



# COUNTY OF HUMBOLDT

For the meeting of: 3/12/2019

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File #: 19-367

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**To:** Board of Supervisors

**From:** County Administrative Office

**Agenda Section:** Departmental

**SUBJECT:**

Project Trellis: The County of Humboldt Cannabis Micro-grant, Marketing, and Local Equity Program

**RECOMMENDATION(S):**

That the Board of Supervisors:

1. Receive a presentation on the framework for creating Project Trellis: The County of Humboldt Cannabis Micro-Grant, Marketing, and Local Equity Program;
2. Review and discuss the advisory body that shall administer the Cannabis Micro-Grant program, and direct staff to return with an appropriate resolution (Page 2-3);
3. Establish a cannabis micro-grant program and guidelines for eligibility (Page 3);
4. Establish a cannabis marketing program (Page 4);
5. Adopt the attached resolution creating the County of Humboldt Local Equity Program (Attachment 1);
6. Respond to staff's recommendations for the amount of funding to be allocated to these programs, at no additional cost to the cannabis industry (Page 5); and
7. Direct staff to provide annual reports to the Board on the progress of Project Trellis (Page 6).

**SOURCE OF FUNDING:**

County of Humboldt cannabis excise tax revenue (106100); Potential for SB 1294 funding if local equity program is adopted; Fines and penalties from cannabis code enforcement.

**DISCUSSION:**

On Nov. 13, 2018, your Board discussed Humboldt County's cannabis industry, the county's cannabis excise tax, and ways that the County of Humboldt can support local cannabis businesses. As part of this discussion, your Board directed staff to return to the Board with a "...collective cannabis marketing and branding strategy and grant program for cannabis impacted communities." Since receiving this direction, the County Administrative Office - Economic Development team has been engaged in due diligence working to identify the type and magnitude of programs which would be most effective at meeting the aims and visions of your Board.

There are a wide range of federally funded support and service programs that exist for a diversity of

industries. However, the cannabis industry is not among them. Due to its federal illegality, some grants and support services that are offered to other businesses (for example, through the Department of Agriculture Grants, Small Business Development Commission support, bank loans for infrastructure and capital acquisition, etc.) are not available to cannabis businesses. When federal dollars are not available for particular industries and/or specific populations it is incumbent on communities to develop and administer their own programs. Humboldt County is trying to make the cannabis industry available to some of these services through membership in the California Cannabis Authority (CCA). The CCA has a stated purpose of providing necessary information to financial institutions that wish to work with the cannabis industry. The CCA has an annual cost of membership, and this agenda item proposes that the county use existing General Fund revenue for this expenditure.

That said, and based on feedback from your Board, discussions with community and cannabis stakeholders, as well as benchmarking research into other communities' efforts for creating similar programs, it is recommended by staff that your Board move forward with the creation and implementation of Project Trellis: The County of Humboldt Cannabis Micro-grant, Marketing, and Local Equity Program. This proposed program is broken into three parts:

- A **Micro-grant** program aimed at providing capital assistance and business resources to Humboldt County cannabis businesses.
- A **Marketing** and promotional initiative designed to promote Humboldt-grown cannabis as a national and industry brand.
- A **Local Equity** program to serve those communities and individuals impacted by the war on drugs, and the implementation of which also serves as part of the qualifying criteria to receive SB-1294 funding.

Why a Trellis? Communities thrive when they create services and infrastructure which are aimed at supporting the critical components of their own economies. Metaphors for support structures are commonplace. And, just as a garden trellis is designed to support and encourage plant growth (*upward* growth in particular), the adoption and implementation of Project Trellis can serve to support and sustain the local cannabis industry until a point of industry stabilization, or beyond.

The purpose of Project Trellis is, in part, to bolster the cannabis industry, and protect future cannabis excise tax revenues by providing services to populations and communities in Humboldt who were adversely affected by the criminalization of cannabis, to develop a framework for supportive programs designed to sustain and grow Humboldt's cannabis industry, and to assist cannabis businesses as they work to overcome the financial and logistical challenges of coming into compliance.

