



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Nanci Klein
Jim Shannon

SUBJECT: STATE CANNABIS EQUITY
GRANT AWARD

DATE: March 12, 2024

Approved

Date

3/13/24

RECOMMENDATION

- (a) Adopt a resolution authorizing the City Manager or her designee to execute a grant agreement with the State of California Governor's Office of Business and Economic Development to receive \$1,026,820 from the Cannabis Equity Grants for Local Jurisdictions, including any extensions or amendments thereof and any subsequent grant agreement with the Governor's Office of Business and Economic Development in relation thereto, to implement a new phase of the City's Cannabis Equity Program from April 1, 2024 through April 1, 2026.
- (b) Adopt the following 2023-2024 Funding Sources Resolution and Appropriation Ordinance amendments in the General Fund:
 - (1) Increase the estimate for Revenue from the State of California by \$256,705; and
 - (2) Increase the Cannabis Equity Assistance Program City-Wide Expenses appropriation to the Office of Economic Development and Cultural Affairs by \$256,705.

SUMMARY AND OUTCOME

For the past year, 29 cannabis equity entrepreneurs have been participating in the City of San Jose's Cannabis Equity Business Academy (Academy). The Academy is overseen by the Office of Economic Development and Cultural Affairs (OEDCA) in partnership with the Enterprise Foundation and CalAsian Chamber of Commerce/California Grow Green. Initial funding for the program came from the State of California Governor's Office of Business and Economic Development "GO-Biz" Local Equity Grant program, as well as a one-time contribution from the General Fund. In December 2023, the state offered a new round of cannabis equity grant funding. Staff from OEDCA applied, and the grant application was awarded for a total amount of \$1,026,820. Funds will be used to launch the accelerator phase of the Cannabis Equity program,

providing seed funding, technical assistance, and support to successful participants from the Academy, as well as creating employment opportunities in the cannabis sector. The City will receive \$256,705 in 2023-2024 and the remaining \$770,115 in 2024-2025 and 2025-2026.

Approval of this City Council item allows the City to accept these grant funds and implement this new phase of the program.

BACKGROUND

On March 26, 2019, the City Council approved San José's first [Cannabis Equity Ordinance](#), defining eligibility criteria for equity employees and equity owners of cannabis businesses in San José. In 2020, the City received its first cannabis equity grant funding from the California Department of Cannabis Regulation and the State of California Governor's Office of Business and Economic Development, which funded the development of a Cannabis Equity Assessment and the creation of a cannabis equity program.

On February 15, 2022, the City Council approved the Cannabis Equity Assessment, program parameters, and updated eligibility requirements for the program. The City Council also approved allocating 10 cannabis retail (storefront or delivery-only) registrations to equity-owned businesses. Up to five of these may be storefront locations. (Note: San José does not restrict the number of registrations for cannabis manufacturing, distribution, or testing facilities; the City does not permit new cannabis cultivation facilities.)

Following City Council's action, staff conducted a Request for Proposals to establish the Academy. It brought on community partners, the Enterprise Foundation, and CalAsian Chamber of Commerce/California Grow Green to deliver the Academy. An online eligibility assessment tool allowed applicants to pre-screen and determine if they met the City's equity program eligibility requirements before completing a full application. Staff was available to assist with this process. A total of 89 residents completed the initial applications/pre-screening and 29 completed applications. The Academy opened on April 1, 2023.

On November 6, 2023, the State of California Governor's Office of Business and Economic Development announced the 2023-2024 grant solicitation for the [Cannabis Equity Grants Program for Local Jurisdictions](#), with applications due on December 14, 2023. Staff from OEDCA applied for the maximum allowable under the grant formula and was awarded the full request of \$1,026,820. The grant terms require that the City Council adopt a resolution accepting the grant from the State of California.

ANALYSIS

The state grant funds, together with previously allocated matching funds, allows OEDCA to embark on an accelerator phase for the cannabis equity program by supporting the existing 29

Academy participants as they work to obtain licensure, open new businesses, or level up their work in the cannabis industry.

For equity owners who have successfully completed the City's Academy and have met the qualifications to proceed to obtain a cannabis license, the program offers grants for upfront costs, including raising private capital, furniture, fixtures, technology, regulatory compliance, and other business costs. These participants will also be provided access to specialist legal and regulatory assistance, real estate services, mentoring and coaching, and other technical assistance.

In addition, Academy participants will be offered Cannabis Equity Fellowships. These fellowships include paid, supported employment in local cannabis businesses, including leadership/management or entrepreneurial roles in the industry.

