



COUNTY OF HUMBOLDT

For the meeting of: 4/9/2024

File #: 24-279

To: Board of Supervisors

From: County Administrative Office

Agenda Section: Departmental

Vote Requirement: Majority

SUBJECT:

Modification to the Project Trellis Local Equity Program Manual and Consideration of the Ongoing Impacts of the Project Trellis Program

RECOMMENDATION(S):

That the Board of Supervisors:

1. Approve proposed modifications to the Humboldt County Local Equity Program (LEP) Manual (Attachment 1) for the current round of funding;
2. Consider the ongoing funding and staff impacts of Project Trellis and provide staff guidance on future allocation of resources for the program; and
3. Direct staff to return with a supplemental budget in the amount of \$360,000 of General Fund allocation to Economic Development Fund 1120, Budget Unit 275422 to support a cash match of \$100,000 and to resolve prior unfunded program work of \$260,000.

SOURCE OF FUNDING:

General Fund (1100), Project Trellis Equity (1120-275422)

DISCUSSION:

Staff seek direction from your Board regarding Project Trellis. First, modifications to Version 2.2 of the Humboldt County Local Equity Program (LEP) manual (Attachment 1) are necessary in order to meet state requirements for the current round of funding. Version 2.3 (Attachment 2) reflects these changes. Second, staff seek guidance regarding the future funding and management of the LEP. Finally, staff are bringing forward to your Board a request for General Fund for consideration to reimburse staff expenses and support for ongoing LEP activities.

BACKGROUND

On May 5, 2023, staff in the County Administrative Office - Economic Development Division received a memo (Attachment 5) from the California Governor's Office of Business and Economic Development (GO-Biz) detailing findings following GO-Biz's review of the county's LEP manual. The memo stated that numerous items in the LEP's eligibility criteria that would need to be modified prior to applying for further Cannabis Equity Grants (CEG) funding in Fall 2023. These initial modifications were approved on Aug. 8, 2023 by the Board.

On May 16, 2023, your Board approved the receipt of \$1,234,821.75 in funding from GO-Biz to support the LEP for fiscal year (FY) 2022-23 to FY 2023-24. These funds must be fully released to grantees no later than Oct. 31, 2024 or be surrendered to the state.

Following the adoption of the mandated modifications to the LEP and per your Board's direction, staff applied in the Fall of 2023 for further funding. The county's application was limited by the new rules established by the state concerning cash-match from applicants. These changes resulted in an award determination of \$600,000 in state funds for the equity program with a county match of \$100,000 from the General Fund. Furthermore, the award notification received from GO-Biz contained an additional caveat that funds will only be released upon expenditure by the county, with no more than 25% of the total award being advanced at a time, and that demonstration of full expenditure of advanced funds is required before a subsequent tranche of funds may be received.

The programmatic funding to support Project Trellis activities, including the LEP, was established by your Board on May 28, 2019. This amount was set as 10% of total Measure S excise taxes. When Measure S was suspended by your Board this resulted in no administrative funding to oversee and manage Project Trellis related activities which continued throughout the suspension period. This has contributed to an anticipated negative fund balance in the Economic Development Fund (1120) come the end of Fiscal Year (FY) 2023-24.

RECOMMENDATIONS

1. LEP Manual

The LEP manual is the guiding document for the Local Equity Program, which is funded by the State of California's Cannabis Equity Grants Program for local jurisdictions. This program was created by the Board to support individuals negatively impacted by the prohibition of cannabis to enter or remain in the legal cannabis market.

The state's funding of this program has reduced drastically from a high of \$3.4 million in a single award to \$600,000. These reductions require the program to reduce the scope and focus funding on the maximum benefit to individuals. Therefore, staff are proposing modifications to sections of the LEP manual V2.3 (Attachment 2) which will require individuals with past due Measure S Cannabis Excise Taxes related to cannabis business activities to have entered into payment plans prior to the application being deemed eligible under the Project Trellis Local Equity Program. As proposed, repayment of these obligations on behalf of applicants will be prioritized over direct payments. Your Board recently implemented enforcement efforts to encourage payment of past due balances including suspension and revocation of permits. Cultivators were required to enter into a payment plan by Mar. 31, 2024.

Therefore, for the current funding round of \$1.2 million, staff are proposing modifications to sections A.1 and B.1 as reflected in V2.3 (Attachment 2) of the redline LEP manual which would:

- Require applicants be current on local taxes or have a payment plan in place;
- Reduce options for payments made on behalf of applicants and would facilitate payments to the Treasurer-Tax Collector of behalf of applicants;
- Prioritize grant awards for awardees to first repay past due Measure S Cannabis Excise Tax obligation prior to receiving a cash award; and
- Modify language on grant caps to allow any combination of direct payments or payments on behalf to the Treasurer Tax Collector of up to \$65,000 across all grant rounds per individual.

