

RESOLUTION NO. 2024-141

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MARINA, AUTHORIZING THE CITY MANAGER TO EXECUTE A CONTRACT WITH HINDERLITER, DE LLAMAS & ASSOCIATES, INC. (dba HdL) NOT TO EXCEED \$50,000 TO PROVIDE CANNABIS PROGRAM APPLICATION REVIEW, TAX AUDITS, COMPLIANCE INSPECTIONS, BACKGROUND CHECKS, AND SUBJECT MATTER EXPERTISE AND TECHNICAL SUPPORT

**WHEREAS**, on November 6, 2018, the citizens of the City of Marina passed an Ordinance allowing Cannabis Business Activity and Establishing Taxes and Fees for Such Businesses within the City of Marina, Amending Title and Chapter Establishing Cannabis Business Activities as a Use Allowed Subject to a Use Permit in Specified Zones and Establishing Uses to Protect Public Health, Safety and Welfare; and,

**WHEREAS**, on November 3, 2020, the citizens of the City of Marina passed a revised Ordinance that repealed the 2018 voter approved Commercial Cannabis Activities Ordinance, and replaced it with [Chapter 5.80 Commercial Cannabis Business Regulations](#) and [Chapter 17.47 Commercial Cannabis Uses](#)

**WHEREAS**, HdL has a team of knowledgeable professionals who have direct experience in the implementation of Cannabis Regulatory Programs including developing applications, application rating systems, reviewing applications for compliance with rules and regulations, performing facility inspections conducting compliance and financial audits, and developing application fees; and,

**WHEREAS**, HdL's proposal is based on time, materials and travel expenses associated with the execution of these type services. The contract is for a not to exceed amount of \$50,000; and,

**WHEREAS**, HdL fees are 100% cost recoverable through the cannabis application and license process, with the exception of worked performed under Objective 6. Objective 6 encompasses the provision of HdL technical expertise relating to program implementation (not related to a specific application) and potential ordinance recommended revisions.

**NOW, THEREFORE, BE IT RESOLVED**, that the City Council of the City of Marina does hereby

1. Adopt Resolution No. 2020-, authorizing the City Manager to execute a contract with HdL Companies not to exceed \$50,000 to provide cannabis program application review, tax audits, compliance inspections, background checks, and subject matter expertise and technical support, subject to final review and approval by the City Attorney.
2. Authorize Finance Director to make appropriate accounting and budgetary entries.

**PASSED AND ADOPTED** by the City Council of the City of Marina at a regular meeting duly held on the 17<sup>th</sup> day of December 2024, by the following vote:

AYES, COUNCIL MEMBERS: McAdams, McCarthy, Biala, Visscher, Delgado

NOES, COUNCIL MEMBERS: None

ABSENT, COUNCIL MEMBERS: None

ABSTAIN, COUNCIL MEMBERS: None

---

Bruce C. Delgado, Mayor

ATTEST:

---

Anita Sharp, Deputy City Clerk

## EXHIBIT A SCOPE OF SERVICES

### **Objective 1: Application Reviews**

HdL staff will conduct an initial screening of all applications for completeness based upon an objective checklist of required documentation. This initial screening shall allow for some limited discretion in determining whether submitted documents are substantively complete but shall not otherwise consider the quality of the submissions. 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 quality assurance scoring. 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. Scoring shall be in conformance with the criteria established by the City.

Reviews shall include narrative comments that 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 may subject the applicant to penalties and/or revocation proceedings.

HdL will design and conduct an interview panel for all applicants that receive passing scores. The interview panel shall consist of designated City staff, assisted by a subject-matter expert from HdL serving as facilitator. Interviews shall be one hour long, with a half hour between to allow for reaction, discussion and note taking by the panel. Interviews shall be scheduled for successive days, where possible, with 5 interviews per day.

