



City of Sonoma

Agenda Item Summary

Meeting: City Council - Feb 20 2019

Department

Staff Contact

Cathy Capriola, City Manager

Agenda Item Title

Review, Discuss, and Provide Direction on Local Regulation of Commercial Cannabis Activities and Approve a Resolution Authorizing a \$29,200 Base Contract Plus Associated Variable Application Costs From General Fund Reserves with HdL Companies to Provide Cannabis Management Consulting Assistance

Summary

Through 2018, the City Council engaged in the process of developing local regulations addressing medicinal and adult-use commercial cannabis activities including a community-based process to investigate and explore a medicinal dispensary (or dispensaries), as well as medicinal cannabis testing and manufacturing facilities. This process included two community workshops, held on March 28 and April 11, 2018. In addition, Council Members undertook field trips to dispensaries, manufacturing, and testing businesses in other communities. In May 2018, the City Council gave direction with a 3-2 vote to not allow any commercial cannabis in Sonoma city limits other than delivery for medicinal dispensaries. City ordinances were reviewed by the Planning Commission and approved by the City Council in fall 2018.

In the November 2018 election, there was a change in composition of the City Council. At the February 4th Quarterly Planning Agenda meeting, the City Council directed staff to schedule a discussion for commercial cannabis in order to review policy direction.

If the City Council decides to authorize a change in policy direction and approve some forms of commercial cannabis, there are a number of actions that will need to be taken to move forward.

1. Return to City Council for more specific policy direction on each of the items outlined above;
2. Develop a commercial cannabis regulatory ordinance;
3. Develop a merit-based application process and cost recovery fees;
4. Develop and conduct application review, scoring, merit-based ranking, interviews and selection process assuming limited number of businesses to be allowed; and
5. Develop a commercial cannabis tax measure for November 2020 election

In light of other work program requirements and Council goals, staff does not have the internal capacity or expertise to perform all of these tasks. Therefore, if there is Council direction to move forward to allow commercial cannabis activities, a consultant with expertise in this area will be required. Staff reached out to HdL Companies for a scope of work to provide cannabis management consulting assistance (see attachment).

HdL Companies was founded in 1983 and is a consortium of three companies established to maximize local government revenues by providing audit, compliance, economic development, consulting services and software products. Its audit and consulting services include sales, use and transaction taxes, property taxes, transient occupancy taxes, and a Cannabis Management Program. HdL provided excellent services on the recent initiative impact report and is working

with our City Attorney's in two other cities which will provide some efficiency and cost savings versus selecting another firm.

The purpose of the February 20th Council meeting is to get broad policy direction regarding commercial cannabis and receive Council's direction on hiring a cannabis management consulting firm to initiative the specific work products. The supplemental report has information from the May 20, 2018 Council Meeting where the Council decided to not allow commercial cannabis. The same policy questions are relevant now based on the Council's desire to revisit this policy issue.

Based on this direction, staff is seeking direction from the City Council at a high level in five decision areas regarding commercial cannabis:

1. Interest in allowing dispensaries?
 - Number of dispensaries?
 - Medicinal only?
 - Medicinal and Adult Use?
2. Interest in allowing Testing
 - Number?
 - Medicinal only?
 - Medicinal and Adult Use?
3. Manufacturing Facilities
 - Number?
 - Medicinal only?
 - Medicinal and Adult Use?
4. Other cannabis commercial businesses?
5. Taxation of commercial cannabis
 - Look at taxing ordinance for November 2020 election?
6. Cost Recovery
 - Include cost recovery in merit-based application process?
7. Other general thoughts and feedback regarding commercial cannabis?
8. Additional information or research that the Council would like to have if there is a decision to move forward?

There are a number of more specific policy issues that the City Council will need to consider regarding commercial cannabis including buffer maps, distance between commercial cannabis businesses, process and criteria for a merit-based selection process, etc. These more detailed policy issues will be best discussed when HdL Company can be present to provide their recommendations and expertise to the discussion.

Recommended Council Action

Review, discuss, and provide direction on local regulation of commercial cannabis activities and approve resolution authorizing \$29,200 base contract plus variable application costs from General Fund Reserves with HdL Companies to provide cannabis management consulting assistance.

Alternative Actions

Council discretion.

Financial Impact

Implementing commercial cannabis business could result in the generation of sales tax revenues and special tax revenues, if a cannabis excise tax is placed on the ballot and adopted by city voters.

There is also the opportunity to recovery costs associated with hiring a consultant and City Attorney costs for any application process for commercial cannabis businesses.

Environmental Review

- Environmental Impact Report
- Negative Declaration
- Exempt
- Not Applicable

Status

- Approved/Certified
- No Action Required
- Action Requested

Attachments

[Cannabis Direction SR - supplemental FINAL 2.0](#)
[Resolution - HdL Companies Cannabis Implementation FINAL](#)
[HdL Scope of Work Cannabis - City of Sonoma February 12 2019 FINAL](#)

Alignment with Council Goals:

Not Applicable

Compliance with Climate Action 2020 Target Goals:

N/A

CC:

Cannabis interest list (via email)
HdL Companies – David McPherson and Mark Lovelace

SUPPLEMENTAL REPORT

Review, Discuss, and Provide Direction on Local Regulation of Commercial Cannabis Activities and Approve a Resolution Authorizing a \$29,200 Base Contract Plus Associated Variable Application Costs with HdL Companies to Provide Cannabis Management Consulting Assistance

For the City Council Meeting of February 20, 2019

Commercial Cannabis Uses: State and Local Relationships

All commercial cannabis businesses must have a State license and a State license cannot be issued to an applicant whose operations would violate the provisions of any local ordinance or regulations. However, the burden is on the State licensing agency (the newly created Bureau of Cannabis Control) to check with the local jurisdiction to see whether an applicant is in violation of local law.