2. Future of the Program

The state's funding for the Project Trellis Local Equity Program (LEP) has experienced a significant reduction, adding to considerable financial constraints in light of the county's budget deficit. These dynamics challenge the sustainability of the LEP. The future requirement for the applicants to match equity awards from their General Funds, amid the competing priorities and fiscal emergencies, imposes additional burdens on local resources.

Moreover, the state-imposed modifications to the LEP, including stringent cash-match requirements and the stipulation that funds will only be released following the county's expenditure, have complicated the program's administration and delayed its execution, diminishing its effectiveness. The operational demands of managing the LEP, including staffing, application processing, and compliance monitoring, have become increasingly onerous, primarily due to the ongoing addition of rigorous state requirements for the program.

Given these significant challenges, coupled with an evaluation of the program's outcomes which suggest limited success or benefits

compared to the costs, your Board may consider discontinuing the Project Trellis LEP. The decision to end the program should be weighed carefully against the county’s capacity to meet the increased demands of the cannabis community and the program’s ability to achieve its intended goals, ensuring the most judicious use of county resources. Should your Board elect to continue the program, there are significant funding considerations.

3. Funding

Economic Development is primarily grant-funded and only receives a small General Fund allocation to support the Director of Economic Development’s salary. Economic Development staff supported project development of Project Trellis during FY 2018-19 with no General Fund allocation. In addition, staff administered \$1 million in emergency grant funds authorized by the Board in March of 2022 without any associated administrative General Fund allocation. Further, following the suspension of Measure S payments on Nov. 2, 2022, Economic Development no longer receives a General Fund contribution at 10% of Measure S funds to support the program, but continue to have significant responsibility in administering the program. This has contributed to an anticipated negative fund balance in the Economic Development Fund.

Staff are requesting a General Fund allocation of \$360,000 to provide the \$100,000 allocated for a county match Project Trellis (which must be used for program purposes and are non-discretionary) should your Board continue the program, and to cover \$260,000 in past and current project administration and operational expenses for the period of time for which Measure S collections were suspended and no funding was provided to the Economic Development Division to continue managing grants, applications and contracts for prior Project Trellis awards. Should your Board continue the program, staff recommends that Economic Development’s ongoing General Fund allocation be increased to accommodate the ongoing workload associated with Project Trellis.

FINANCIAL IMPACT:

Expenditures (1120, 275422)	FY23-24
Budgeted Expenses	600,000.00
Additional Appropriation Requested	360,000.00
Total Expenditures	960,000.00

*Projected amounts are estimates and are subject to change.

Funding Sources (1120, 275422)	FY23-24
General Fund	360,000.00
State/Federal Funds	600,000.00
Total Funding Sources	960,000.00

*Projected amounts are estimates and are subject to change.

Narrative Explanation of Financial Impact:

The Economic Development Division has been managing, overseeing, and administering Project Trellis contract, applicant, and grant activity from prior Project Trellis awards with no funding allocation for administrative costs, caused by the suspension of Measure S funds. This has contributed to a negative fund balance for the division. Based on FY 2021-22 receipts, less FY 2022-23 refunds, it is estimated that the FY 2022-23 contribution to Economic Development at 10% of receipt less refunds for the program would have been \$260,000. In addition, should your Board move forward with the program, \$100,000 in additional cash match will be necessary to meet commitments in the funding application.

STAFFING IMPACT:

There are no proposed staff changes at this time. However, should your Board choose to continue the program there will be ongoing administrative work related to the program.

STRATEGIC FRAMEWORK:

This action supports the following areas of your Board’s Strategic Framework.

Core Roles: Support business, workforce development and creation of private-sector jobs

File #: 24-279

New Initiatives: Facilitate the establishment of local revenue sources to address local needs
Strategic Plan: 3.2 - Stabilize and support a successful cannabis economy

OTHER AGENCY INVOLVEMENT:

Treasurer Tax Collector, Planning and Building, Agricultural Commissioner

ALTERNATIVES TO STAFF RECOMMENDATIONS:

Board Discretion

ATTACHMENTS:

1. LEP Version 2.2, 2023
2. (Draft) LEP Version 2.3, 2024
3. CEG Award Agreement
4. Resolution 22-63
5. Audit Memo CEG Awards

PREVIOUS ACTION/REFERRAL:

Board Order No.: I-2; C-11; H-2; D-7; D-10; D-11

Meeting of: May 28, 2019; Jan. 12, 2021; Feb. 1, 2022; March 8, 2022; June 14, 2022; May 16, 2023;
Aug. 22, 2023

File No.: 19-633, 21-1859, 22-94, 22-225, 22-283, 23-190, 23-1089