

September 15, 2021

Brad Raulston City Manager City of National City 1243 National City Boulevard National City, CA 91950

Re: City of National City Proposal for Commercial Cannabis Management Services

Brad:

SCIConsultingGroup ("SCI") and our team members are pleased to submit this proposal in response to the City of National City's ("City") request for cannabis-related management and monitoring services. The SCI Team proposes to provide the complete suite of services necessary for the successful management and oversight of the City's local cannabis program, as fully described in our Scope of Work:

- I. Cost Recovery Analysis
- II. Application Process Development
- III. Application Review
- IV. Background Checks
- V. Compliance Inspections and Financial Audits
- VI. Technical Assistance

The SCI Team is one of California's top local cannabis policy consulting firms. We believe our expert knowledge of the local California cannabis industry, including social equity, coupled with our broad experience providing municipalities with regulation, implementation, and administration consulting services, will serve the City well.

We look forward to the opportunity to assist the City with this important project. If you have any questions or require additional information, please do not hesitate to contact me. I can be reached at (707) 430-4300 or via email at john.bliss@sci-cg.com.

Sincerely,

John Bliss, P.E. President

QUALIFICATIONS AND EXPERIENCE



SCI is a public finance and urban economic consulting firm with over 35 years of expertise in assisting public agencies in California with developing policy, and planning, justifying, and successfully establishing new revenues for their service and capital improvement needs and objectives and managing special levies.

SCI provides cannabis-related advice and broad consulting services to a variety of public agencies in California, including community support analysis, ordinance development, fee studies, taxation, implementation, application process development, application review and scoring, monitoring and compliance, business tax auditing, community outreach and engagement, and social equity consulting.

We were perhaps the very first consulting firm to provide a full suite of local cannabis policy implementation services to California municipalities and developed the "6 Key Elements of Cannabis *Implementation*" approach that is the standard today:

- 1. Community Research and Outreach (Meetings & Surveys)
- 2. Health and Safety & Land Use Regulations (Ordinance(s))
- Full Cost Recovery (Regulatory Fees)
- 4. Revenue (Taxation Ballot Measures)
- 5. Local Industry Selections (Application and Selection Process)
- 6. Monitoring and Compliance

And more recently, we have added, and become a State leader in:

7. Social Equity (We are currently providing these services to Richmond, Palm Springs, and Stockton)

Our core philosophy and approach towards the implementation of local cannabis policy is more broadly balanced than that of our competitors. Our philosophy comes from our genesis as a solution-based engineering firm that has evolved and developed in-house expertise in public policy, community outreach, and social equity. Although our quantitative and regulatory rigor, and attention to detail, are unsurpassed, we balance this with realistic approaches to a real-world challenge, fully understanding and supporting the City's challenging transition into a regulated and legal cannabis business arena. Hence, SCI balances enforcement of local and State code along with the need to support viable cannabis businesses and to shepherd non-compliant businesses into a safe and regulated environment.

Over the last five years, SCI has emerged as one of California's premier local cannabis policy firms offering a full range of "one-stop-shop" services in support of the successful implementation of regulated cannabis business within a City or County. However, as we emphasized above, our approach is different that our competitors as we "balance enforcement of local and State code along with the need to support viable cannabis businesses and to shepherd non-compliant businesses into a safe and regulated environment". We are currently under contract to provide cannabis-related consulting services to:

> City of Coalinga City of Richmond City of Colfax City of San Bernardino City of Dunsmuir City of Shasta Lake City of Lompoc City of Stockton City of Merced City of West Hollywood

City of Nevada County of San Benito SCI has considerable experience providing cannabis compliance services for local municipalities in California. Beginning in 2017, SCI conducted some of the first onsite cannabis compliance inspections in the State of California for the City of Coalinga. Since then, SCI has expanded its services to the Cities of Colfax, Dunsmuir, Merced, San Bernardino, San Carlos, Shasta Lake and Woodlake. To date, SCI has conducted over 300 on-site compliance inspections for various cannabis businesses including cultivation, distribution, manufacturing, and retail.