Local jurisdictions retain land use authority as to the regulation of commercial cannabis activities. They may prohibit such businesses entirely, allow only some, or allow them subject to locally developed regulations that fit local needs. SB 94 establishes that local jurisdictions have the authority to regulate cannabis businesses and to take enforcement action concerning Fire and Building Codes, conduct inspections, and implement audits.

Existing City of Sonoma Regulations

Currently, the personal cultivation of cannabis and commercial cannabis activities are regulated under ordinances adopted by the City Council in Fall 2018, as follows:

- Indoor personal cultivation of cannabis (medicinal and recreational) is allowed, subject to restrictions, including a limit of six plants per residence. Outdoor personal cultivation of cannabis (medicinal and recreational) is prohibited except that three plants can be placed outside and not in a greenhouse. There may be cultivation within a greenhouse that has a building permit which is considered indoor cultivation and therefore not subject to the 3 plant limit.
- Commercial cannabis activities are prohibited, with the limited exception of medical cannabis deliveries from licensed dispensaries located outside of city limits.

Update on Applications in the Unincorporated Area

In May 2018, there were two applications under review for dispensaries within the unincorporated area of Sonoma Valley, one at 15499 Arnold Drive and one at 105 Fremont Drive. Staff has asked County staff for an update regarding all cannabis applications in the unincorporated area of the Sonoma Valley and hope to have for Wednesday's Council meeting.

Consulting Assistance – Contract with HdL Companies

If the City Council decides to authorize commercial cannabis businesses, a number of actions will need to be taken to implement that direction. In light of other work program requirements and Council goals, staff does not have the internal capacity or expertise to perform these tasks. Should the City Council decide to move forward, staff recommends the City hire HdL Companies to prepare the work products outlined in the proposal and work with the City

Attorney's office. HdL has extensive experience preparing these work products and is prepared to work with the City of Sonoma. The City Attorney's Office is already working with HdL in two other Bay Area cities which should result in some cost efficiencies as well. Attached is a draft scope of work from HdL and a resolution authorizing the contract and budget adjustment should the Council want to move forward.

Policy Direction

Based on Council's direction to review policy direction on commercial cannabis, staff has pulled the policy matrixes that were used at the May 30, 2018 Council meeting for broad direction. Some of the more detailed direction (buffers, size, etc.) would be discussed in a Council meeting with consultants from HdL present to facilitate this discussion to ensure they have the information they need to draft any ordinances, policies or procedures.

Decision Area #1: Dispensaries and Medicinal / Adult Use

A primary focus of the City Council’s consideration of commercial cannabis activities is whether to allow a medicinal dispensary or dispensaries within city limits. The table below is staff’s

Dispensary Options				
Activity/Potential Regulatory Elements	Option A	Option B	Option C	Option D
	Medicinal Delivery Allowed From Outside Dispensaries	Local Medicinal Dispensary; No Storefront; Delivery Only	Local Medicinal Dispensary Allowed with Storefront and Delivery	Local Storefront Medicinal Dispensary and Adult Use Retail
Delivery Services	Deliveries allowed from licensed dispensaries outside of city limits.	Delivery service allowed within city limits, but no storefront.	Option to allow deliveries from dispensary.	Option to allow deliveries from dispensary.
Adult Use Retailing	Prohibited.	Prohibited.	Prohibited.	Adult Use retail allowed.
<i>Option - Number of Business</i>	N.A.	Limit of one, subject to competitive review process. Allowance for two or more, subject to competitive review process. Allowance for two or more, compliance with set standards only.		
<i>Option - Size Limits</i>	N.A.	Size limit (e.g., 2,000 square feet). No size limit.		
<i>Option - Location Restrictions</i>	N.A.	Prohibited in Downtown District. Separation requirement (e.g. 1,000 feet from any other dispensary). No location restrictions.		
<i>Option - Buffering Requirements</i>	N.A.	600 feet from Schools (State default buffer). Additional buffer zones (e.g., residences, youth-serving facilities).		
<i>Option - Definition of “Youth Center”</i>	N.A.	Includes Library, Day-care Centers, Teen Centers. Excludes one or more of the above.		
<i>Option - Allowable Zoning Districts</i>	N.A.	Commercial zones only. Commercial and Mixed Use.		
<i>Option - Permit Type</i>	N.A.	License/Planning Commission Approval (does not run with land). Use Permit (runs with land). License/Administrative Approval.		
On-site Consumption	N.A.	Prohibited.		

attempt to summarize the main options and sub-options relating to an allowance for dispensaries, ranging from maintaining the current prohibition to allowing multiple store-front medicinal and adult use retailers. The light grey shaded boxes will be reviewed in more detail with HdL at a future policy discussion.

