## AMENDED IN COMMITTEE 9/23/2021 ORDINANCE NO. 176-21

FILE NO. 210421

[Police Code - Cannabis Regulation]

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Ordinance amending the Police Code to 1) allow Cannabis Business Permit applicants to qualify as Equity Incubators by supporting Equity Applicants prior to Cannabis Business Permit issuance and not only after permit issuance; 2) specify that Equity Incubators must provide support to Equity Applicants with which the Equity Incubators and their Owners have no ownership or profit-sharing arrangement in order to qualify as Equity Incubators; 3) give first priority for permit application processing to Equity Applicants that are sole proprietors or whose business is 100% owned by a combination of Owners that are verified Equity Applicants, give second processing priority to holders of Temporary Cannabis Business Permits that commit to sharing use of their facilities with one or more Equity Applicants, and add to the sixth (formerly fourth) processing priority Applicants that previously held Temporary Cannabis Permits, in addition to those that currently hold such permits; 4) prohibit transfers of more than a 50% ownership interest in a Cannabis Business for five years after the Office of Cannabis acknowledges receipt of an application for a Cannabis Business Permit for that Cannabis Business, instead of ten years from the date of permit issuance; 5) exempt transfers of ownership in a Cannabis Business triggered by an Owner's death from transfer limits that would otherwise apply; 6) require that a Cannabis Business seeking a permit amendment tied to reduction in the combined ownership interest of all verified Equity Applicants in that Cannabis Business below 20% meet substantial equity commitments as a condition of amending the permit; 7) establish that an Applicant's withdrawal of a Cannabis Business Permit application, unlike the abandonment of an application, will not bar a subsequent application from

that Applicant from qualifying for priority processing; and 8) authorize the Director of

the Office of Cannabis, at any point after an Applicant has submitted a Cannabis Business Permit application, to require an Applicant to submit needed information or documentation within 45 days, and declare an application abandoned if the Applicant fails to comply with the deadline without showing good cause for the failure; and affirming the Planning Department's determination under the California Environmental Quality Act; and making findings of consistency with the General Plan and the eight priority policies of Planning Code, Section 101.1.

NOTE: Unchanged Code text and uncodified text are in plain Arial font.

Additions to Codes are in single-underline italics Times New Roman font.

Deletions to Codes are in strikethrough italics Times New Roman font.

Board amendment additions are in double-underlined Arial font.

Board amendment deletions are in strikethrough Arial font.

Asterisks (\* \* \* \*) indicate the omission of unchanged Code subsections or parts of tables.

Be it ordained by the People of the City and County of San Francisco:

Section 1. Findings. (a) The Planning Department has determined that the actions contemplated in this ordinance comply with the California Environmental Quality Act (California Public Resources Code Sections 21000 et seq.). Said determination is on file with the Clerk of the Board of Supervisors in File No. 210421 and is incorporated herein by reference. The Board affirms this determination.

(b) On \_\_\_\_\_, the Planning Commission, in Resolution No. \_\_\_\_\_, adopted findings that the actions contemplated in this ordinance are consistent, on balance, with the City's General Plan and eight priority policies of Planning Code Section 101.1. The Board adopts these findings as its own. A copy of said Resolution is on file with the Clerk of the Board of Supervisors in File No. \_\_\_\_\_, and is incorporated herein by reference.

Section 2. Article 16 of the Police Code is hereby amended by revising Sections 1604, 1606, 1608, 1610, 1615, and 1621.5, to read as follows:

### SEC. 1604. EQUITY PROGRAM.

\* \* \* \*

- (c) Equity Incubators. The Equity Program shall offer priority permit processing, as provided in Section 1606, to Equity Incubators. For purposes of this Article 16, an Equity Incubator is an Applicant that does not qualify as an Equity Applicant, but that submits with its Cannabis Business Permit application a Cannabis Equity Incubator Agreement in which it identifies no less than one Equity \*Operator Applicant in which, or in whose Cannabis Business, the Equity Incubator and its Owner(s) have no ownership interest or profit-sharing arrangement; agrees to provide any \*such\* identified Equity \*Operator Applicant\* commercial space and security resources or, in either or both cases, the fair market value of same \*on a continuous basis for a total of no less than three years, beginning at any time after the Director verifies that the Equity \*Applicant has received all necessary approvals to begin building out its commercial space for use as a \*Cannabis Business\*; and commits to comply with the following additional operating requirements during its first three years in operation as a \*Cannabis Business\* on a continuous basis for no less than three years, beginning no later than the date the Equity Incubator begins its operation as a \*Cannabis Business\*:
- (1) Ensure that at least 30% of all Business Work Hours are performed by Local Residents. Business Work Hours performed by residents of states other than California shall not be considered in calculation of the number of Business Work Hours to which this requirement applies;
- (2) Ensure that at least 50% of the Equity Incubator's employees satisfy the requirements of subsection (b)(4) of this Section 1604;