To develop a carefully vetted and well-researched program it is critical to take pause and solicit feedback from community, its stakeholders, and leaders. That is why staff recommends that your Board review and discuss the following decision points with regards to establishing Project Trellis.

## **Recommendation #2**

**Cannabis Micro-Grant Advisory Committee: *Who shall recommend Cannabis Micro-Grant projects to be funded, and how shall it operate?***

At the meeting of Nov. 13, 2018 your Board discussed a number of options concerning a micro-grant committee for the purpose of awarding grants to cannabis businesses in Humboldt County. Your Board requested that Economic Development staff return to your board with a number of options for forming this committee. Staff seeks direction from your Board in choosing one of these options - or another possibility. Your Board's determination would be reflected in a resolution and to be presented to your Board for final approval.

**Examples of Micro-Grant Committee Structures:**

Responsibility to manage the Cannabis Micro-Grant program can be assigned to an existing body, such as the Headwaters Fund Board (HWF). The HWF, in particular, already administers a micro-grant program and has the infrastructure and expertise to evaluate grant applications. If your Board were to choose this option, staff recommends ensuring that the cannabis industry and a lateral industry is represented, either by adding members to the existing body, or changing out members. Utilizing the HWF will enable the program to avoid delay of initial start-up organization and creation of duplicative rules and procedures. The HWF currently administers no federally-restricted program funds so its utilization will not jeopardize existing programs or limit flexibility of program parameters.

However, should your Board choose not to pursue the HWF as the committee to administer the Cannabis Micro-Grant program, staff have included other composition options for the Cannabis Micro-Grant Advisory Committee:

7 Person Committee			
A	B	C	D
5 Members by District	5 Members by District	5 Members by District	5 Members by District
2 At-Large (Non-Voting)	2 At-Large (Voting)	2 At-Large (Non -Voting)	2 At-Large (Voting)
- 2 by Cannabis Industry	- 2 by Cannabis Industry	- 1 by Cannabis Industry	- 1 by Cannabis Industry
		- 1 by Lateral Industry (Finance, Banking)	- 1 by Lateral Industry (Finance, Banking)

**Staff recommendation:**

- A. That the Board direct the HWF to administer the Cannabis Micro-Grant program, and include two additional voting members, to be appointed by the full Board of Supervisors at a later date, who shall serve on the HWF only when the HWF considers the Cannabis Micro-Grant program.
- B. Direct staff to return to the Board with a resolution establishing the Cannabis Micro-Grant Advisory Committee, comprised of the membership set forth in recommendation A above.
- C. Direct staff to return to the Board with a list of applicants who wish to serve on the Cannabis Micro-Grant Advisory Committee.

### **Recommendation #3**

#### **Establish a Cannabis Micro Grant Program Guidelines for Eligibility: *What shall be the grant criteria for the micro grants, and who is/are the target population(s)?***

In developing a micro-grant program for the Humboldt Cannabis industry it is crucial to identify the target population for this program and create eligibility parameters for the intended recipients of micro-grant funds. In speaking with community stakeholders about this program, staff have received consistent and recurring feedback that this Project Trellis should be designed to encourage and support the “good actors.” That said, it is necessary that a micro grant program outline specific eligibility requirements for grant recipients.

#### **Staff recommendation:**

- A. Staff recommends the following broad guidelines for eligibility of Cannabis Micro-Grant funding:
1. Grants be available for Humboldt-owned/based businesses only.
  2. A recipient’s number of years in operation (operational history) and financial solvency be taken into account.
  3. Potential grant awardees include individual businesses, co-ops, associations, and other entities that have a clear nexus with the local cannabis industry.
  4. Regulatory compliance status be taken into consideration when qualifying recipients.
  5. Additional clarity on the micro-grant eligibility requirements can also be established during the formation of the Cannabis Micro-Grant Advisory Committee and can be presented to your Board for further review.

### **Recommendation #4**

#### **Establishing a Marketing & branding Program: *How shall the County of Humboldt’s marketing and branding program be defined, and what are the services that shall be provided?***

Throughout the due diligence process for Project Trellis staff have engaged in dialogue with several local and outside marketing consultants who specialize in advertising, regional marketing, and product branding. Effective marketing initiatives can be costly, and it is likely that a significant portion of the revenue dedicated for Project Trellis would go toward the marketing component to this program.