### **Objective 2: Pre-License Site Visits**

HdL shall review the premises diagram and conduct a site visit of each cannabis business prior to issuance of a certificate of occupancy. Site visits shall complement the final building inspection by verifying all interior and exterior physical site security requirements have been addressed in accordance with the application and all State and local requirements. Site visits shall examine all entrances and exits, limited access areas, locks and alarm systems, access control procedures, surveillance camera locations, safes and cash management procedures, signage, operational protocols and administrative privileges associated with the license type(s) being sought, and other requirements as necessary. The HdL inspector may be accompanied on the site inspection by the City's building inspector or representatives from the Police Department and Fire Department, if desired by the City.

The cost for this service includes an initial premises diagram review and report, coordination and arrangements with the business and other agencies, site visit, post-inspection report, all travel costs and any follow up. This cost assumes 10-days advance notice for scheduling and travel arrangements. A shorter lead time may incur additional travel charges.

### **Objective 3: Annual Revenue Audits**

HdL will conduct an annual revenue audit of each cannabis business to verify the accuracy of the revenue reported and remitted to the City during the review period and will recommend a tax assessment should the audit reveal any unreported revenue. As part of the audit process, HdL will conduct a risk-based review of each business using our proprietary Cannabis Analytical Testing System (CATS™). CATS was designed by HdL to address the unique challenges associated with auditing the cannabis industry. CATS allows audit staff to cross-analyze multiple business records to identify reporting variances, discrepancies and outliers to produce the most accurate measure of gross receipts on behalf of the City.

To initiate the process, the City shall provide HdL with a list of all licensed cannabis businesses subject to audit. HdL shall work with the City to determine the appropriate review period for each business and to develop a schedule for conducting all audits. As the time for each audit approaches, HdL will prepare a notification letter informing the licensee of the impending audit and providing a list of all records and documentation the business is required to provide, including remote access to the business's point-of-sale (POS) system where applicable. HdL recommends that the notification letter be sent by the City to communicate HdL's authority to conduct the audit and to encourage cooperation by the business.

The full annual audit shall include:

- Review Point-of-Sale (POS) system structure
- Review inventory system (subject to METRC data)
- Analyze and compare POS data with other available data sources, including:
  - City cannabis tax returns
  - State tax returns
  - Federal tax returns
  - METRC sales and inventory data
  - CDTFA data
  - Bank statements
  - ATM or other merchant statements
  - Sales receipts
  - Other financial documents as available
- Identify any variances or over/under reporting
- Calculate any taxes or fees due to the City
- Prepare and issue report

Where cannabis cultivation is taxed on a square-footage basis, the audit shall include one annual site inspection to verify compliance with maximum permitted canopy area. Square footage audits may also consider documented findings from inspections by the City, CDFA or other agencies, where available.

A business that holds multiple state cannabis licenses shall be considered a single business for audit purposes, provided that all licenses are held and operated under the same name, ownership, location, and a single tax ID number. Any variation may indicate separate business entities requiring separate audits. Any such determination shall be made on a case-by-case basis in consultation with the City.

HdL will provide a draft audit report to the commercial cannabis business. The business will be given an appropriate opportunity 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/fee assessment as necessary prior to issuing the final report to the City.

The cost for this service assumes a standard 12-month review period. The cost for a longer term shall be increased per each additional 6-month period (2 fiscal quarters). Pricing available upon request. This cost also assumes reasonable cooperation from the licensee. Non-cooperation by the licensee may result in additional charges at HdL's hourly rate, or in termination of the audit and potential enforcement action by the City. Any such action or additional charges would be determined in consultation with the City.

The cost does not include assistance with administrative appeals or enforcement of audit findings, cannabis tax policy questions or guidance, or other services not directly associated with preparing the revenue audit report. Any costs associated with such additional services would be billed at HdL's hourly rate.

#### **Objective 4: Compliance Inspections**

HdL will conduct one or more 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
- 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.

The cost for this service 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.