- (3) Provide a community investment plan demonstrating engagement with businesses and residents located within 500 feet of the site of the proposed Cannabis Business;
- (4) Provide the <u>identified</u> Equity <u>Operator Applicant</u>, directly or indirectly, with community outreach services, security services for the Equity <u>Operator's Applicant's</u> Premises, and any support necessary for the Equity <u>Operator Applicant</u> to comply with the Good Neighbor Policy required in Section 1609(b)(19); and
  - (5) Comply with one of the following additional operating requirements:
- (A) Submit to the Director for review and approval a written, actionable "Equity Incubator Plan" describing how the Equity Incubator will encourage and support the establishment and growth of Equity Applicants who have been awarded Cannabis Business Permits ("Equity Operators"), in which, or in whose Cannabis Business, the Equity Incubator Applicant and its Owner(s) have no ownership interest or profit sharing arrangement, including but not limited to any Equity Operator Applicant identified in the Equity Incubator Plan, by, among other things, providing business plan guidance, operations consulting, personnel, and/or technical assistance. The services listed in the Equity Incubator Plan must be enumerated, and include an estimated dollar value of those services. The aggregate dollar value of the services must equal or exceed the sum of (i) 10% of the rent for, or, if the Equity Incubator owns the Equity Incubator's Premises, and (ii) the annual total costs of security services at the Equity Incubator's premises. On or before March 1 of each year, the Equity Incubator shall submit to the Director an annual report covering the prior calendar year, signed by both the Equity Incubator and the Equity Operator Applicant, describing the services provided under this subsection (c)(5)(A); or
- (B) Provide an Equity *Operator Applicant* in which, or in whose Cannabis

  Business, the Equity Incubator Applicant and its Owner(s) have no ownership interest or profit-sharing

arrangement with rent-free commercial space owned or leased by the Equity Incubator either adjacent to the Equity Incubator's Premises or off-site, in which the Equity Operator Applicant may conducts its Cannabis Business. If such rent-free commercial space is provided off-site, the Equity Incubator must provide the greater of 800 square feet or the equivalent of at least 10% of the square footage of the Equity Incubator's Premises. If such rent-free commercial space is provided adjacent to the Equity Incubator's Premises, the Equity Incubator must provide either 800 square feet or the equivalent of at least 10% of the square footage of the Equity Incubator's Premises. The Equity Incubator's provision of this rent-free commercial space to an Equity Applicant may begin at any time after the Director verifies that the Equity Applicant has received all necessary approvals to begin building out its commercial space for use as a Cannabis Business, and the three-year minimum period in which the Equity Incubator must continue to provide rent-free space to the Equity Applicant shall be dated from the Equity Applicant's earliest use of that rent-free space.

### SEC. 1606. APPLICATIONS FOR CANNABIS BUSINESS PERMITS.

(c) The Office of Cannabis shall review and process applications for Cannabis Business Permits in an order that reflects the Applicant's priority category:

(1) First priority: applications from Equity Applicants that, independently or in combination with one or more other Equity Applicants, hold a 100% ownership interest in the Cannabis Business for which they have applied for a Cannabis Business Permit;

(2) Second priority: applications from current Temporary Cannabis Business

Permitees that demonstrate to the satisfaction of the Director that they meet all of the following criteria:

located, including but not limited to workforce opportunities and community benefits contributions; and

(68) SixthEighth priority: all other applications.

\* \* \* \*

SEC. 1608. TRANSFER OF PERMIT; PORTABILITY OF PERMIT; SALE OF CANNABIS BUSINESS; CHANGE IN OWNERSHIP; INTERIM CANNABIS BUSINESS PERMITS.