Additionally, SCI has broad experience with cannabis application process development and the review and evaluation of applications for local municipalities in California. Most notably in 2018, SCI served as one of the five panelists selected to independently review and score over 300 retail permit applications for the City of West Hollywood. In a three month period, SCI reviewed over 20,000 pages and individually scored each application. SCI's services helped create an exciting future for commercial cannabis in West Hollywood, where permits were awarded to 36 exciting business concepts that industry experts agree will together form the world's premier cannabis retail experience. SCI currently provides application review and evaluation services to the Cities of Colfax, Dunsmuir, Nevada, Lompoc, San Bernardino, San Carlos, and the County of San Benito.



The Pun Group LLP, Certified Public Accountants, and Business Advisors, founded in 2012, is a limited liability partnership. We are a full-service accounting firm comprised of forty (40) professionals providing auditing, accounting, and

advisory services to our clients. Our Governmental Division consists of thirty-five (35) full-time individuals. The Firm has no part-time employees. The Firm's headquarters located in Orange County, California, with four branches in San Diego (California), Walnut Creek (California), Las Vegas (Nevada), and Phoenix (Arizona).

The combination of our hands-on experience and practical knowledge exercised by our audit professionals makes the Firm unique in our field. Our technical expertise and thorough understanding of current regulations and issues—along with the Firm's commitment to hard work, integrity, and teamwork on every engagement—enable us to help our clients succeed.

Our Partners' Group—which includes Kenneth H. Pun, Coley Delaney, Frances J. Kuo, Kenneth A. Macias, Vanessa I. Burke, John F. Georger, Jr., Gary M. Caporicci, and Heidy K. Chow—provide auditing, accounting, and advisory services to numerous governmental entities throughout the United States. With more than two hundred (200) years of combined experience in the industry, we have become a trusted business partner and are well-respected as leaders in the industry in one of the fastest-growing firms. With nearly 100 government and not-for-profit audit clients, our Partners have a real passion for the industry and believe we are unmatched regarding our municipal experience.

The Pun Group LLP is an independent member of Allinial Global, an association of over 100 independent accounting and consulting firms. Based in North America, Allinial Global offers international support by connecting its member firms to providers and global networks of accounting firms worldwide.

In 2018, The Pun Group teamed up with a Canadian Certified Public Accounting Firm to provide professional auditing services to a Los Angeles base Cannabis business (Cultivator and Distributor) to assist them in their Initial Public Offering (IPO) process. Furthermore, the Pun Group was hired by the Cities of Stockton and San Bernardino to conduct annual audits of commercial cannabis businesses.

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PROJECT PERSONNEL



JOHN BLISS M.Eng., P.E.,

President

John Bliss, a professional engineer and President of SCI, specializes in local cannabis policy, and special revenue consulting. He was instrumental in developing the now-standard implementation process used by most municipalities in California to implement local cannabis policy. Mr. Bliss has had a long career developing and implementing equity, diversity and inclusion policy reaching back almost 30 years to the ground-breaking implementation for the City of San Francisco public works construction employment following the Rodney King uprising in 1991. He is a graduate of Brown University with a Bachelor of Science Degree in Engineering. He holds a master's degree in Civil Engineering from The University of California, Berkeley, where he was a Regent's Scholar. Mr. Bliss is a licensed Professional Civil Engineer in the State of California and is a LEED accredited professional.

KYLE TANKARD SENIOR CONSULTANT - CANNABIS BUSINESS LEADER

Kyle Tankard serves as the Cannabis Business Leader at SCI providing local cannabis policy expertise in California since 2016. He plays a diverse role, assisting municipalities with all aspects of local cannabis implementation, including regulatory development, taxation policy and cost recovery, cannabis compliance, application review, and cannabis-related public education, equity, and outreach. Mr. Tankard has successfully developed and implemented multiple local cannabis regulatory programs throughout the State, most notably in the Cities of Alameda, Shasta Lake and Richmond. He currently manages a portfolio of over 15 cannabis clients, providing a variety of ongoing cannabis-related services, including application review, plan checks, compliance inspections, and equity analysis and program development. He is a graduate of University of California, Santa Cruz.