### **Objective 5: Supplemental Background Checks**

HdL shall provide background checks of all owners, principals, managers and employees of cannabis businesses. Our background checks supplement the State-required Live Scan fingerprint check, which will only disclose Department of Justice (DOJ) records regarding arrests or convictions. California's licensing agencies are only allowed to consider convictions for certain "red line" offenses such as serious or violent felonies, or certain felonies involving fraud, minors or drug trafficking, as automatic disqualifiers before granting or denying a license.

Our supplemental background checks expand upon the Live Scan information to identify other factors that local governments may wish to consider before granting discretionary business licenses or permits. These considerations may include other felony offenses, misdemeanor convictions, arrest records, civil judgements, restraining orders, the terrorist screening database, the national sex offender registry, delinquent child support payments, bankruptcies, employment and credit records, and more. Our search includes up to 5 variations on the subject's name and will alert if additional aliases are found which might warrant further investigation.

Our comprehensive background process checks the subject's name and social security number against over 200 million databases nationwide, including all of the following<sup>1</sup>:

---

<sup>1</sup> Renewals and background checks for employees include a lesser level of investigation.

- 7 yr. unlimited county courts and criminal records search
- Social Security, name and address comparison
- DMV search
- National Criminal Court report
- National Sex offender registry
- Federal criminal history
- State Department of Public Safety
- State Department of Corrections
- Terror watch list
- Bankruptcy, lien and judgments
- Delinquent child support payments
- Employment credit report
  - Financial summary
  - Personal information comparison
  - Address comparison
  - Employment comparison
  - Credit bureau report / credit history
  - Public records search

Any felony convictions that would be automatic disqualifiers pursuant to B&P 26057 (Violent and Serious Felony Convictions) must be confirmed through the Live Scan process. The degree to which other records may be used to inform the approval or renewal of a local business license or permit is subject to local ordinance requirements.

HdL offers separate rates for owners, principals or managers of cannabis businesses and for regular employees or line staff. We also offer a lower rate for annual renewals after the initial background check has been completed. Our rates include an HdL-designed employee identification badge with the city or county logo which meets all State regulatory requirements.

HdL provides an online portal for applicants to submit their application and authorization for background checks and all necessary documentation. Applicants provide their payment directly to HdL through the portal, so there is no cost to the City.

#### **Objective 6: Tobacco and Hemp Compliance Inspections**

HdL will conduct one or more on-site compliance inspections annually for each business holding a tobacco retailer license issued by the City to determine compliance with the terms of the license and all applicable state and local regulations for tobacco retailers, including prohibitions on the sale of hemp-derived products containing any detectable level of THC of other intoxicating cannabinoids. HdL will provide the City with a report identifying any non-compliant activities so that the City may take appropriate action to address the deficiency and to ensure future compliance by the licensee.

The cost for these services includes all of the following:

- Coordinating with the City to develop a schedule for unannounced inspections.
- On-site inspection to ensure that each business complies with all State and local laws and regulatory protocols for all of the following requirements:
  - Valid Tobacco Retailer Permit available and posted for public view.
  - Signage must be posted at the point of purchase that sales to anyone under 21 years of age is illegal.
  - No sale of products intended for human consumption that contain any detectable level of THC or other intoxicating cannabinoids.
  - No flavored tobacco products for sale, other than menthol.
  - No sale of flavored e-cigarettes
  - No sale of single cigarettes or bidi cigarettes
  - No free samples of tobacco products.
  - All tobacco products must be sold under manufacturer's packaging and labeling and conform to all child-resistant packaging.
  - No sale of tobacco products by use of self-service displays.
  - No sale of tobacco products by a pharmacy
  - Other local regulations as may be applicable
- Preparation of a draft report noting any of the above points that were not in compliance, including observations and providing recommendations for improvement where needed.
- All travel costs associated with the inspection, assuming a minimum of twelve inspections per day. If fewer than twelve inspections are requested, HdL may charge for travel based upon hourly rates, or a flat fee to be determined in consultation with City.
- All phone, email and other communications involved in preparing for, scheduling and coordinating the inspections and providing the report.