\* \* \* \*

(c) Ownership; Changes in Ownership; Changes in Form or Structure.

\* \* \* \*

- (4) A Permittee seeking a permit amendment as required under this subsection (c) shall pay the required filing fee for a permit amendment and provide such information, from the categories of information described in Section 1609, as may be required by the Director. The decision to grant or deny a permit amendment shall be entrusted to the Director's discretion in the same manner, and subject to the same criteria, as the decision to grant or deny a permit as set forth in Section 1615, except as set forth in subsection (c)(9), below.
- (5) Notwithstanding any other provision of this subsection (c), prior to the award of a permanent Cannabis Business Permit and for a tenfive—years period thereafterfollowing the date on which the Director acknowledges receipt of an application for a Cannabis Business Permit, an aggregate ownership interest of 50% or more in a Permittee may not be transferred to any Person or combination of Persons who were not Owners of the Permittee at the time that a Cannabis Business Permit was awarded under this Article 16. This restriction shall be cumulative, as to each Permittee, across any permits (whether temporary or permanent) issued under this Article 16. In the event that, prior to the award of a

permanent Cannabis Business Permit or within tenfive years thereafter from the date on which the Director acknowledges receipt of the application for the relevant Cannabis Business Permit, an aggregate ownership interest of 50% or more in a Permittee is transferred to any Person or combination of Persons who were not Owners of the Permittee at the time that a Cannabis Business Permit was awarded, the Permittee shall promptly surrender the permit to the Director. This restriction shall not apply to any testamentary or intestate transfer of ownership triggered by an Owner's death. This obligation is not dependent on the Director's requesting the surrender, but arises by operation of law on the sale of the Cannabis Business. If the Permittee fails to surrender the permit to the Director, the Director may, after giving the Permittee notice by mail and electronically of the proposed action and an opportunity to respond, revoke the permit.

\* \* \* \*

obtain a permit amendment if a change in ownership results in a decrease in an Equity Applicant's *Ownership Interest ownership interest, as defined in Section 1604(b)*, in the Cannabis Business, a change in the Equity Applicant's role as Chief Executive Officer or member of the Board of Directors, or a material change in the degree of the Equity Applicant's participation in the direction, control, or management of the Cannabis Business. Applications for a permit amendment in accordance with this *S*subsection *1608*(c)(9) must include the terms of the change in ownership. *The Director shall require, as a condition of granting a permit amendment under this subsection where the combined ownership interest in the Cannabis Business by all verified Equity Applicants following the amendment would total less than 20%, that the Cannabis Business commit to take one or more specific actions to support the City's equity goals as described in Section 1604(a) on an ongoing basis through the life of the Cannabis Business Permit. Applications for such a permit amendment shall include a detailed written description of the proposed equity action(s), the* 

1	dates by which the Cannabis Business will take the action(s), an estimated dollar value for each action
2	and the dollar amount of gross sales of cannabis by the Cannabis Business during the most recently
3	completed fiscal year. The Director shall not approve such permit amendment unless the Director
4	finds that that proposed action(s) represent a substantial commitment to equity by the Cannabis
5	Business for the life of the Cannabis Business Permit, taking into consideration the dollar amount of
6	gross sales of cannabis by the Cannabis Business during the most recently completed fiscal year, and
7	the Director's assessment of the likely impact of the proposed action(s) in support of the City's equity
8	goals. In approving such permit amendment, the Director shall include as conditions of the amended
9	permit specified equity action(s), and a further requirement that the Cannabis Business provide annual
10	reports to the Director on or before February 1 of each year for the life of the Cannabis Business
11	Permit, documenting the Cannabis Business's action(s) taken during the prior calendar year to satisfy
12	all permit conditions. Actions a Cannabis Business may propose in its permit application to satisfy the
13	equity commitment required upon a reduction in the combined ownership interest in the Cannabis
14	Business by all verified Equity Applicants below 20% include but are not limited to the following:
15	(A) Contributing, on an annual basis, an amount of cash, in-kind goods,
16	services, and/or technical assistance equivalent to 1% of the gross sales of cannabis by the Cannabis
17	Business during the most recently completed fiscal year prior to the submission of the application for
18	permit amendment to one or more community organizations that serve equity goals, as described in
19	Section 1604(a), and in which the Cannabis Business has no ownership or other financial interest;
20	(B) Providing training, mentorship, and employment opportunities to workers
21	who meet at least three of the criteria set forth in Section 1604(b)(4);
22	(C) Ensuring that a substantial portion of Cannabis-related products promoted
23	and/or sold by the Cannabis Business are sourced from businesses that are one of the following: (i)
24	Equity Applicants that have been awarded Cannabis Business Permits ("Equity Operators"); or (ii)
25	Cannabis Businesses that have been verified as the local equivalent of Equity Applicants or Equity