Decision Area #2: Testing and Manufacturing

The issues associated with manufacturing and testing may be simpler, in that neither would involve a retail component. Because Sonoma does not have industrial zoning districts that allow for manufacturing processes involving hazardous materials, cannabis manufacturing uses in Sonoma, if allowed, should be limited to processes that do not make use of volatile solvents. In staff's view, the types of uses most likely to occur would be the manufacturing of food products,

Manufacturing and Testing Options		
Potential Regulatory Elements	Manufacturing	Testing
<i>Option - Classification</i>	Medicinal/Adult Use/Both.	Both.
<i>Option - Number of Business</i>	Limit of one. Allowance for two or more. No set limit.	
<i>Option - Size Limits</i>	Size limit (e.g., 2,000 square feet). No size limit.	
<i>Option - Location Restrictions</i>	Prohibited in Downtown District. Separation requirement (e.g. 1,000 feet from any similar use). No location restrictions.	
<i>Option - Buffering Requirements</i>	600 feet from Schools (State default minimum). Reduced School buffer. Additional buffer zones (e.g., residences, youth-serving facilities).	
<i>Allowable Zoning Districts</i>	Commercial zones only. Commercial and Mixed Use.	
<i>Permit Type</i>	License/Planning Commission Approval (does not run with land). Use Permit/Planning Commission Approval (runs with land). License/Administrative Approval.	

oils, tinctures, and similar items that could be marketed specialty or artisanal products. Such activities generally correspond to the following use types already allowed subject to use permit review in the Commercial zoning districts and the Mixed Use zone: “Artisans/Craft Product Manufacturing” and “Food and Beverage Manufacturing”.

Decision Area #3 - Taxation

Current State law gives local governments the ability to place excise taxes on cannabis businesses on the ballot for possible approval by the voters. In order to have a general tax requiring only 50% plus 1 with the revenue to be used for any governmental purpose, it must be

placed on an election where City Council Members are on the ballot. The next election meeting this criteria will occur on November 2020.

Some local governments have chosen to place a tax measure before the voters which authorizes a maximum tax rate on commercial cannabis businesses (example 10% of gross receipts) and authorizes the City Council to establish the actual rate by City Council resolution. This allows flexibility to set a lower initial rate and then adjust based on future trends. This approach also gives the City Council to establish individual rates for each cannabis business category (i.e. 3% on dispensaries, 1% on testing labs, 4% on manufacturing as possible examples).

Tax rates should be considered in light of the overall tax burden on cannabis industries which includes State Sales and Use taxes, State excise taxes, and Federal income taxes (which preclude normal business deductions due to the federal classification of cannabis as a schedule 1 drug).

This is another area that would be reviewed with the City Council and the HdL consultant a little later in the process.

Decision Area #4: Cost Recovery

Questions in this area include the following:

- Does the City Council want impose an application fee to cover full costs?
- Does the City Council want to impose on-going administrative fees to cover full costs?

Generally speaking, it is staff's recommendation that full cost recovery be implemented.

This is another area that would be reviewed with the City Council and the HdL consultant a little later in the process.

Recommendation

Staff recommends that the City Council provide broad direction in the decision areas identified above. If the Council decides to move forward to allow commercial cannabis, staff recommends Council approve the contract with HdL to provide consulting assistance.

City of Sonoma

RESOLUTION #____ - 2019

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SONOMA, CALIFORNIA
APPROVING \$29,200 BASE CONTRACT PLUS VARIABLE APPLICATION COSTS
FROM GENERAL FUND RESERVES WITH HdL COMPANIES TO PROVIDE CANNABIS
MANAGEMENT CONSULTING SERVICES**

WHEREAS, through 2018, the City Council engaged in the process of developing local regulations addressing medicinal and adult-use commercial cannabis activities including a community-based process to investigate and explore a medicinal dispensary (or dispensaries), as well as medicinal cannabis testing and manufacturing facilities; and,

WHEREAS, in May 2018, the City Council gave direction with a 3-2 vote to not allow any commercial cannabis in Sonoma city limits other than delivery for medicinal dispensaries. City ordinances were reviewed by the Planning Commission and approved by the City Council in fall 2018; and,

WHEREAS, after the November 2018 election, there was a change in composition of the City Council. At the February 4th Quarterly Planning Agenda meeting, the City Council directed staff to schedule a discussion on commercial cannabis in order to review policy direction; and

WHEREAS, should the City Council wish to proceed with commercial cannabis, outside consulting assistance will be needed; and

WHEREAS, HdL Companies was founded in 1983 and is a consortium of three companies established to maximize local government revenues by providing audit, compliance, economic development, consulting services and software products. Its audit and consulting services include sales, use and transaction taxes, property taxes, transient occupancy taxes, and a Cannabis Management Program; and,

WHEREAS, staff has obtained a proposal for Council's consideration with a base cost of \$29,200 and variable application costs fee for the merit-based selection process.

WHEREAS, the great majority of these costs may be recovered through an application fee for those cannabis businesses that apply through a merit-based application process.