ARCELIA HERRERA SENIOR CONSULTANT

Arcelia Herrera serves as a Senior Cannabis Consultant at SCI, contributing extensive experience assisting local agencies in developing cannabis policies for regulation, compliance, auditing, and economic development. Ms. Herrera has developed implementation oversight, monitoring and compliance processes for several ethnically diverse jurisdictions in California and contributes comprehensive knowledge of implementing compliance regulations for all cannabis activities. Ms. Herrera currently leads these efforts in the Cities of Merced, Coalinga and Woodlake. She is a graduate of California State University, Monterey Bay.

CHRIS COULTER SENIOR CONSULTANT

Chris Coulter contributes experience in local cannabis policy, funding measure feasibility, data analysis, and financial analysis services for public, private and non-profit sector organizations to the SCI team. Mr. Coulter specializes in rate study analysis and Proposition 218 formation of benefit assessment districts, community facility districts and tax rate structures. In addition, Mr. Coulter is experienced in spatial and regional analysis, opinion research, public outreach, demographic studies and ballot measure development. Mr. Coulter is a graduate of the University of California at Berkeley with a Bachelor of Art in English Literature.



KENNETH H. PUN CPA, CGMA

With over twenty years of public accounting experience in the State and Local Government sector, Mr. Pun is the Managing Partner and an Assurance Partner at the Firm. Ken specializes in audits and management consulting for governmental organizations and has served as the Contract Deputy Finance Director for the City of San Marino in 2017. Mr. Pun also serves as the Chair of the California Society of CPAs Governmental Auditing Accounting Committee. He has been nominated for this year's Innovative Practitioner of the Year 2020 award by AICPA's CPA.com.

VANESSA BURKE CPA, CPFC

Vanessa Burke is an Assurance and Consulting Services Partner with 30 years of experience in providing audit and advisory services to local government agencies including cities, public pension plans, community colleges, college foundations, hospitals, school districts, county offices of education, special districts, and joint powers insurance authorities. not-for-profit organizations, and federal and state agencies. Vanessa will act as the Concurring Partner and provide second partner review of significant high-risk areas, audit reports, and in resolution of significant accounting, auditing, and reporting matters.

DAVID SIRIS CPA, ENGAGEMENT MANAGER

David Siris draws more than nine years of governmental accounting experience. Mr. Siris has successfully performed audits and other attestation services for several governmental and non-profit agencies. Working as an Engagement Manager, he will assist Mr. Pun in all issues related to cannabis tax policies, fiscal analysis, compliance reviews, tax audits/assessments, and providing best practices to ensure all state and local laws are followed.

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REFERENCES

Some of SCI's most current and recent similar cannabis-related services were provided to:

City of Coalinga

Cannabis Services: Implementation Planning; Community Outreach and Stakeholder Engagement;

Ordinance Review; Cost Recovery Analysis; and Compliance Inspections.

Contact: Sean Brewer, Assistant City Manager

sbrewer@coalinga.com; (559) 935-1533 Ext. 143

Start/End Dates: February 2018 – Ongoing contract work

City of San Bernardino

Cannabis Services: Plan Checks; Annual Financial Audits; Annual Compliance Inspections;

Background Checks; and Technical and Policy Expertise

Contact: Stephanie Sanchez, Community & Economic Development

Sanchez_Stephanie@sbcity.org; (909) 384-5357

Start/End Dates: December 2019 – Ongoing contract work

City of Shasta Lake

Cannabis Services: Community Outreach; Ordinance Development; Tax Measure; Application

Process; Cost Recovery Analysis; and Compliance Inspections.

Contact: Jessaca Lugo, Assistant City Manger

jlugo@cityofshastalake.org; (530) 275-7464

Start/End Dates: January 2017 – Ongoing contract work

City of West Hollywood

Cannabis Services: Application Process; Scoring Methodology; and Application Review.

