

City of National City

Cannabis Management Services

April 19, 2019

HdL[®] Companies

SUBMITTED BY

HdL Companies
120 S. State College Blvd., Ste 200
Brea, CA 92821
hdlcompanies.com

CONTACT

David McPherson
T: 714.879.5000
E: dmcpherson@hdlcompanies.com

ATTACHMENT 2

TABLE OF CONTENTS

I. LETTER OF TRANSMITTAL 2

II. PROPOSED SCOPE OF SERVICES..... 3

III. COST 7

IV. EXPERIENCE AND RESOURCES8

V. REFERENCES 14

I. LETTER OF TRANSMITTAL

April 19, 2019

Megan Gamwell
Economic Development Specialist
City of National City
1243 National City Blvd.
National City, CA 91950

Re: Proposal for Cannabis Management Services

Dear Ms. Gamwell,

Thank you for the opportunity to submit this proposal for cannabis management services for the City of National City. The enclosed scope of services is designed to assist the City with community outreach, development of a draft cannabis ordinance, a merit-based application review process and cost recovery fees, as requested. The proposal also outlines additional services that HdL can provide at the City's request, including ongoing compliance inspections and financial audits of permitted cannabis businesses.

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 National City 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 National City currently prohibits the establishment or operation of any and all medical or adult-use cannabis businesses in the City.

The City is interested in exploring the possibility of the development of an ordinance to permit and regulate commercial cannabis businesses within the City.

As a part of this process, the City wishes to conduct a series of community outreach meetings or workshops to explore and identify the range of policy issues and concerns to be considered and addressed by the ordinance. Should an ordinance be adopted, the City would conduct a merit-based application process for awarding permits. The City also desires to apply appropriate fees to recover all City costs associated with the permit process as well as establish a cannabis tax ordinance through a ballot measure process.

To meet these objectives, the City is seeking assistance from HdL to help with community outreach, to develop a draft regulatory ordinance, design a merit-based application process and to determine appropriate cost recovery fees and to develop a tax ordinance. This proposal provides a fixed unit cost for each of these items, and includes additional hours for conference calls, technical assistance and subject matter expertise, to be utilized on an as-needed basis at the City's request.

The enclosed Scope of Services to be provided by HdL includes all of the following:

- Kick-off conference call meeting with City staff;
- Attendance, support or presentations at 3 public meetings, including one community outreach workshop, one meeting of the City Council or Planning Commission, and one additional meeting or workshop as may be needed;
- Development of a cannabis regulatory ordinance that addresses community concerns and complies with all applicable State and local laws;
- Design an application process that includes merit-based review, ranking and final selection of cannabis business permittees;
- Conduct a fiscal analysis to determine proper cost recovery fees and to design a tax ordinance with appropriate cannabis tax rates. Fees shall ensure all allowable City costs associated with the development and implementation of the regulatory program are borne by the applicants;
- Develop an annual cannabis business regulatory fee to recover ongoing costs associated with administrative oversight of permitted cannabis facilities, including compliance inspections, financial audits and any other regulatory requirements;
- Design a cannabis tax ordinance and ballot measure resolution which will be submitted to the County Elections Office.
- Provide City staff with technical assistance and subject matter expertise as needed.

Objective 1: Attendance, Support or Presentations at Public Meetings or Workshops

HdL shall provide support or presentations at 3 public meetings or workshops to gauge concerns about the potential community impacts of the various types of cannabis businesses. Input gathered through these meetings will be used to help guide the development of a regulatory ordinance. These meetings will likely include one public workshop and at least one meeting of the City Council and/or Planning Commission.

Objective 2: Develop a Draft Cannabis Regulatory Ordinance

Consultant shall develop a draft cannabis regulatory ordinance that addresses community concerns. The draft ordinance shall include specific regulations for each of the various cannabis business types as directed by the City, which may include cultivation, manufacturing, distribution, microbusinesses, storefront retailers, non-storefront 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.

Objective 3: Application Process Development

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 also provide all necessary application forms, as well as procedures, guidelines, indemnification forms, background information releases, and other required documents.