BE IT RESOLVED, by the City Council of the City of Sonoma desires to allow commercial cannabis and therefore requires outside consulting assistance to move forward this policy initiative.

BE IT FURTHER RESOLVED that the City Council of the City of Sonoma approves the following:

1. Approve base cost of \$29,200 plus \$3,000 per application review fee plus required background checks for the merit-based selection process from General Fund Reserves to be transferred to the FY 18/19 Budget (Planning Department) to fund this initiative including approving this budget adjustment.

2. Authorize the City Manager to execute a \$29,200 contract plus variable application costs with HdL Companies for cannabis management consulting services.

PASSED AND ADOPTED at a Regular Meeting of the City Council on February 20, 2019.

AYES:
NOES:
ABSENT:
ABSTAIN:

Amy Harrington, Mayor

ATTEST:

Rebekah Barr, MMC, City Clerk

City of Sonoma

Cannabis Management Services

February 12, 2019

HdL  Companies

SUBMITTED BY

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I. LETTER OF TRANSMITTAL

February 12, 2019

Cathy Capriola, City Manager
City of Sonoma
No. 1 The Plaza
Sonoma, CA 95476-6618

Re: Proposal for Cannabis Management Services

Dear Ms. Capriola,

Thank you for the opportunity to submit this proposal for cannabis management services for the City of Sonoma. The enclosed scope of services includes a comprehensive process to regulate cannabis businesses through the development of land use and regulatory ordinances, to design a merit-based application process, to review applications and interview applicants, establish cost recovery fees, and to develop a possible cannabis tax measure for the November 2020 ballot.

HdL was incorporated in 1983 and has over 30 years of experience providing revenue enhancement and consulting services to local governments in California. HdL is a consortium of three companies established to maximize local government revenues by providing audit, compliance, economic development, consulting services and software products. Its audit and consulting services include sales, use and transaction taxes, property taxes, transient occupancy taxes, and a Cannabis Management Program. HdL's systematic and coordinated approach to revenue management and economic data analysis is currently being utilized by over 500 agencies in six states. The firm currently serves 49 counties, 311 cities and 132 transactions tax districts in California.

Our knowledgeable team of professionals have more than 46 years' combined experience in the establishment and implementation of cannabis regulatory programs including establishing land-use regulations, registration processes, operation regulations for cannabis facilities, staffing plans, cost recovery, structuring cannabis business taxes and conducting compliance and financial audits.

We look forward to the opportunity to partner with the City of Sonoma in developing a strategy which meets your program needs. If you have any questions or require additional information, please feel free to contact me by email at anickerson@hdlcompanies.com or David McPherson at dmcpherson@hdlcompanies.com or by phone at 714.879.5000.

Sincerely,



Andy Nickerson
President, HdL Companies

II. PROPOSED SCOPE OF SERVICES

The City of Sonoma has retained HdL Companies in the past to provide expert analysis of the potential impacts of a proposed citizen’s initiative that would have legalized commercial cannabis uses within the City. The City Council has expressed a desire to review existing direction on commercial cannabis businesses. City staff have asked HdL to provide a scope of work for the Council’s review.

This proposal outlines assistance from HdL to develop a regulatory ordinance, design and conduct a merit-based application review and selection process, and establish appropriate cost recovery fees. Development of these regulations would be based on input received from the City Council and would address the types of activities to be allowed, sensitive use buffers, land use issues, cost recovery and other community impacts.

Following the development of the regulatory ordinance, a similar process could be used to develop an accompanying cannabis business tax for the November 2020 ballot. This step would involve discussion by the City Council in early 2020, followed by the preparation of a detailed fiscal analysis, to inform the development of a tax ordinance.

It is anticipated that this process would begin in March with discussion at a City Council meeting to provide specific direction for development of the ordinance. Once direction has been provided, HdL would proceed with the development of the draft regulatory ordinance and would provide assistance to City staff in developing accompanying land use regulations as needed. This would be followed with the design of the application, review and selection process and development of cost recovery fees in May or June. The window for accepting applications would likely fall into July and August, followed by the review, interview and selection process in August through October.

The workplan anticipates that development of the cannabis tax measure and fiscal analysis would begin with City Council direction in Fall of 2019 and would continue into the early part of 2020. Final approval of the tax ordinance and associated ballot measure would likely occur in April or May of 2020 to allow adequate lead time to place it on the November 2020 ballot. The estimated timeline is shown in the table below.

Estimated Timeline	
March 2019	City Council meeting to provide policy direction
April – June 2019	Regulatory ordinance development
July 1, 2019	Final approval of regulatory ordinance must happen by this date
July – August 2019	Design Application Process and Cost Recovery Fees
July – August 2019	Window to Accept Applications
August – October 2019	Application Reviews and Applicant Interviews
August – October 2019	City Council meeting to provide policy direction on tax measure
October 2019 – April 2020	Development of tax ordinance, fiscal analysis and ballot measure
April – May 2020	Final approval of tax ordinance and ballot measure

Objective 1: Cannabis Policy Direction

HdL shall provide an informational presentation at a City Council meeting to educate the City Council about the range of issues, concerns and considerations to be taken into account in the development of a cannabis regulatory ordinance. These considerations shall include the types of commercial cannabis activities to be allowed, their appropriate locations and zoning, defining sensitive use buffers, adult use versus medicinal use, the application process, cost recovery fees, and potential cannabis tax structures and rates. This meeting will also help the City Council to gauge community concerns about the potential community impacts of the various types of cannabis businesses, which would help inform the development of a regulatory ordinance.

