



COUNTY OF HUMBOLDT

For the meeting of: 12/4/2018

File #: 18-1494

To: Board of Supervisors

From: Agricultural Commissioner

Agenda Section: Departmental

SUBJECT:

County Track and Trace Program Update and Supplemental Budget Request (4/5 Vote Required)

RECOMMENDATION(S):

That the Board of Supervisors receive an update from the Agricultural Commissioner on the local track and trace program; approve a 6-month extension of the county's track and trace program contract with SICPA Security LLC; and approve the following supplemental budget for track and trace fees for the remainder of FY 2018-19 (4/5 vote required).

Revenue:	1100261-608421	\$1,045,000
Expenditure:	1100261-2118	\$1,045,000

SOURCE OF FUNDING:

Fees charged to commercial cannabis permit holders for participation in the track and trace program.

DISCUSSION:

Humboldt County's track and trace program, also known as CalOrgan, which tracks the movement of cannabis through the local distribution chain, is scheduled to end on Dec. 31, 2018. When your Board approved the contract with SICPA Security LLC (SICPA) to help administer this program, staff anticipated that the state's track and trace program would be fully implemented by Jan. 1, 2019, making a local program optional. However, based on recent communications with CalCannabis, one of the state agencies responsible for regulating cannabis in California, the CalCannabis Licensing Branch will focus on issuing state temporary licenses for the remainder of 2018 and through the first months of 2019. By law, temporary license holders are not required to use the state's track and trace system, and it is unlikely that there will be significant use of the state program until May or June of 2019. If the extension is approved, staff will return with a contract to modify the agreement term.

The lack of a viable system at the state level presents a potential 6-month gap in the county's ability to track cannabis at the local level. Therefore, the Agricultural Commissioner is recommending that your Board approve a 6-month agreement with SICPA to continue the local track and trace program through the end of FY 2018-19. The 6-month agreement is intended to continue tracking of commercial cannabis produced under permit in Humboldt County and will facilitate a transition to the state program for Humboldt County cultivators.

The proposed agreement with SICPA would not change the function of the current system. Conscious of industry complaints around the program's cost, SICPA has offered to reduce account fees for the program by 30 percent from \$540

for 6 months to \$400. All other fees associated with the program remain unchanged. Unlike the first agreement, approved by your Board on Sept. 5, 2017, account fees for the 6-month program will be due in January 2019, as opposed to quarterly installments. Once an operator is issued a state provisional or annual license the operator can choose to switch to using the state program or continue using CalOrigin. It should be noted that fees for operators that received local permits will be prorated beginning in April. Approval of a new 6-month agreement with SICPA will also keep in place the Humboldt County branding through the CalOrigin secure stamp. Early discussions are being held to develop a marketing strategy for Humboldt County cannabis around the secure stamp through the County Administrative Office - Economic Development Team.

Background:

Following completion of a track and trace pilot project demonstrating a batch-and-lot approach to tracking commercially produced cannabis, your Board at its July 25, 2017 meeting directed the Agricultural Commissioner's Office to implement a local track and trace program for all permits issued under the county's Commercial Cannabis Land Use Ordinance (CCLUO). On September 5, 2017 your Board approved a contract with SICPA to provide a track and trace program (CalOrigin) to Humboldt County. At the time of your Board's approval of a local track and trace program, considerable uncertainty existed around how federal law enforcement agencies would respond to state and local initiatives to legalize medical and recreational cannabis use. Support for establishing a local program came from a strong belief that this level of uncertainty justified the county requiring that all cannabis produced under a permit issued by Humboldt would be tracked and traced to demonstrate compliance with federal enforcement guidelines outlined by the Cole Memo. Also, at the time the local program was approved, no state temporary or annual licenses had been issued and thus no license holders were using the California Cannabis Track and Trace Program (CCTT). With approval of the agreement, Humboldt joined Mendocino and Yolo Counties, and the cities of Eureka and Arcata in implementing local track and trace programs. These programs were to be consistent with state track and trace requirements established in the 2015 Medical Marijuana Regulation and Safety Act.

In the fall of 2017, the Agricultural Commissioner's Office working closely with SICPA began implementing the county's CalOrigin program. All permittees were notified and informed of the requirement to participate in the local CalOrigin program, set-up system accounts and participate in required CalOrigin trainings held twice weekly at the Agricultural Commissioner's Office conference room.

Current status:

To date, 583 licensees are registered to operate at 774 sites in Humboldt County. A total of 1,098 persons have been trained and are authorized users of the county's CalOrigin track and trace program. Currently 960,128 plants are declared and tagged in the system while 174,620 lbs. of processed cannabis and 298,761 cannabis product packages are stamped and listed in product inventories. A total of 2,646,000 stamps have been ordered by the cultivation industry. At each cultivation site inspection, Agricultural Commissioner staff conduct track and trace compliance inspections to verify compliance with the county track and trace program.

As required by the Medicinal and Adult-Use Cannabis Regulation and Safety Act (MACRSA), in January 2018, the California Department of Food and Agriculture's (CDFA) CalCannabis Cultivation Licensing Division, in coordination with the California Bureau of Cannabis Control, launched the CCTT system. The CCTT system is required to be used by all state cannabis licensees when issued an annual or provisional license, including those with licenses for cannabis cultivation, manufacturing, retail, distribution, testing labs, and microbusinesses for reporting the movement of cannabis and cannabis products through the licensed commercial cannabis distribution chain. According to data supplied by the CalCannabis Licensing Division, CalCannabis has received 8,848 temporary license applications since January 1, and has issued a total of 4,951 temporary licenses. There are currently 2,599 active state temporary licenses, 651 of which are issued to cultivators in Humboldt County.

FINANCIAL IMPACT:

The Agricultural Commissioner's Office is requesting approval of a supplemental budget to adjust fiscal year (FY) 2018-

19 revenue and expenditure accounts to reflect fees collected from cannabis permit holders required to participate in the county's track and trace program. At the time the FY 2018-19 budget was prepared (March 2018) the amount of revenue collected was unknown and the estimated budget amount fell far short of actual fees collected for participation in the program.

To date fees charged to CCLUO permittees required to participate in the County's CalOrigin program total \$490,171. Specific fees charged to cultivators include: \$400 training fee, \$90 per month account fee and \$.07 per stamp fee (\$.05 is retained by the Commissioner's Office). Fees are collected through the Treasurer Tax Collector's Office and paid to SICPA based on monthly invoices. Fees for participation in the track and trace program were approved by your Board at its October 2, 2018 meeting. In FY 2017-18, Agricultural Commissioner's Office staffing costs related to CalOrigin implementation and oversight, and cultivation site inspections totaled \$272,811.

The Cannabis Track and Trace Program is consistent with your Board's Strategic Priority Framework's core roles of encouraging local enterprise, and encouraging new local enterprise.

OTHER AGENCY INVOLVEMENT:

Treasurer Tax Collector

ALTERNATIVES TO STAFF RECOMMENDATIONS:

Your Board could choose to not renew the track and trace contract with SICPA for track and trace services.

ATTACHMENTS:

Current agreement with SICPA Security LLC

PREVIOUS ACTION/REFERRAL:

Board Order No.: I-1, 17-2254, J-1

Meeting of: : 7/25/17, 9/5/17, 10/2/18