter 6 of the Hayward Municipal Code which established the request for proposal process by which the City will select commercial cannabis businesses. The process involves four stages to help differentiate applicants who meet the City's desired set of qualifications. These stages are:

1. Criminal Background Investigation
2. Competitive Scoring and Ranking
3. Proposer Interviews
4. City Council Approval

The City established a specific and separate RFP for cannabis testing laboratories that required applicants to discuss their proposed business plan and operations, management experience, and safety and security plan.

This process commenced on December 8, 2017, with applications due on January 12, 2018. At that time, the City received 77 total applications for non-testing laboratory cannabis companies. Four of these applications did not meet the background check requirements of the City's commercial cannabis program. The subsequent 73 applications were then sent for a neutral, third party review by City consultants HdL and ICF. Initial application review was completed in early May.

## **DISCUSSION**

Applications were evaluated based on the Council approved criteria which 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)

Applications were scored and ranked out of 1000 points. Based on the overall distribution of scores, staff set thresholds for which companies would advance to the final round of interviews. Of the 74, 22 advanced to the final round interview with staff members from the City Manager's Office, Economic Development Division, Development Services Department, and Hayward Police Department.

The score ranges and thresholds were:

**TABLE 2: Score Ranges and Interview Thresholds**

| Business Type | Score Range      | Score Threshold | Advancing Applicants |
|---------------|------------------|-----------------|----------------------|
| Cultivation   | <b>239-798</b>   | <b>650</b>      | <b>4</b>             |
| Manufacturing | <b>385-798</b>   | <b>700</b>      | <b>3</b>             |
| Distribution  | <b>578.5-890</b> | <b>800</b>      | <b>3</b>             |
| Retail        | <b>438-892</b>   | <b>800</b>      | <b>7</b>             |
| Delivery      | <b>349-702</b>   | <b>650</b>      | <b>2</b>             |
| Microbusiness | <b>170-755</b>   | <b>650</b>      | <b>3</b>             |

These 22 applications represent what staff believes to have been the best applications the City received, as they were the top scoring applications for their respective permit type.

Staff held interviews for cultivation, manufacturing, and delivery permit types on June 1, 2018 and held interviews for distribution and microbusiness permit types on June 7, 2018. Interviews for retail dispensaries will take place on July 7, 2018, with recommendations presented to Council at the July 17, 2018 Council Meeting.

Pursuant to Hayward Municipal Code SEC. 6-14.12 (b), 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. The City Manager is recommending eleven (11) cannabis companies for commercial cannabis permits.

The advancing eleven (11) companies represents a metered approach for the City's first round of cannabis businesses. Taking this approach for the first round allows for the City to operationalize and adjust the enforcement activities of the local cannabis regulations. Once these activities more fine-tuned, the City will have more capacity to scale up the number of cannabis businesses in the City, if the Council so desires.

Attachment III provides an executive summary on each of the recommended businesses and their proposed business plans.

## **ECONOMIC IMPACT**

Each of the eleven entities 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 eleven firms plan to hire for an estimated eighty (80) 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.

## **FISCAL IMPACT**

Earlier this year, the City Council adopted Ordinance 18-027 which 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 each applicant in these categories of businesses, staff estimates the City will receive \$2.2 million in revenue for the first, full year of operating cannabis business. This figure increases to \$3.2 million in year three. These figures are estimates only and should be considered with the understanding that the cannabis market is new, and that reliable market data has yet to be established and/or validated.

The City's FY 2019 Operating Budget includes an estimate of \$750,000 in cannabis related revenues, an amount that reflects the anticipated time it will take to get products to market for these entities, as they still must complete their land use entitlements. It is reasonable to expect that the City will not realize revenue from the 6% cannabis gross receipts tax until the latter part of Fiscal Year 2019. 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.

Staff and consultant review of applications was funded through the \$5,000 refundable deposit per each proposing business.

### **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.

*Prepared and Recommended by:* John Stefanski, Management Analyst II

Approved by:



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Kelly McAadoo, City Manager