Objective 2: Develop Draft Cannabis Regulatory Ordinance

Consultant shall develop a draft cannabis regulatory ordinance that addresses community concerns and complies with all applicable State laws. The draft ordinance shall include specific regulations for each of the various cannabis business types as directed by the City, including cultivation, manufacturing, distribution, microbusinesses, retailers, and/or testing laboratories. HdL shall ensure that the proposed ordinance complies with all State and local laws and reflects evolving best practices within the industry.

As a part of this objective, HdL shall assist City staff as necessary with the development of appropriate land use regulations, including determination of appropriate zoning for the various commercial cannabis business types, applying sensitive use buffers, and other considerations. HdL staff shall be available to attend one Planning Commission meeting and the first reading of the ordinance at a City Council meeting.

Objective 3: Application Process Development and Cost Recovery Fees

Consultant shall design an application process that includes merit-based review, ranking and final selection of cannabis business permittees. The process shall include evaluation criteria consistent with the draft ordinance and shall ensure that all information desired by the City is incorporated into the cannabis business application form and procedures. HdL shall provide all necessary application forms, as well as procedures, guidelines, indemnification forms, background information releases, and other required documents. HdL shall present the details of the proposed application and selection process at a City Council meeting for discussion and review.

HdL will develop cost recovery fees by analyzing the costs of staff time, overhead, fringe benefits, consultants and other services associated with the regulatory process. HdL staff has experience developing cannabis regulatory fees that comply with Proposition 26 by performing a “fit gap” analysis of staff responsibilities and time allotted to this program to establish appropriate fees for the City’s level of oversight and enforcement of the regulatory process.

Objective 4: Application Reviews, Merit-Based Ranking and Interviews

HdL staff will conduct an initial screening of all applications for completeness based upon an objective checklist of required documentation but shall allow for some limited discretion in determining whether submitted documents are substantively complete. Applications deemed incomplete will be disqualified and those applicants will not be allowed to submit any supplemental information.

Applications which have been deemed complete will move forward for a full review, including scoring and merit-based ranking. Applicants must provide detailed information on how they plan to meet the required criteria. An applicant's point score shall be based on their demonstrated ability to meet or exceed minimum requirements in each category.

Reviews shall identify both strengths and weaknesses of each application as well as any deficiencies or areas of concern. Reviews shall be adequately detailed to inform the subsequent interview process but shall not contain any recommendations for approval or denial, other than a numerical score. Proposed actions described in the applications shall be considered binding conditions of any resulting permit. Failure to meet or comply with any such requirements after a permit has been granted will subject the applicant to penalties and/or revocation proceedings.

HdL will design and conduct an interview panel for all applicants that receive passing scores.

HdL shall compile all scores from both the application review process and the applicant interviews and shall prepare a final report for the City, which shall inform the final determination of which applicants shall be granted permits.

HdL is qualified to provide supplemental background checks for principals and employees of cannabis businesses as part of the application process. This service may be provided at an additional cost of \$300 per person for owners or managers, and \$150 per person for line staff. This price includes an employee identification card designed by HdL with the City logo which will meet all the state regulation requirements.

Objective 5: Development of a Cannabis Business Tax Measure

HdL shall assist the City with the development of a cannabis business tax measure for the November 2020 ballot. This process will begin with discussion and policy direction at a City Council meeting in Fall of 2019, which would include analysis of different tax structures and rates for the various types of commercial cannabis businesses, emerging statewide norms, and the effect of cumulative State and local taxes on the industry.

Council direction will also guide the development of a fiscal analysis. This analysis will consider the likely number, type and size of cannabis businesses that may locate in the City and the likely revenues that may be generated by applying a range of tax rates and structures.

HdL will use direction from the City Council and information derived from the fiscal analysis to develop a draft tax measure and to provide revenue projections necessary for the ballot

measure's fiscal impact statement. HdL staff will be present at a City Council meeting for the first reading of the tax ordinance.

Objective 6: Contingency

Consultant shall be available to provide up to 10 hours of additional assistance on an as-needed basis at the City's request. Such assistance may include monitoring of changes to State laws and regulations, understanding of the industry, participation in conference calls, responding to staff inquiries via phone and email, reviewing staff reports to the City Council, assisting with responses to inquiries from the public, or other issues yet to be determined as requested by the City. Contingency funds may only be accessed upon prior authorization from the City.

Additional Services

This proposal assumes that HdL will not be asked to review any supplemental information provided by applicants, and that HdL will not be a part of any appeal process. Any such additional reports or documentation that may be requested by the City would be in addition to the costs shown in the table below and shall be billed at HdL's hourly rate.

Regulatory Compliance Reviews and Financial Audits

HdL's Cannabis Management Team has over 46 years combined experience conducting approximately 16,000 cannabis compliance inspections, financial audits and investigations in Colorado, California and Nevada. HdL can provide annual compliance reviews and financial audits at the following rates for each cannabis business permitted in the City.