It is important to note that the state grant program defines how grant funds may be spent:

- At least 80% must be allocated to direct assistance to cannabis equity businesses in the form of grants or no-cost/low-cost loans for start-up or ongoing costs, such as real estate lease or purchase, tenant improvements, fixtures, equipment, and other upfront needs.
- No more than 10% may be allocated for direct technical assistance, which is defined as "support to help cannabis equity applicants and licensees acquire the knowledge and/or skills necessary in order to gain entry to, and to successfully operate in the regulated cannabis marketplace." This includes coaching, training, and mentorship services.
- No more than 10% may be spent on program administration.

The grant application was informed by feedback from Academy participants and the Enterprise Foundation and CalAsian Chamber of Commerce/California Grow Green highlighted the following needs: access to capital and capital investment, greater understanding of the legal and regulatory environment, city licensing costs, and assistance with developing a viable site.

The Academy has a 100% retention rate to date, which staff believes is a testament to the quality and strength of the program and the effectiveness of partner organizations. One key lesson learned: Focus on individual attention and proactive mentoring throughout is critical to ensuring participants are engaged and that their needs are being met.

Racial Equity Impact Analysis

San José's [Cannabis Equity Assessment](#) looks at how the pre-legalization era of cannabis prohibition impacted different communities within the City. The Cannabis Equity Ordinance was designed to redress those historic impacts, and the Academy works to give individuals whose backgrounds could qualify them for future equity ownership an opportunity to prepare to own and operate a cannabis business.

San José learned tough lessons from its 2014-2015 transition from an unregulated to regulated medical cannabis marketplace. Of the estimated 125-plus unregulated retailers, 65 businesses applied for registration. Only 16 were successful at opening.

While an equity program did not exist then and demographic data was not tracked, staff observed that owners who were of color, women, and low-income faced additional barriers in accessing capital, navigating real estate processes, managing tenant improvement and construction, and completing regulatory requirements, even with staff assistance.

Best practices that San José's regulatory framework and program incorporated that served these owners well included:

- Past cannabis convictions or citations were not a barrier to ownership;
- Dedicated staff worked with applicants through the registration process; and
- The City used a one-stop/all-trades building permitting process (typically used for large, complex construction projects, such as a high-rise or corporate headquarters).

However, these were not enough to overcome the barriers some applicants faced. These lessons learned, together with research and community conversations, resulted in the San José Cannabis Equity Assessment, the 2022 update of the equity ordinance, and the creation of the Academy.

With the City Council authorizing 10 new retail registrations for equity owners, the program's goal is to set equity owners up for success in an industry that already has 16 businesses with eight years of experience as regulated operators.

A total of 29 individuals enrolled in the Academy, and all met the requirements of the ordinance at the time of application.

The Cannabis Equity Ordinance is silent on race and ethnicity in accordance with state law. However, participants' voluntary self-reporting of demographics find alignment with the communities identified as impacted in the City's Cannabis Equity Assessment.

Participant demographics reported included the following:

- 35% Asian;
- 31% Latino/a/;
- 12% Native Hawaiian/Native American;
- 8% Black;
- 8% Other;
- 8% Declined-to-state.

Participants are expected to complete the Academy coursework with tools to support City and state applications for licensure. While the goal is that participants will go on to open cannabis equity businesses, staff understands that some may instead open other types of small businesses

or work in leadership roles in the local industry. This outcome would be a success for individuals who have faced the barriers Academy participants have.

The **table** below identifies the forecast spending plan by fiscal year for the duration of the new grant.

Table - Spending Plan by Fiscal Year

Local Match	2023-2024	2024-2025	2025-2026	Total
Grants	\$0	\$50,000	\$200,000	\$250,000
Technical Assistance	\$0	\$100,000	\$100,000	\$200,000
Project Management	\$12,804	\$51,213	\$12,803	\$76,820*
Sub-Total	\$12,804	\$201,213	\$312,803	\$526,820
*In-kind staff match				
State Grant	2023-2024	2024-2025	2025-2026	Total
Grants	\$222,901	\$378,197	\$222,902	\$824,000
Technical Assistance	\$16,994	\$67,973	\$16,993	\$101,000
Project Management	\$16,810	\$67,240	\$16,810	\$101,820
Sub total	\$256,705	\$513,410	\$256,705	\$1,026,820
Total Program	2023-2024	2024-2025	2025-2026	Total
Grants	\$222,901	\$428,197	\$422,902	\$1,066,000
Technical Assistance	\$16,994	\$167,973	\$116,993	\$301,960
Project Management	\$29,614	\$118,453	\$29,613	\$177,680
Total	\$269,509	\$714,623	\$569,508	\$1,553,640

EVALUATION AND FOLLOW-UP

The State of California requires regular reporting on grant progress and will disburse funds on a six-monthly basis as goals are met.