Examples of tax-funded marketing programs do exist. One such program, an Agricultural Marketing Loan Fund of Maine, is a tax-funded advertising program geared at agricultural businesses and is administered by Maine Department of Agriculture, Conservation and Forestry. Another more local example is the Community Investment Fund run by Sonoma County for agricultural promotion and which is designed to, “...support advertising campaigns and promotional activities directed by Sonoma County agricultural industries. Funds will be used to support advertising and promotional efforts of diverse organizations within the agricultural sector.”

Furthermore, the State of California has selected METRC as the state’s track-and-trace system used to

track commercial cannabis activity and movement across the distribution chain (“seed-to-sale”). In accordance with this change, the Agricultural Commissioner’s Office has been working with the County Administrative Office - Management & Budget and Economic Development teams on transitioning the function of the county’s track and trace program (CalOrigin) from data collection and tracking to Humboldt branding and marketing. This transition is critical now that more state licenses are being issued by CalCannabis (which requires use of the state track and trace program METRC).

Because the original vision of Humboldt’s local track & trace program was that it would be in use only as long as needed, the existing contract with SICPA can transition from compliance and reconciliation to branding and proof of origin. Staff is recommending that the county incorporate the stamp program into Project Trellis as part of the marketing plan and subsidize the costs to industry. This can be accomplished by amending the existing contract with SICPA.

Ending the track and trace program would come with costs. Cannabis operators have already been charged for March participation fees, and the program is not being used for this month. In addition, several operators have been charged for training fees, but have been unable to attend training because the program is ending. Therefore, staff is recommending that the county issue refunds for the March participation fees for the track and trace program, as well as fees for unattended trainings in 2019.

**Staff recommendation:**

- A. Direct staff to issue a Request for Proposal for a cannabis marketing and branding program.
- B. Direct staff to return to the Board with an amended contract with SICPA to provide branding and proof of origin services.
- C. Direct staff to terminate the county’s local track and trace program.
- D. Direct staff to issue refunds for the March participation fees for the track & trace program.
- E. Direct staff to issue refunds for unattended 2019 track & trace trainings.

**Recommendation #5**

***Establishing a Cannabis Local Equity Program: How shall the County of Humboldt’s equity program be defined, and what are the services that shall be provided?***

Local Equity Programs (aka social equity program, cannabis equity program) are programs adopted or operated by a local jurisdiction that focuses on inclusion and support of individuals and communities in California’s cannabis industry who are linked to populations or neighborhoods that were negatively or disproportionately impacted by cannabis criminalization.

The establishment of a Local Equity Program is also necessary in order to meet eligibility requirements for available grant funding through California Senate Bill 1294; The California Cannabis Equity Act of 2018. The Bureau of Cannabis Control (Bureau) has announced the availability of funding authorized by The California Cannabis Equity Act of 2018 (Equity Act) established by Senate Bill 1294 (Bradford 2018). The Equity Act allows for direct assistance to local jurisdictions’ commercial cannabis equity

programs that provide assistance to local equity applicants or local equity licensees.

The Bureau has been appropriated \$10 million for these grants to be distributed no later than June 30, 2019. All applicants that meet the eligibility requirements for grant funding will received a minimum grant of \$100,000, unless a lesser amount is requested. The application deadline for this funding is April 1, 2019.

**Staff recommendation**

- A. Adopt the attached resolution creating the County of Humboldt Local Equity Program, and direct staff to write and implement the program details of the County of Humboldt’s Local Equity Program in accord with the California Cannabis Equity Act of 2018.

**Recommendation #6**

**Project Trellis: *What shall be the source and level of funding for this program?***

There does exist precedence, at the state level, for the diversion of cannabis taxation revenues which are then re-purposed for programs and services aimed at helping those populations and communities impacted by the criminalization of cannabis and the War on Drugs (ex. SB-1294; California Community Reinvestments Program, etc.)