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Operators in jurisdictions outside San Francisco with a local equity program, as defined in Section 26240(e) of the California Business and Professions Code, as may be amended from time to time; and/or

(D) Providing financial support, technical assistance, rent-free commercial space, and/or other support to one or more Equity Operators or Equity Applicants in which, or in whose Cannabis Businesses, no Owner of the Cannabis Business seeking a permit amendment has any ownership interest or other financial interest.

#### SEC. 1610. WITHDRAWAL OF APPLICATION.

An Applicant may withdraw an application at any time prior to the Office's issuance or denial of a Cannabis Business Permit. Requests to withdraw an application shall be submitted to the Office in writing, dated, and signed by the Person who submitted and signed the application. The Office shall not refund application fees for a withdrawn application. An Applicant that has withdrawn an application may reapply and pay a new application fee at any time following the withdrawal of an application, but such application shall not receive priority review as set forth in subsection (c) of Section 1606. An Applicant's withdrawal of an application shall not impact the eligibility for priority review, as set forth in subsection (c) of Section 1606, of a subsequent application submitted by the same Applicant.

#### SEC. 1615. ISSUANCE AND DENIAL OF CANNABIS BUSINESS PERMITS.

(a) At any time after receiving an Applicant's application, the Director may notify the Applicant in writing that the Applicant must submit further specified information or documentation needed to process or evaluate the application within 45 days. If the Applicant fails to provide the required information or documentation within 45 days of receiving such notice, the application will be

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deemed abandoned and will not receive further consideration, unless the Director finds that the Applicant has demonstrated, prior to the expiration of the 45 days, that good cause exists to extend the Applicant's deadline to provide required information or documentation. After reviewing an Applicant's application, the Director shall notify the Applicant in writing that the application is complete and accepted for further review, or incomplete. If the Director deems the application to be incomplete, the Applicant shall supply the information or documentation that is required for the application to be deemed complete. The Applicant shall have 90 days from the date that the Director provides notification that the application is incomplete to provide all required information and/or documentation. If the Applicant does not provide such information within 90 days, the application will be deemed abandoned and will not receive further consideration. Applicants that abandon an application may submit a new one, subject to payment of a new application fee. Applicants that submit an application following the abandonment of an earlier application shall not receive priority review, as set forth in subsection (c) of Section 1606. *The Director may issue* multiple 45-day notices to a single Applicant, as needed, at any time after receiving an Applicant's application and prior to issuing the Article 16 permit sought by that application. After the Director has determined that no further information or documentation is required from an Applicant for evaluation of the application, the Director shall notify the Applicant in writing that the application is complete.

(b) Upon review of a complete application and consideration of information provided by the Referring Departments, the Director shall either grant or deny a permit, as specified in more detail in subsections (c) and (d).

SEC. 1621.5. EVENTS.

(e) Equity Criteria for Cannabis Event Permit Applicants. As a condition of permit issuance, Applicants for Cannabis Event Permits must submit to the Director for review and approval a written "Event Permit Equity Plan," in which the applicant describes the specific actions it will take to support the City's equity goals as described in Section 1604(a), the dates by which the applicant will take the listed actions, and an estimated dollar value for each of the actions. Actions a Cannabis Event Permit applicant may take to satisfy this requirement include but are not limited to the following:

\* \* \* \*

- (3) Ensuring that a substantial portion of Cannabis-related products showcased and sold at the Event are provided by businesses that are one of the following: Equity Operators, as defined in Section 1604(c)(5)(42)(C); Medical Cannabis Dispensary permit holders that have been verified as Equity Applicants under Section 1604; or Cannabis Businesses in jurisdictions outside San Francisco with a local equity program, as defined in Section 26240(e) of the California Business and Professions Code, as may be amended from time to time, that are classified as Equity Operators or the equivalent under the governing law of that jurisdiction; and/or
- (4) Donating cash, in-kind goods, services, and/or technical assistance to community organizations that serve equity goals.