The cost for this service does not include any follow-up re-inspection or review of any 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.

#### **Objective 7: Technical Assistance and Subject Matter Expertise**

HdL will provide additional hours of general consulting to be utilized on an as-needed basis at the City's request. Such assistance may include technical assistance, subject matter expertise, education, 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.

Prices shall be honored for the first full year of this agreement, with successive years subject to an annual increase based upon the Consumer Price Index for the Los Angeles-Long Beach-Anaheim region.

| Scope of Service Objectives                                                                                                                                                                                                 | Estimated Cost            |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|
| <b>Objective 1: Application Reviews and Scoring</b>                                                                                                                                                                         | \$5,000 per application   |
| <b>Objective 2: Pre-License Site Visits</b>                                                                                                                                                                                 | \$2,500                   |
| <b>Objective 3: Annual Revenue Audits</b>                                                                                                                                                                                   | \$10,000 per audit        |
| <b>Objective 4: Compliance Inspections</b><br>One or more inspections per year, as requested by the City                                                                                                                    | \$2,500 per inspection    |
| <b>Objective 5: Supplemental Background Checks</b><br>Cost paid directly to HdL by applicant                                                                                                                                | No charge to City         |
| <b>Objective 6: Tobacco and Hemp Compliance Inspections</b><br>Assumes one or more inspections per business / per year                                                                                                      | \$336 per inspection      |
| <b>Objective 7: Technical Assistance and Subject Matter Expertise</b>                                                                                                                                                       | Hourly Rate               |
| <b>Additional Travel as Needed</b>                                                                                                                                                                                          | Hourly Rate <sup>1</sup>  |
| <b>ANNUAL COST PER CANNABIS BUSINESS</b>                                                                                                                                                                                    | <b>12,500<sup>2</sup></b> |
| All City costs may be fully recoverable from applicants or permittees<br><sup>1</sup> Or at a flat rate to be determined in consultation with the City<br><sup>2</sup> Assumes each permittee subject to objectives 3 and 4 |                           |

| Background Checks                   | Owner, principal or manager | Employee or line staff |
|-------------------------------------|-----------------------------|------------------------|
| <b>Initial background check</b>     | \$300                       | \$100                  |
| <b>Annual renewal</b>               | \$100                       | \$75                   |
| <b>Reissue lost or stolen badge</b> | \$10                        | \$10                   |

Prices valid as of the date of this proposal and subject to change without notice

### Hourly Rates for HdL Staff

The prices in this proposal are based on the hourly rates for HdL staff as shown in the chart below. Any additional services requested by the client that are not specifically described in this proposal would be billed at the standard rate for the assigned staff person

| HdL Staff Person                                  | Title                         | Hourly Rate |
|---------------------------------------------------|-------------------------------|-------------|
| Matt Eaton                                        | Director of Cannabis Services | \$300       |
| Mark Lovelace                                     | Senior Policy Advisor         | \$300       |
| Elizabeth Eumurian                                | Audit Manager                 | \$300       |
| Brad Schneider                                    | Compliance Manager            | \$300       |
| Valerie Carter                                    | Audit Supervisor              | \$275       |
| Tao Lu                                            | Senior Auditor                | \$250       |
| Kristi Lervold                                    | Compliance Administrator      | \$235       |
| Michelle Shaw                                     | Compliance Inspector          | \$235       |
| Teresa Schneider                                  | Compliance Inspector          | \$235       |
| Pamela Davis                                      | Auditor                       | \$235       |
| Eric Magana                                       | Auditor                       | \$235       |
| Jennifer Erwin                                    | Auditor                       | \$235       |
| Dante Chegini                                     | Audit Analyst                 | \$225       |
| Michael Cimino                                    | Audit Analyst                 | \$225       |
| All rates current as of the date of this proposal |                               |             |