Objective 4: Fiscal Analysis, Cost Recovery Fees, Tax Ordinance and Annual Regulatory Fee

Consultant shall conduct a fiscal analysis to determine proper cost recovery fees and design a cannabis tax ordinance with appropriate cannabis tax rates. Fees shall ensure all allowable City costs associated with the development of the regulatory program and with the processing and issuance of permits are borne by the applicants. Consultant shall also develop an annual regulatory fee to recover costs associated with administrative oversight of permitted cannabis facilities, including permit renewals, compliance inspections, financial audits and any other requirements deemed necessary by the City. The fiscal analysis shall include a study of the local cannabis industry to guide the City in setting cannabis tax rates for the ballot measure resolution and cannabis tax ordinance which will be prepared by the Consultant.

Objective 5: Provide Subject Matter Expertise & Technical Support

HdL shall provide up to 20 hours of general consulting in the form of subject matter expertise or technical assistance, to be utilized on an as-needed basis at the City's request. Such assistance may include monitoring of changes to State laws and regulations, 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.

Optional Cannabis Consulting Services:

Application Reviews and Selection Process

HdL has experience reviewing over 1,800 cannabis business applications for counties and cities across California. Our team can provide application reviews, scoring, merit-based ranking and interviews to inform the final selection for cannabis business permits.

Our process begins with an initial screening of all applications for completeness based upon a checklist of required documentation. All applications deemed complete will move forward for a full review, including scoring and merit-based ranking based on the applicant's demonstrated ability to meet or exceed minimum requirements in each category. Reviews identify both strengths and weaknesses of each application as well as providing a numerical score to inform the subsequent interview and selection process. HdL can also conduct an interview panel for all applicants that receive passing scores and can prepare a report to inform the final selection of which applicants shall be granted permits.

Application reviews, scoring and merit-based ranking:	\$2,500 per applicant
Applicant interviews:	\$500 per applicant

Background Checks

HdL is qualified to provide supplemental background checks for principals and employees of cannabis businesses as part of the application process. This service is not included as a part of this proposal but can 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.

Regulatory Compliance Reviews and Financial Audits

HdL's Cannabis Management Team has over 26 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 two (2) compliance reviews annually for each permit at a rate of \$8,500.

- E. Conduct one (1) financial audit and three (3) compliance reviews annually for each permit at a rate of \$9,750.
- F. Conduct one (1) financial audit and four (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 hours and costs in the table below do not include any additional items that are not contemplated by this scope of services. All City costs¹ would be incorporated into either the application fees or the annual permit fees, to be payable by the applicant or permittee. Any additional services requested by the City will be billed at HdL’s hourly rate. Prices are valid for 90 days from April 19, 2019.

Scope of Service Objectives	Estimated Cost
Objective 1: Community meetings, workshops and presentations (assumes 3 site visits)	\$5,400 Includes travel
Objective 2: Develop a draft cannabis regulatory ordinance	\$5,000
Objective 3: Develop a merit-based application and review process	\$5,000
Objective 4: Conduct fiscal analysis and develop cost recovery fees	\$7,500
Objective 5: Subject matter expertise and technical assistance	\$6,000
ESTIMATE OF TOTAL COSTS	\$28,900

¹ Except for costs associated with setting cannabis tax rates.

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 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".

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.

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.

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.

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 Cannabis Control, 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 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.

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.

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.

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.

V. REFERENCES

City of Chula Vista

Kelly Bacon
Deputy City Manager
Phone: 619.691.5144
Email: kbacon@chulavistaca.gov

City of La Mesa

Yvonne Garrett
City Manager
Phone: 619.677.1311
Email: ygarrett@ci.la-mesa.ca.us

City of Imperial

Alex Chalupnik
Management Analyst
Phone: 760.355.4373
Email: Achalupnik@cityofimperial.org

City of Oceanside

Jane McPherson
Finance Director
Phone: 760.435.3855
Email: jmcperson@ci.oceanside.ca.us

City of Imperial Beach

Steven Dush
Assistant City Manager
Phone: 619.628.1354
Email: sdush@imperialbeachca.gov