Contact: John Leonard; Community & Legislative Affairs Manager

<u>ileonard@weho.org</u>; (323) 848-6446

Start/End Dates: June 2018 – Ongoing contract work

A full list of our cannabis clients is below:

Cities Counties

Alameda	El Monte	Oroville	Stockton
Avalon	Encinitas	Palm Springs	Vallejo
Coalinga	La Mesa	Richmond	West Hollywood
Colfax	Livingston	San Bernardino	Woodlake
Concord	Lompoc	San Carlos	Yreka
Davis	Merced	Santa Clara	
Dunsmuir	Nevada City	Shasta Lake	

Alameda San Benito San Luis Obispo Tuolumne

PROJECT SCOPE

SCI will conduct a project kick-off meeting with City staff to establish project priorities and goals, communication protocols and timelines. Further, we will gather and review all applicable information needed to perform the required tasks. SCI will be available to meet via teleconference call on a regular basis.

Cost Recovery Analysis

The goal of the cost recovery analysis is to assign responsibility to the industry participants for expenses incurred by the City for managing and regulating industry activities, ensuring full cost recovery for all the City's cannabis-related activities. By assigning reimbursement for these costs to industry participants, the City protects the revenue generated from development agreements for all the City's residents.

SCI will provide engineering services in developing the fees for ongoing management, administration, and monitoring and compliance of cannabis businesses in the City. The goal is to establish a reliable, robust cannabis fee structure that is supported by the community and the local cannabis industry, is Proposition 26 justifiable, and adheres to all State and local regulations.

The costs incurred for both application steps and renewal, are dictated by the process developed in application process. The costs of the annual regulatory fee are dictated by the specifics of the City's regulatory ordinance as well as the development of the monitoring and compliance strategy.

The first step for developing the specific fees is to work with the City to establish administrative process flow documentation for each fee type. Next, the process flow is divided into discrete tasks within a spreadsheet, with the associated time increment required to conduct each task for each staff position type and hourly rate. Finally, these data are analyzed to ensure that all costs are covered, and a final fee rate is established.

Deliverables:

- Develop Fee Study Report
- Prepare Resolution, Staff Report, and Supporting Documentation for Council Adoption

Application Process Development

For this task, SCI will modify and finalize the City's existing application process to provide a transparent and fair model to evaluate and score cannabis applications that emphasize community health and safety, fairness and equity, longevity and sustainability and other elements specified by the City. This task includes the modification of application forms, application procedures and guidelines, the scoring system and checklist, etc. In addition, SCI will develop an application scoring rubric to evaluate and score applications. We will clearly detail all conditions required of the applicant in the application package. We want to ensure that as part of the application process, the applicant is completely familiar with the application process, and understands the potential time and financial investment and the regulatory process.

Deliverables:

- Finalize application process
- Finalize application package documents and procedures

- Develop application scoring rubric
- Participate in cannabis workshops

Application Review

For this task, SCI will assist City staff with determining the eligibility of each application and review the applications for completeness. Applications that are determined complete will be transmitted to SCI for review.

Upon receipt of the application documents, SCI will independently review, evaluate, and score each application based on the criteria established by the City. The Application evaluation will be completed within the review window established by the City's application procedures.

Once completed, SCI will prepare a written and electronic report detailing the results of the application evaluation for each cannabis applicant. In addition, a scoring sheet with comments justifying the scores as well as the strengths and weaknesses of each application will be provided to the City.

Deliverables:

- · Application review and scoring
- Provide a scoring spreadsheet for each application detailing the results of application evaluation

Background Checks

SCI will conduct background checks for every applicant (including owners and other representatives of the applicant) and every person to be employed at a cannabis facility. The background check is intended to supplement State-required Live Scan fingerprint check.

Compliance Inspections and Financial Audits

Compliance Inspections

The SCI Team provides comprehensive pre-operating compliance reviews of cannabis businesses and onsite compliance inspections of facilities and operations, including documentation and reporting of the various cannabis licensee entities for multiple municipalities throughout California. For this task, SCI will provide comprehensive onsite facility inspections for each commercial cannabis business and report to the City the results of inspections relative to the City's local regulations and ordinances, conditions of approval, staff-directed priorities and preferences, and State law. SCI's monitoring and compliance efforts will satisfy the most rigorous requirements and at the same time, provide a successful platform for the cannabis businesses.

