



DATE: June 19, 2018

TO: Mayor and City Council

FROM: City Manager

SUBJECT: Approval to Issue a Commercial Cannabis Permit to Harrens Lab, Inc. for a Cannabis Testing Laboratory

RECOMMENDATION

That the City Council adopts the attached resolution (Attachment II) issuing a Commercial Cannabis Permit to Harrens Lab, Inc. for a Cannabis Testing Laboratory.

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 Harrens Lab, Inc. for a Commercial Cannabis Permit (CCP) for a Cannabis Testing Laboratory.

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 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 for testing laboratories due on January 12, 2018. At that time, the City only received one (1) application for a Commercial Cannabis Permit for a Cannabis Testing Laboratory from Harrens Lab, Inc. Application review by City consultants was completed in March. Staff interviewed the Harrens Lab applicant team in late April.

DISCUSSION

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 Harrens Lab, Inc. for a Commercial Cannabis Permit (CCP) for a Cannabis Testing Laboratory.

Harrens Lab, Inc. is an existing Hayward business looking to add cannabis testing to their portfolio of services. Currently, Harrens Lab, Inc. operates as a federal Food and Drug Administration (FDA) recognized food testing laboratory. They are one of the first entities in the state to be accredited by the Drug Enforcement Agency (DEA) to test cannabinoids. This also means that their facilities meet federal safety and security standards in addition to State and municipal standards. Harrens Lab, Inc. is active with the Hayward Chamber of Commerce and has participated in their exchange programs, hosting students from South Korea to work in their lab. They anticipate their cannabis clients will consist of microbusinesses and cultivators; however the bulk will be distributors and manufacturers.

ECONOMIC IMPACT

It is difficult to predict the potential tax revenue stream created by cannabis businesses in Hayward. Different business types (i.e. Manufacturing vs. cultivation) may generate different levels of revenue. Staff will focus efforts on compiling data and information on this matter to assist the Council with determining the optimal tax rate to be imposed. In late 2016, the University of the Pacific business school and law school authored a report studying the economic impact of the cannabis industry to the greater Sacramento area. The report, among other things, analyzed the potential economic impact of various sectors of the cannabis industry and assumed a range of potential market models from strictly regulated local models to less regulated regional market models. Although the assumptions utilized in the report may not hold true for Hayward, the methodology will be useful to Hayward staff as staff moves forward with a more detailed economic impact analysis.

FISCAL IMPACT

Review of this application was funded through the applicant's \$5,000 refundable deposit. Harrens Lab will not be selling any cannabis related products and therefore will not pay the City's 6% cannabis business tax.

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 their application and confirm to the State Bureau of Cannabis Control that Harrens Lab, Inc. has been approved to operate a cannabis business within the City.

Prepared and Recommended by: John Stefanski, Management Analyst II

Approved by:

A handwritten signature in black ink, appearing to read 'K. McAdoo', written in a cursive style.

Kelly McAdoo, City Manager