

City of Chula Vista

Cannabis Management Services

September 23, 2019

HdL  Companies

SUBMITTED BY

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I. LETTER OF TRANSMITTAL

September 23, 2019

David Bilby, MSBA, CPFO
Director of Finance/Treasurer
City of Chula Vista
276 Fourth Avenue
Chula Vista, CA 91910

Re: Proposal for Cannabis Management Services

Dear Mr. Bilby,

Thank you for the opportunity to submit this proposal for cannabis management services for the City of Chula Vista. The enclosed scope of services provides pricing for compliance inspections and annual financial audits of all cannabis businesses, plus a workshop to train City employees in regulatory compliance practices.

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 Chula Vista 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 Chula Vista is seeking assistance from HdL to provide annual financial audits of all licensed cannabis businesses in the City, along with compliance inspections up to 4 times per year. In addition, the City is requesting that HdL provide training workshops for City staff review and score cannabis business applications, to conduct applicant interviews, and to compile a final report, with scores and merit-based ranking to inform the final selection process.

This proposal provides a fixed unit cost for each of these items, though the total cost will depend upon the number of businesses to be inspected and audited, and the number of inspections to be performed for each business per year.

Objective 1: Financial Audits and Regulatory Compliance Inspections

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.

Objective 1.1: Financial Audits

HdL will conduct an annual financial audit to verify the accuracy of the revenue reported to the City during the review period and will recommend a tax assessment should the audit reveal any unreported revenue. As part of the process, HdL will conduct a risk based analytical review of the business using the proprietary Cannabis Analytical Tracking Solution (CATS™) program to ensure there is no diversion of product or cash. Our unique audit approach allows us to identify if a cannabis operator is under-reporting its taxes or diverting product from its facility. HdL audit staff will also use information gathered as part of the onsite inspection to assist with the financial audit.

HdL will help the City prepare a notification letter to send to the business to start the audit. The letter will contain pertinent information about the audit, including a list of the records requested and a request for access to the business' point of sale system. HdL recommends the notification letter be sent by the City to encourage cooperation from the business and communicate HdL's authority to conduct the audit. The audit shall include:

- Field visit
- Gross receipts verification
- Risk based CATS™ Analytic Review
- Inventory review (subject to access to the track and trace system)
- POS data entry requirements review
- Preparation and issuance of report
- Exit conference with the City

HdL will provide a draft audit report to the commercial cannabis business. The business will be given the appropriate time to respond or appeal the report in accordance with the City ordinance. HdL will review any documentation provided by the business to dispute the findings and will adjust the tax assessment as necessary prior to issuing the final report to the City.

Cost: \$6,000 per business per year

Objective 1.2: Regulatory Compliance Inspections

HdL will conduct a series of up to four on-site compliance inspections annually, as requested by the City, for each permitted cannabis business to determine compliance with State and/or local laws. If HdL identifies any non-compliant activities, we will provide the City with a recommended appropriate action to address the deficiency and to ensure future compliance by the permittee.

The cost for these services includes all of the following:

- Notifying permittee of pending inspection
- 2-hour on-site inspection to ensure that each business complies with all State and local laws and regulatory protocols for all of the following:
 - Inventory management
 - Cash handling procedures
 - Access control
 - Video surveillance
 - Product safety
 - Alarm system maintenance and safety
 - Lock standards
 - Packaging and labeling
 - Waste management
 - Transportation documentation
 - Surveillance equipment maintenance
 - Occupational badges
 - Business records
 - Other items as necessary to ensure compliance with laws
- Preparation of a draft report detailing the findings of the inspection and providing recommendations for improvement where needed. If the inspection identifies any violations of law or other non-compliance issues, then HdL will prepare a notice to comply as an included part of the report.
- All travel costs associated with the inspection
- All phone, email and other communications involved in preparing for, scheduling and coordinating the inspections and providing the report.