A potential budget for Project Trellis is pictured below:

<b>EXPENDITURE</b>	<b>REVENUE</b>
Micro-Grant Program	• 20 percent of allocated cannabis excise tax revenue • Cannabis code enforcement fines and penalties
Marketing Strategy (including RFP and branding/stamp program)	• 70 percent of allocated cannabis excise tax revenue
Local Equity Program	• \$100,000 from SB 1294 grant
Local Equity Program - Local grants and CCA fees	• 10 percent of allocated cannabis excise tax revenue • Cannabis code enforcement fines and penalties

**Staff Recommendation:**

- A. Designate funding in an amount that is no less than 10 percent of cannabis excise tax revenue to Project Trellis.
- B. Direct staff to return with a proposed budget that utilizes funding from cannabis fines and penalties as necessary to partially fund the Local Equity Program and the Cannabis Micro-Grant Program.

**Recommendation #7**

**Reporting to the Board on Project Trellis: *How do we measure success?***

By design, the supportive services, grants and marketing efforts as a result of this program are intended to bolster and support Humboldt's cannabis industry. Though difficult to measure, success of Project Trellis may be evident in a variety of factors affecting the cannabis industry. Such impacts may include: An increase (or leveling) of excise tax generated through Measure S, an increase in total supply and cannabis production, or an increase in cannabis sales, an increase in public perception for, and brand awareness of, Humboldt cannabis, etc. This matter warrants further discussion by your Board and how program success will be measured in the future is up to the Board's discretion.

It is recommended by staff that County of Humboldt Economic Development department provide your Board with biannual progress reports on the efficacy of all three programs identified as part of Project Trellis, with the first report to occur no less than 6 months after full implementation of the programs, and that the first report to the Board will identify KPI's (key performance indicators) for measuring and tracking ongoing deliverables for the program.

In addition, staff has uncovered a wide diversity of opinions regarding the how long any program designed to support the cannabis industry should remain in effect. Should Project Trellis be employed only until industry stabilization occurs, or should it remain an ongoing program? Such reports will also include a recommendation regarding whether to continue the program.

**Staff recommendation**

- A. Direct staff to submit annual reports to the Board on the progress of Project Trellis.

**STRATEGIC FRAMEWORK:**

This action supports your Board's Strategic Framework by supporting business, workforce development and creation of private-sector jobs, and encouraging new local enterprise.

**FINANCIAL IMPACT:**

Staff recommendations call for using an amount that is equivalent to 10 percent of cannabis excise tax revenue for Project Trellis. Based on FY 2017-18 revenue, that amount would be \$1.7 million. This revenue would pay for the following:

- Cannabis Micro-Grant program;
- Marketing strategy (including a marketing RFP, as well as SICPA branding and proof of origin services); and
- A portion of the Local Equity Program.

Additional funding for the Local Equity Program would come from SB 1294, and could help offset administrative costs. If accepted, the minimum grant amount would be \$100,000, and no more than 10 percent of that funding could go towards administration.

Additional funding as necessary for both the Local Equity Program and Cannabis Micro-Grant

Program would also come from cannabis code enforcement fines and penalties. Staff will return to your Board with a proposed budget for these costs.

Administrative support for these programs will be handled by Economic Development staff. Salary costs are already included in the FY 2018-19 budget.

Regarding refunds, the maximum amount the county would issue in refunds for March track and trace participation fees would be \$60,732. In addition, staff estimates the refunds for unused trainings will cost \$4,400. Staff may return to your Board with a supplemental budget to issue these refunds in FY 2018-19.

Project Trellis has the potential to support a successful local cannabis industry, which is vital for Humboldt County economy, as well as sales tax and local cannabis excise tax revenue.

OTHER AGENCY INVOLVEMENT:

Any agency or program eligible to receive funding from the cannabis excise tax is potentially affected.

ALTERNATIVES TO STAFF RECOMMENDATIONS:

Board Discretion.

ATTACHMENTS:

1. Resolution adopting a county of Humboldt Local Equity Program
2. BCC Local Equity Program Application
3. Text of SB 1294
4. San Francisco Equity Program Example
5. Long Beach Equity Program Example
6. Sonoma County Community Investment Program
7. Trellis Chart

PREVIOUS ACTION/REFERRAL:

Board Order No.: N/A

Meeting of: N/A

File No.: N/A