In collaboration with the City, SCI will prepare an inspection checklist for each cannabis activity. Prior to conducting each inspection, SCI will prepare notification to the businesses to schedule inspections. Following the inspection, SCI will provide the City with a written report detailing the results of the compliance inspection including photo documentation of any violations. SCI will provide follow-up support to the City and cannabis businesses to provide recommendations to address and correct any deficiencies.

Among the elements and activities SCI will monitor are as follows:

- **Product**: Inventory management, seed-to-sale tracking, packaging and labeling verification, product testing protocols, etc.
- **Record Retention**: Review and confirm employee records, business records, tax information records, transportation manifests, video surveillance retention, equipment certifications, training programs and safety programs.
- Security and Surveillance: Verify video surveillance equipment, camera placement, alarm systems, locks, facility access control, security guards, occupational badges, and other security and safety processes.
- Facility Compliance: Verify facility's operational compliance including waste management, odor control, pesticide and solvent storage, signage, cash handling procedures, product shipment and receival procedures, etc.

Optional: Compliance Inspection Staff Training Workshop

SCI will plan, coordinate, and host an interactive monitoring compliance training workshop for City staff with the goal of training and preparing staff to conduct inspections for commercial cannabis businesses. SCI has conducted over 300 on-site compliance inspections for various cannabis businesses and will incorporate lessons learned and industry best practices.

Financial Audits Led by Pun Group

The SCI Team, led by the Pun Group for this task, will provide comprehensive annual auditing of cannabis businesses, including documentation and reporting, in order to ensure that the City receives full payment of Cannabis Public Benefit Amounts, and ensuring compliance with applicable laws.

We will perform the following steps to deliver the services requested by the City:

Cannabis Business Gross Receipts and Square Footage Taxes

- Evaluate consistency between gross receipts and other information reported on financial statements to what was reported to the California Department of Tax and Fee Administration for sales and use tax, cannabis excise tax, and/or cultivation tax.
- Evaluate consistency between gross receipts reported on financial statements to gross receipts reported to the City.
- Verify cultivation canopy as compared to maximum canopy reported on the business license application. Cultivation canopy is measured by the aggregate area of Cannabis or Hemp plants on the premises, including the area occupied by vertically and horizontally stacked canopies, in compliance with City's Code. This will be calculated by measuring the distance of all cultivation canopy in square feet.

Collection and Audit of any Cannabis Tax

- Ensure each cannabis facility is complying with applicable portions of the City's Code and is submitting the true amount of gross receipts and tax.
- Review business license tax returns submitted by the business and collected by the City and compare to each business's records for the time period identified by the City to determine accuracy and timeliness of gross receipts returns filed with the City.
- Trace and verify the gross receipts reported on the quarterly gross receipts returns prepared by the business to gross receipts recorded in the business's

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Collection and Audit of any Cannabis Tax (Continued)	 accounting records to verify that these were in accordance with the City's regulations. Verify compliance with City's Code. Verify reasonableness of reported revenues of the cannabis businesses by performing additional procedures necessary to reach a conclusion. Following the completion of a business license tax audit of each cannabis facility, we will issue all reports to the City in accordance with applicable standards from generally accepted auditing standards (GAAS). The report for each cannabis business license tax audit will include the following information: The overall conclusion of whether or not the cannabis business paid all required business license taxes and fees for the time period specified. Any exceptions, errors, or areas of noncompliance were identified as a result of the procedures performed. This includes any significant deficiency in the design or operation of the internal control structure, including but not limited to the following areas: cash handling, inventory control, point of sale systems, and any other areas that the auditor deems necessary for purposes of accurately reporting business license taxes due to the City. Express an opinion regarding the taxes remitted to the City by the cannabis business, or state that an opinion cannot be expressed in the auditor's report. If the Firm concludes, it cannot express an overall opinion. The engagement team will state the reasons, therefore, in the auditor's report. Examine records and documentation that demonstrates that all cannabis goods have been obtained from, and are provided to, other licensed cannabis businesses and that details all the revenues and expenses, and assets and liabilities of the business. Examine books of account, invoices, copies of orders and sales, shipping
State Rule Making Interpretation and Implementation	 Check for compliance with the latest officially approved state regulations for cannabis businesses across the supply chain. Licensees are required to comply with all rules and regulations pertaining to their license type, as well as follow all other applicable state laws.