Cost: \$1,250 per business / per inspection

This cost does not include any follow-up re-inspection or review of any supplemental documents provided to address or contest any findings of non-compliance, nor does it include any assistance with the appeal of any enforcement action by the City. Any costs associated with such additional services would be billed at HdL's hourly rate.

Combined cost per business:

- 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.

Objective 2: Staff Training Workshop

HdL's Cannabis Management Team has significant experience in providing education and training on cannabis regulatory issues. Compliance Director David McPherson is an adjunct Professor at Oaksterdam University and has provided cannabis-related training to public agencies including the California Department of Tax and Fees Administration. Deputy Compliance Director Matt Eaton previously served as an adjunct law enforcement instructor at AIMS Community College in Greeley, Colorado, and has provided cannabis enforcement training to cities, counties and law enforcement agencies.

HdL will work with the City to assess the specific training needs for staff to carry out the City's permitting, regulatory and enforcement program, and will design a training program that is specifically targeted to address those needs. Subjects may include any or all of the following, as well as other topics to be determined in consultation with the City:

- Overview of State and local cannabis laws and regulations
- License types and administrative privileges
- Introduction to regulatory oversight of the cannabis industry
- Developing enforcement priorities
- Best practices for regulatory enforcement and inspections
- Conducting regulatory inspections
- Regulatory code compliance
- Track and trace programs
- Report writing

- Administrative follow-up

Trainings may be either half-day (4 hours) or full-day (8 hours) as needed, and may include separate trainings for different departments or divisions, as needed. The details of the training program will be determined in consultation with the City.

Conflicts of Interest and Non-Disclosure

HdL Companies works solely with public agencies and has no private-sector clients in the cannabis industry. Though not anticipated, should it be determined that HdL has a conflict of interest with a cannabis business subject to inspection or audit, HdL shall immediately inform the City so that alternative measures may be taken.

All cannabis business financial and inspection data will be kept confidential by HdL and will not be shared internally beyond those HdL employees who are required to have access for purposes of conducting inspections or audits, or for administrative purposes as necessary.

III. COST

The proposed services are broken down into specific line items in the cost table below. This proposal includes certain objectives that would be billed as fixed costs and others that would be billed on a per-unit basis depending upon the number of businesses and the number of inspections annually per business. 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. Any additional services would be billed at HdL's hourly rate. Prices are valid for 90 days from September 23, 2019.

Scope of Service Objectives	Estimated Cost
Objective 1.1: Financial Audits (conducted annually per business)	\$6,000 per business
Objective 1.2: Compliance Inspections (Up to 4 per year per business)	\$1,250 per inspection
Objective 2: Training workshops for City staff Half day (4 hours) Full day (8 hours)	\$2,000 \$3,000
Travel expenses: As needed for training workshops	\$600
ESTIMATE OF TOTAL COSTS	To be determined

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, 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 California Department of Tax and Fees Administration 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, Deputy Compliance Director

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 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, 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.

Christina Altringer, Audit Manager

Christina Altringer is the Audit Manager at HdL. Her primary role is to oversee the audit staff, conduct forensic audits, review staffs reports, and be the point person to work directly with client cities and counties as it pertains to financial audits. In addition, she is responsible for managing and developing the data intelligence CATS™ program. Furthermore, in preparation of conducting forensic audits she also prepares Tax Analytical Remittance Report (TARR) summaries to evaluate under reporting or anomalies in the remittance of tax payments to local jurisdictions.

Christina previously worked as a Forensic Accountant for the Federal Bureau of Investigation (FBI). In this role, she examined financial records for violations of federal and state laws involving bribery and kickbacks, corruption, money laundering, white collar crimes, health care fraud, and drug trafficking. Prior to working with the FBI, she worked at a Public Accounting firm performing financial statement audits for entities in the nonprofit, government, small business, and insurance sectors.

She earned her Bachelor of Science degree in Accounting from Minnesota State University. Christina is also a Certified Public Accountant and a Certified Fraud Examiner.

Mark Lovelace, 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, 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, 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, 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, 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

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