Section 3. Effective Date. This ordinance shall become effective 30 days after enactment. Enactment occurs when the Mayor signs the ordinance, the Mayor returns the ordinance unsigned or does not sign the ordinance within ten days of receiving it, or the Board of Supervisors overrides the Mayor's veto of the ordinance.

Section 4. Scope of Ordinance. In enacting this ordinance, the Board of Supervisors intends to amend only those words, phrases, paragraphs, subsections, sections, articles, numbers, punctuation marks, charts, diagrams, or any other constituent parts of the Municipal Code that are explicitly shown in this ordinance as additions, deletions, Board amendment additions, and Board amendment deletions in accordance with the "Note" that appears under the official title of the ordinance.

APPROVED AS TO FORM: DENNIS J. HERRERA, City Attorney

By: /s/ Sarah A. Crowley
SARAH A. CROWLEY
Deputy City Attorney

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# City and County of San Francisco Tails

City Hall 1 Dr. Carlton B. Goodlett Place San Francisco, CA 94102-4689

#### Ordinance

File Number: 210421

Date Passed: October 19, 2021

Ordinance amending the Police Code to 1) allow Cannabis Business Permit applicants to qualify as Equity Incubators by supporting Equity Applicants prior to Cannabis Business Permit issuance and not only after permit issuance; 2) specify that Equity Incubators must provide support to Equity Applicants with which the Equity Incubators and their Owners have no ownership or profit-sharing arrangement in order to qualify as Equity Incubators; 3) give first priority for permit application processing to Equity Applicants that are sole proprietors or whose business is 100% owned by a combination of Owners that are verified Equity Applicants, give second processing priority to holders of Temporary Cannabis Business Permits that commit to sharing use of their facilities with one or more Equity Applicants, and add to the sixth (formerly fourth) processing priority Applicants that previously held Temporary Cannabis Permits, in addition to those that currently hold such permits; 4) prohibit transfers of more than a 50% ownership interest in a Cannabis Business for five years after the Office of Cannabis acknowledges receipt of an application for a Cannabis Business Permit for that Cannabis Business, instead of ten years from the date of permit issuance; 5) exempt transfers of ownership in a Cannabis Business triggered by an Owner's death from transfer limits that would otherwise apply; 6) require that a Cannabis Business seeking a permit amendment tied to reduction in the combined ownership interest of all verified Equity Applicants in that Cannabis Business below 20% meet substantial equity commitments as a condition of amending the permit; 7) establish that an Applicant's withdrawal of a Cannabis Business Permit application, unlike the abandonment of an application, will not bar a subsequent application from that Applicant from qualifying for priority processing; and 8) authorize the Director of the Office of Cannabis, at any point after an Applicant has submitted a Cannabis Business Permit application, to require an Applicant to submit needed information or documentation within 45 days, and declare an application abandoned if the Applicant fails to comply with the deadline without showing good cause for the failure; and affirming the Planning Department's determination under the California Environmental Quality Act.

September 23; 2021 Public Safety and Neighborhood Services Committee - AMENDED, AN AMENDMENT OF THE WHOLE BEARING NEW TITLE

September 23, 2021 Public Safety and Neighborhood Services Committee - RECOMMENDED AS AMENDED

October 05, 2021 Board of Supervisors - PASSED ON FIRST READING

Ayes: 11 - Chan, Haney, Mandelman, Mar, Melgar, Peskin, Preston, Ronen, Safai, Stefani and Walton

October 19, 2021 Board of Supervisors - FINALLY PASSED

Ayes: 11 - Chan, Haney, Mandelman, Mar, Melgar, Peskin, Preston, Ronen, Safai, Stefani and Walton

I hereby certify that the foregoing Ordinance was FINALLY PASSED on 10/19/2021 by the Board of Supervisors of the City and County of San Francisco.

> Angela Calvillo Clerk of the Board

London N. Breed Mayor 10/29/21

**Date Approved**