For the City of San José, grant metrics include:

- Number of participants successfully completing the Academy;
- Number of participants successfully completing an initial application to the Division of Cannabis Regulation;
- Milestones completed - Obtaining funding/financing, obtaining site, submitting plans and obtaining building permits, completing construction;
- Number of participants obtaining City and state licensure.

In addition, all 29 Academy participants will have the opportunity to gain more industry experience through a new Cannabis Equity Fellowship program in partnership with the local industry. This will include paid, supported employment with mentoring and support for both equity employees and employers. San José will track and report demographic information as available. Metrics for the fellowship program may include:

- Number of participants;
- Continued employment and permanent placement within the industry for those not pursuing entrepreneurship;
- Participation in cohort support groups.

The overall strategy is to ensure every participant in the equity program has the opportunity to secure business ownership or employment. The program, with the addition of this new grant, is on track to establish 10 cannabis equity retail businesses subject to the requirements set by the San José Police Department Division of Cannabis Regulation.

In addition to submitting required reports to the state, OEDCA reports on program progress to the City Council's Community and Economic Development Committee.

COST SUMMARY/IMPLICATIONS

The maximum state grant award without matching funds was \$500,000. In addition, staff was able to identify existing City cannabis equity program funds of \$450,000 as well as projected staff time valued at \$76,820 to apply for a cash increase in the state grant of a further \$526,820. This enabled the City to submit an application to GoBiz for a total of \$1,026,820.

The state grant funds will be used as follows.

- \$824,000 – Grants/loans for 10 equity-owned retail businesses (dispensary or delivery) with funds anticipated to be spent as follows: \$100,000 for lease costs, \$100,000 for legal assistance, \$100,000 for capital improvements, \$500,000 for investment/capital raising grants, and \$24,000 for specialist advice on capital raising.
- \$101,000 – Technical Assistance.
- \$101,820 – Staff time for program management and workforce development Fellowship program.
- Total state grant funds - \$1,026,820.

The 2022-2023 Adopted Budget allocated one-time funding of \$500,000 to support the establishment of the cannabis equity program. The remaining balance of approximately \$450,000 is available for the following purposes:

- \$250,000 for local/state application and regulatory fees;
- \$200,000 in direct technical assistance and the workforce /Fellowship Program.

The total funding for the accelerator phase of the cannabis equity program, including the new state grant, City of San José matching funds and staff time is \$1,553,640.

BUDGET REFERENCE

The table below identifies the fund and appropriations to fund the contract recommended as part of this memorandum.

Fund #	Appn #	Appn Name	Current Appn	Recommended Budget Action	2023-2024 Adopted Budget Page	Last Budget Action (Date, Ord. No.)
001	R100	Revenue from State of California	\$41,027,677	\$256,705	277	1/9/2024, 24-5
001	224O	Cannabis Equity Program	\$500,000	\$256,705	895	6/20/2023, 30933

COORDINATION

This memorandum has been coordinated with the City Attorney's Office and San José Police Department Division of Cannabis Regulation.

PUBLIC OUTREACH

This memorandum will be posted on the City's Council Agenda website for the March 26, 2024 City Council meeting.

COMMISSION RECOMMENDATION AND INPUT

No commission recommendation or input is associated with this action.

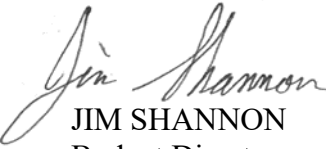
CEQA

Not a Project, File No. PP17-003, Agreements/Contracts (New or Amended) resulting in no physical changes to the environment.

PUBLIC SUBSIDY REPORTING

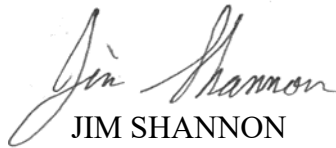
This item does not include a public subsidy as defined in section 53083 or 53083.1 of the California Government Code or the City's Open Government Resolution.

/s/
NANCI KLEIN
Director of Economic Development
and Cultural Affairs



JIM SHANNON
Budget Director

I hereby certify that there will be available for appropriation in the General Fund in Fiscal Year 2023-2024 monies in excess of those heretofore appropriated therefrom, said excess being at least \$256,705.



JIM SHANNON
Budget Director

The principal author of this memorandum is Victor Farlie, Assistant to the City Manager. For questions, please contact Victor Farlie, Assistant to the City Manager, at victor.farlie@sanjoseca.gov.