Deliverables:

- Develop standard inspection checklist for each cannabis activity.
- Onsite compliance inspections with written reports and follow up support.
- Annual Financial Audits
- Optional: Monitoring and Compliance Staff Training Workshop

Ongoing Technical Support and Policy Expertise

SCI will provide the City with ongoing technical and cannabis policy expertise. The SCI team will monitor the evolving State regulations and provide policy updates and industry best practices to the City and cannabis businesses to ensure continued compliance with State and local law.

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FEE PROPOSAL

In consideration for the work accomplished, as outlined in this cost proposal, the SCI Team shall be compensated as detailed below:

Work Plan	<u>Fee</u>
Phase 1:	
Cost Recovery Analysis	\$ 7,500 (billed at hourly rates)
Application Process Development	\$ 2,500 (billed at hourly rates)
Cannabis Workshops	\$ 5,000 (up to two meetings)
Phase 2:	
Background Checks	\$ 350 (per check)
Application Review	TBD*
Compliance Inspections	\$ 2,000 (per inspection)
Optional: Compliance Training Workshop	\$ 2,500 (per meeting)
Annual Audit	\$ 6,000 (per audit)
Ongoing Technical Support & Policy Expertise	No additional charge

(*All costs associated with the application review will be established by the Cost Recovery Analysis and to be fully reimbursed to City through regulatory fees)

SCI Staff	Hourly Rate
John Bliss, President	\$ 280
Kyle Tankard, Cannabis Services Group Leader	\$ 280
Arcelia, Senior Cannabis Consultant	\$ 280
Chris Coulter, Senior Cannabis Consultant	\$ 280
Support Staff	\$ 70
The Pun Group Staff	Hourly Rate
Ken Pun, Engagement Partner	\$ 200
Venessa Burke, Partner	\$ 200
David Siris, Manager	\$ 150

Incidental costs incurred for the purchase of additional travel and other out-of-pocket expenses will be reimbursed at actual cost, with the total not to exceed \$3,500 per year without prior authorization from the City.

The scope of services includes one face-to-face staff planning meeting. Any additional face-to-face meetings, if required, shall be billed at the rate of \$1,500 per person, per meeting. The SCI Team is available to meet via teleconference call on a regular basis at no additional charge.

ADDITIONAL INFORMATION

EMPLOYMENT POLICIES

SCI does not and shall not discriminate against any employee in the workplace or against any applicant for such employment or against any other person because of race, religion, sex, color, national origin, handicap, or age or any other arbitrary basis. SCI ensures compliance with all civil rights laws and other related statutes.

CONFLICT OF INTEREST STATEMENTS

SCI has no known past, ongoing or potential conflicts of interest for working with the City, performing the Scope of Work or any other service for this Project.

PENDING LITIGATION

SCI does not have any claims, lawsuits or litigation pending or within the last five years.

INSURANCE

SCI carries professional Errors and Omissions insurance in the amount of \$2 million per occurrence and \$2 million aggregate. SCI also carries general liability insurance in the amount of \$2 million per occurrence and \$4 million aggregate.

INDEPENDENT CONTRACTOR

If selected, SCI shall perform all services included in this proposal as an independent contractor.

ADDITIONAL SCOPE OF WORK

In the event the City elects to request optional, additive scope of work, SCI will work with the City to negotiate compensation for these additional tasks and execute an Addendum to the agreement for these additional services.

RESPONSIBILITIES OF CITY

SCI will make every effort to minimize the workload on the City, but may need assistance, iteratively, with project overview and history, scheduling, and budgeting.

COORDINATION WITH CITY

SCI will coordinate services with City staff through frequent and concise communications including face-to-face meetings, telephone calls and e-mail.

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