- A. Conduct one (1) financial audit annually for each permit at a rate of \$6,000.
- B. Conduct one (1) compliance review annually for each permit at a rate of \$1,250.
- C. Conduct one (1) financial audit and one (1) compliance review annually for each permit at a rate of \$7,250.
- D. Conduct one (1) financial audit and one (2) compliance reviews annually for each permit at a rate of \$8,500.
- E. Conduct one (1) financial audit and one (3) compliance reviews annually for each permit at a rate of \$9,750.
- F. Conduct one (1) financial audit and one (4) compliance reviews annually for each permit at a rate of \$11,000.

III. COST

The proposed services are broken down into specific line items in the cost table below. Some of these services may include both fixed costs for developing and initiating each of the various components of the program and variable costs based on the number of applicants or businesses. HdL's fees are based on time, materials and travel-related expenses associated with the execution of the services.

The cost for the objectives below includes a total of six site visits to attend meetings of the City Council and Planning Commission, as described in the above Scope of Services.

All costs under Objective 4, including background checks, would be paid by cannabis business applicants as a part of the application process. All costs under Objectives 1, 2, 3 and 6 would be incorporated into the cost recovery fee study to be apportioned appropriately among permitted businesses.

The hours and costs in the table below do not include any additional items that are not contemplated by this scope of services. Any additional services requested by the City will be billed at HdL's hourly rate. Prices are valid for 90 days from February 12, 2019.

Scope of Service Objectives	Estimated Cost
Objective 1: Conduct a presentation for City Council and receive policy direction	\$1,800
Objective 2: Develop a commercial cannabis regulatory ordinance	\$8,600
Objective 3: Develop merit-based application process and cost recovery fees	\$9,000
Objective 4: Application reviews, scoring, merit-based ranking, interviews and selection process	\$3,000 per applicant
Background Checks: To be conducted as a part of the application review process. Price per individual.	\$300 per owner/manager \$150 per line staff
Objective 5: Develop a commercial cannabis business tax measure	\$6,800
Objective 6: Contingency	\$3,000
ESTIMATE OF COSTS	
Fixed Costs (Objectives 1, 2, 3, 5 and 6)	\$29,200
Application reviews and interviews (assumes 10 applications)	\$30,000

ESTIMATE OF TOTAL COSTS	\$59,200 plus background checks
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IV. EXPERIENCE AND RESOURCES

Company Profile

Founded in 1983, HdL is a consortium of three companies established to maximize local government revenues by providing audit, compliance, economic development, consulting services and software products. Its audit and consulting services include sales, use and transaction taxes, property taxes, transient occupancy taxes, and a Cannabis Management Program. The firm also provides a variety of enterprise software processing tools for business licensing, code enforcement, animal control, building permits and tracking/billing of false alarms. HdL's systematic and coordinated approach to revenue management and economic data analysis is currently being utilized by over 500 agencies in six states. The firm currently serves 49 counties, 311 cities and 132 transactions tax districts in California.

HdL's key staff has extensive experience serving local government and many have previously held positions in city management, finance, planning, economic development or revenue collection. HdL is a Corporate Partner of the League of California Cities and California State Association of Counties and works extensively with the County Auditor's Association of California, California Society of Municipal Finance Officers (CSMFO) and California Municipal Revenue and Tax Association (CMRTA) on anticipation and planning of programs to strengthen local government revenues.

This close understanding of local government needs coupled with extensive databases and advanced methodology provides for the most relevant, productive and responsive revenue recovery; forecasting; and economic services available.

Our team of professionals has over 46 years of direct experience establishing and implementing cannabis regulatory and taxation programs, including establishing land-use regulations, permit processes, staffing plans, and cost recovery fees; structuring cannabis business tax fees; regulatory compliance; financial audits; and law enforcement training. Our team has conducted over 16,000 cannabis compliance inspections and investigations in Colorado, California and Nevada.

Key Personnel

David McPherson, Cannabis Compliance Director

David McPherson works with local agencies to prepare them to mitigate regulatory issues surrounding Proposition 64 and SB 94. Prior to joining HdL, David served 28 years in local government for the County of Orange and the cities of Newport Beach, San Jose and Oakland. David's experience as a law enforcement officer, compliance auditor, and tax

administrator has provided him a wealth of experience that makes him uniquely qualified to manage HdL's Cannabis Management Program. While working for the City of Oakland, he became the first Tax Administrator in the country to successfully tax, regulate and audit medical marijuana businesses. David has over 8 years of experience working with cannabis regulatory programs.

David is one of the state's most recognized experts in cannabis regulatory policies, compliance implementation and tax policies. His unique knowledge in horticulture, processing and dispensary operations while working for the City of Oakland has made him one of the pioneers in creating a Cannabis Management Program. He uses his experience to assist local and state agencies in developing cannabis policies for regulation, compliance, auditing and economic development. He worked closely with the League of Cities and lobbyists on the development of the Medical Cannabis Regulation and Safety Act (MCRSA) and helped shape SB 94, the Medicinal Adult-Use Cannabis Regulation and Safety Act (MAUCRSA).