December 5, 2024

Item No: **10g(1)**

Honorable Mayor and Members  
of the Marina City Council

City Council Meeting  
December 17, 2024

**CITY COUNCIL CONSIDER ADOPTING RESOLUTION NO. 2024-,  
AUTHORIZING THE CITY MANAGER TO EXECUTE A CONTRACT  
WITH HDL COMPANIES NOT TO EXCEED \$50,000 TO PROVIDE  
CANNABIS PROGRAM APPLICATION REVIEW, TAX AUDITS,  
COMPLIANCE INSPECTIONS, BACKGROUND CHECKS, AND  
SUBJECT MATTER EXPERTISE AND TECHNICAL SUPPORT**

**REQUEST:**

It is requested that City Council consider:

1. Adopting Resolution No. 2024-, authorizing the City Manager to execute a contract with HdL Companies not to exceed \$50,000 to provide cannabis program application review, tax audits, compliance inspections, background checks, and subject matter expertise and technical support, subject to final review and approval by the City Attorney.
2. Authorizing Finance Director to make appropriate accounting and budgetary entries.

**BACKGROUND:**

On November 6, 2018, the citizens of the City of Marina passed an Ordinance allowing Cannabis Business Activity and Establishing Taxes and Fees for Such Businesses within the City of Marina. The 2018 Ordinance only pertains to those Cannabis Businesses permitted prior to 2021. On November 3, 2020, the citizens of the City of Marina passed a revised Ordinance that repealed the 2018 voter approved Commercial Cannabis Activities Ordinance, and replaced it with Chapter 5.80 Commercial Cannabis Business Regulations and Chapter 17.47 Commercial Cannabis Uses.

The Commercial Cannabis Activities Ordinance allows for no more than three Medical Cannabis dispensaries and three Adult Cannabis dispensaries in the City of Marina at any one time.

Currently, there are 3 permitted Commercial Cannabis Medical and Adult Use Dispensaries and the City is not accepting new Dispensary Permit Applications.

**ANALYSIS:**

HdL has a team of knowledgeable professionals who have direct experience in the implementation of Cannabis Regulatory Programs including developing applications, application rating systems, reviewing applications for compliance with rules and regulations, performing facility inspections conducting compliance and financial audits, and developing application fees to ensure that the City recovers the costs of reviewing materials and conducting hearings before the Planning Commission and City Council. The scope of services includes:

- Cannabis business application review
- Pre-license site visits
- Cannabis tax audits
- Regulatory compliance inspections
- Supplemental background checks
- Subject matter expertise and technical support

HdL's proposal is based on time, materials and travel expenses associated with the execution of these type services. The contract is for a not to exceed amount of \$50,000. The City is only billed for services rendered listed in the Cost section of the proposal contained in proposal included in "EXHIBIT A".

**FISCAL IMPACT:**

On an annual basis the City collects approximately \$271,000-\$420,000 in cannabis taxes from the three approved cannabis shops in Marina. Therefore the \$50,000 HDL will not have a negative fiscal impact upon the City. Additionally, except for City authorized HdL technical expertise services outlined in Objective six (6) of the proposal, there will be no additional cost to the General Fund. The \$50,000 cost of HdL services, except Objective 6, will be recovered 100% from the applications and licenses charged to those businesses involved in the cannabis application and license process.

**CONCLUSION:**

Adopting Resolution No. 2024-, will authorize the City Manager to execute a contract with HdL Companies not to exceed \$50,000 to provide cannabis program application review, tax audits, compliance inspections, background checks, and subject matter expertise and technical support, subject to final review and approval by the City Attorney.

Respectfully submitted,

---

Guido F. Persicone  
Community Development Director  
City of Marina

**REVIEWED/CONCUR:**

---

Layne Long  
City Manager  
City of Marina