David provides technical support on cannabis-related matters to the League of Cities, the Police Chief's Association, Rural County Representatives of California and the California State Association of Counties. In addition, David is working collaboratively with the Department of Consumers Affairs, Department of Food & Agriculture, Department of Health Services and the State Board of Equalization on the implementation of best practices for regulating the cannabis industry for local agencies.

David received his Bachelor's Degree in History from California State University, Fullerton and his Master's Degree in Public Administration from California State University, Long Beach. While at Long Beach, he was named "Future Urban Administrator of the Year".

Tim Cromartie, Senior Cannabis Advisor

Tim Cromartie is a Senior Cannabis Advisor at HdL, in which his primary role is providing policy expertise related to cannabis regulatory and tax policies at the state and local level. Prior to joining HdL, Tim served as the legislative representative covering public safety issues for the League of California Cities since 2013, with a heavy emphasis on shaping legislation governing state and local regulation of marijuana. He has been actively involved in educating cities on changes in the law resulting from the Medical Cannabis Regulation and Safety Act, as well as Proposition 64, the Adult Use of Marijuana Act. When these two Acts were merged into a single regulatory structure in 2017, Tim successfully advocated for clarification of local government's regulatory and enforcement authority in the cannabis context, and for related environmental safeguards in cultivation operations, protections against over-concentration of businesses, regulation of testing labs, and the inclusion of fire safety standards and a definition of volatile solvents in state law governing cannabis manufacturing operations. Since then he has been engaged in educating local governments on the more recent Medical and Adult Use Cannabis Regulation and Safety Act (MAUCRSA), as well as advocating for a reduction in the cumulative state tax rate for cannabis, improvements in the state's track-and-trace program, and the restoration of a statewide cultivation cap.

Prior to the League, he held a variety of positions in the Legislature and state government, including legislative representative for CalPERS Governmental Affairs, legislative director and public safety consultant to former state Senator Gloria Romero, and field representative for Congresswoman Barbara Lee during her term in the state Senate. Mr. Cromartie holds degrees from the University of California at Berkeley (B.A. Political Science) and UC Hastings College of the Law. Tim is an ardent aviation buff and a member of the California Aerospace Museum at the site of the former McClellan Air Force Base in Sacramento.

Matt Eaton, Cannabis Compliance Manager

Matt Eaton is the Cannabis Compliance Manager at HdL and plays a critical role in implementing the Cannabis Compliance Program for local agencies. Prior to joining the firm, he was a progressive law enforcement professional with 29 years' experience conducting criminal/regulatory investigations, and corporate/individual background investigations.

While working as a Supervisory Investigator at the Colorado Department of Revenue in the Marijuana Enforcement Division (MED), Matt managed criminal investigators and civilian staff in the Denver Metro and Longmont field offices. During his six-year tenure at the MED, he conducted approximately 10,000 criminal investigations and compliance reviews which included regulatory and financial investigations. In addition, he is a subject matter expert on track and trace systems. He understands the complexity of reviewing data to ensure businesses are in compliance with state and local regulations. Matt was responsible for planning, developing and implementing report and field inspection protocols for the agency. He also played an instrumental role in recommending changes to current regulations and identifying essential language for new legislation in Colorado. Matt is well known for his ability to maintain working relationships with cannabis industry leaders and external stakeholders in resolving issues.

Matt received his Bachelor of Science Degree from Biola University and currently maintains a Colorado Post Certificate. He has also served as an adjunct instructor teaching law enforcement principle related to criminology, correctional processes, procedural law, interviews, interrogations and criminal evidence at AIMS Community College in Greeley, Colorado.

Mark Lovelace, Cannabis Policy Advisor

Mark Lovelace has 16 years of broad experience in public policy, community engagement and advocacy and is recognized as a leader in advancing the statewide discussion of medical and recreational cannabis as a policy issue in California.

Mark served on the Humboldt County Board of Supervisors from 2009 through 2016 where he was instrumental in developing a comprehensive approach to regulating cannabis, including a voter-approved tax on commercial cultivation and an innovative track and trace

pilot program. Mark established and co-chaired the Medical Marijuana Working Group for the California State Association of Counties (CSAC) and helped draft CSAC's legislative platform for cannabis issues. Mark pioneered the first-ever six-County regional summit on cannabis issues in 2015 which resulted in the North Coast Counties Marijuana Policy Statement. His work and input were pivotal in guiding the development of SB 643 and AB 243, two components of the Medical Cannabis Regulation and Safety Act (MCRSA).

Mark has worked extensively with public agencies and statewide associations on cannabis issues, including CSAC, Rural County Representatives of California, the Association of California Water Agencies, the North Coast Resource Partnership, California Department of Fish and Wildlife, the State Water Board, the North Coast Regional Water Board, the Bureau of Medical Cannabis Regulation, state legislators, the Department of Justice, members of Congress and others. He has led numerous presentations, workshops and panel discussions on cannabis issues and has been a sought-after speaker on the topic for government agencies, community organizations and cannabis industry groups.

Mark received his Bachelor of Science Degree in Industrial and Product Design from California State University, San Jose. Prior to his time on the Board, he worked for many years as a respected advocate on land use, planning, development and environmental issues.

Billie-jo Naysmith, Cannabis Compliance Manager

Billie-jo Naysmith is a Cannabis Compliance Manager at HdL in which she plays a diverse role in implementing the Cannabis Compliance Program for local agencies in both California and Colorado. Prior to joining the firm, she was a progressive law enforcement professional with 23 years' experience conducting criminal/regulatory investigations, cannabis applicant background investigations and complex financial investigations.

While working in the Office of the Colorado Attorney General as a Criminal Investigator she investigated Financial and Securities Fraud specializing in cannabis business activity. In addition, she worked closely with forensic accountants analyzing financial records to determine if criminal activity occurred.

During her tenure as a Supervisory Investigator at the Colorado Department of Revenue in the Marijuana Enforcement Division (MED), Billie-jo managed criminal investigators and civilian staff in the Denver Metro and Longmont field offices. During her five-year stretch at the MED, she conducted approximately 5,000 criminal investigations and compliance reviews which included regulatory and financial investigations. In addition, she is a subject matter expert on track and trace systems where she has conducted data analysis in order to assist in complex cannabis regulatory investigations. She understands the complexity of reviewing data to ensure businesses follow state and local regulations. Billie-jo was responsible for assisting in the strategic planning for the division which included providing training for investigators. Furthermore, Billie-jo participated in collaborative rulemaking work groups and focus groups with cannabis industry leaders and external stakeholders to develop best practice regulations. She also provided critical recommendations for the

agencies cannabis rules and regulations by addressing key loop holes in the Colorado legislation which was subsequently amended. In addition, Billie-jo formed essential partnerships with federal, state and local law enforcement agencies as well as local licensing authorities.

Billie-jo received her Bachelor of Science Degree in Business Administration from Colorado Christian University where she graduated with the distinction of Suma Cum Laude. She also currently maintains a Colorado Post Certificate.

Kami Miller, Cannabis Senior Auditor

Kami Miller is a Cannabis Senior Auditor at HdL whose primary role is to ensure cannabis compliance and identify the risk assessment in the supply chain process of each permitted business. Prior to joining the firm, she served three years as a Marijuana Compliance Manager for the Department of Public Behavior and Health (DPBH) for the State of Nevada. During this time Kami played a key role in Nevada's implementation of its Medical Marijuana Program in which she was responsible for statewide monitoring of medical marijuana facilities that included cultivation, production, testing labs and retail stores.

During her tenure at the DPBH, Kami managed compliance auditors and support staff in the Las Vegas office. She conducted approximately 1,000 compliance and financial inspections for which she developed the inspection protocols documentation to create comprehensive reports. In addition, her experience with various cannabis track and trace systems allowed her to develop industry supply chain practices for the Department of Taxation.

Kami received her Bachelor of Business Administration in E-Commerce and Supply Chain Management from Tennessee State University.

Elizabeth Eumurian, Cannabis Senior Auditor

Elizabeth Eumurian is a Cannabis Senior Auditor at HdL. Her primary role is to conduct financial audits, evaluate cannabis applications and conduct background checks. As part of the audit program, she will be conducting and preparing analytical information through the CATS™ program to prepare Tax Analytical Remittance Reports (TARR) summaries to evaluate under reporting or anomalies in the remittance of tax payments to local jurisdictions.

Elizabeth previously worked as a senior auditor in the entertainment industry. In this role, she executed testing procedures for targeted audit programs, analyzed findings and prepared audit and compliance reports. She also has experience working for a large financial institution analyzing data for reporting anomalies and performing internal audits. Elizabeth has recently done work for Blythe, California City, Coachella, Cotati, Desert Hot Springs, Long Beach, Mammoth Lakes, Moreno Valley, Perris, San Bernardino, and Vallejo.

She earned her Bachelor of Arts degree in History from California State University, Fullerton. She has also received a certificate in CannaBusiness from Oaksterdam University.

Alfredo Marquez, Cannabis Senior Auditor

Alfredo Marquez is a Cannabis Senior Auditor at HdL. His primary role is to conduct financial audits.

Alfredo previously worked for Teledyne Technologies analyzing risk assessments for acquiring new businesses and various units in the organization. In this role he worked with people at various levels in the organization and successfully conducted financial, Sarbanes Oxley and compliance audits across North America, Latin America, Europe, and Asia. Alfredo has recently done work for Cotati, Cloverdale, Desert Hot Springs, Mammoth, Perris, and Vallejo. He earned his Bachelor's Degree in Accounting from the University of La Verne.

Michelle Shaw, Cannabis Compliance Inspector

Michelle is a Cannabis Compliance Inspector at HdL and is tasked with conducting onsite inspections, examinations and other actions to monitor compliance with established standards for local licensed cannabis businesses. Prior to joining HdL, she was a Compliance Specialist Officer at a large, multinational bank where she managed, validated and oversaw the effectiveness and accuracy of numerous compliance issues within the consumer retail space. Throughout her eight years of experience at the bank, she performed onsite assessments of affiliate businesses to determine compliance/non-compliance of their processes and procedures pursuant to bank standards and state regulations.

A graduate of Cypress College, Michelle holds a Foundations of Banking Risk certificate from the Global Association of Risk Professionals and a paralegal certificate from the Southern California College of Business and Law.

V. REFERENCES

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