

REPORT TO THE CITY COUNCIL



DATE: June 16, 2020

TITLE: Proposed Agreement for Cannabis Inspection and Compliance Services

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RECOMMENDATION

Authorize the City Manager to execute an agreement with Cannabis Compliance Services, LLC to provide inspection and compliance services related to the cannabis industry in the City of Desert Hot Springs for an amount of \$13,800 per month.

SUMMARY

Since 2014, the City has seen significant growth in the number of cannabis facilities within the City, which has created increased demands for compliance services to ensure state and local guidelines are correctly followed. Cannabis compliance is unique when compared to traditional code enforcement activities, and the City initially contracted with individuals who had specialized skill sets accumulated over decades of public safety experience. As these individuals created a Cannabis Compliance Program for the City over several years, Assembly Bill 5 (AB 5) took effect in 2020 which restricts long-term options for utilizing contract work. At that time, the City retained current expertise by contracting with Cannabis Compliance Solutions, LLC. Staff is recommending that the City continue to contract with Cannabis Compliance Solutions, to retain the organizational knowledge and experience from those with direct experience working with the cannabis facilities within the City.

BACKGROUND

The cannabis industry in Desert Hot Springs has continued to grow since the City adopted ordinances allowing for the sales, cultivation, manufacturing, distribution, and testing of cannabis products. The industry has created local jobs and new revenue streams, and it also requires proactive enforcement to ensure safety and accountability issues are addressed within these business ventures. Ongoing operations are locally permitted through an annual Regulatory Permit, which specifies several requirements for operational compliance. A few examples include, background checks for all cannabis employees, providing video surveillance feeds to the City's Police Department, and properly secured business locations. Additionally, cannabis cultivation tax is based on actual square footage permitted, and compliance inspections verify these measurements for tax collection purposes.

The City first contracted with individuals who had several years of unique experience in the areas of investigating cannabis cultivation, narcotics, and drug manufacturing—while also being familiar with related activities like compliance enforcement, asset forfeitures, and money laundering. Experience in these areas were utilized, along with specific City objectives, to create a Cannabis Compliance Program. As demand for cannabis compliance activities increased, the City contracted with additional individuals who had similar skill sets and created several ongoing compliance related services, including inspections, ID card issuance (for cannabis industry employees citywide who pass background checks), participation in policy development, and representation during Administrative Hearings.

The City's Cannabis Compliance Program had grown to meet industry demands when Assembly Bill 5 came into effect, which outlines detailed standards for employee classification versus independent contractor status. These new standards have presented challenges for

several industries, particularly those with complex structures and requirements. Therefore, the City's cannabis enforcement team elected to offer services to the City via Cannabis Compliance Solutions, LLC. Should the City Council approve the proposed contract between the City and Cannabis Compliance Solutions, retention of organizational knowledge from the same team who formulated the City's current Cannabis Compliance Program can be preserved.

DISCUSSION

The current Cannabis Compliance Program runs as a full-time operation, with areas falling into four major categories: (1) Inspections, (2) Cannabis Employee Background Checks, (3) Video Surveillance, and (4) Additional Activities.

Inspections: Each cannabis facility requires initial and ongoing inspections to ensure issues are thoroughly discussed, understood, and followed. Follow-up inspections are made for non-compliance issues to ensure appropriate corrections have been addressed. Inspections also require the compliance team to measure any cultivation areas of each facility, to ensure accurate taxable square footage is recorded.

Cannabis Employee Background Checks: Cannabis Compliance Staff also identify and conduct background checks (including Live Scan review of California Department of Justice criminal history) for each prospective cannabis employee who works within the City. Those who pass background checks are issued a Desert Hot Springs Cannabis Identification Card, and Cannabis Compliance Staff maintain a dataset of approved employees.

Video Surveillance: Cannabis Compliance Staff ensures that cannabis facilities provide remote video access to the City's public safety offices (as required). Staff verifies accessibility, manages designated authentication credentials for each business, reviews surveillance footage, and archives segments with date, time, location, individual identifications, and relevant findings.

Additional Activities: Cannabis Compliance Staff assists in the Regulatory Permit process for cannabis facilities by participating in final Regulatory inspections ("walk-throughs") of cannabis facilities. Staff also provides testimony at Administrative Hearings and works with City Staff on the development of and changes to cannabis related policies and ordinances.

Staff is presenting a professional services agreement for City Council consideration, which carries several unique benefits available to the City by continuing to contract with Cannabis Compliance Services (CCS):

- CCS Staff have formulated and developed the City's Cannabis Compliance Program. CCS Staff has historical knowledge of the cannabis industry within the City and the Cannabis Compliance Program activities.
- Each CCS Staff member is considered an expert in the field of cannabis. The team of professionals has a combined history of 120+ years of experience in law enforcement and investigations. Also, each employee has completed at least one tour in the Special Investigations Bureau (assigned to the Major Narcotics Unit), with most having completed multiple tours.
- CCS Staff have shared best practices with several cities, including Cathedral City, Tracy, Adelanto, Palm Desert, Coachella, and Banning to provide information on how the Desert Hot Springs Cannabis Compliance Program has addressed issues within the

industry. The Bureau of Cannabis Control and the California Department of Public Health are also aware of the compliance model for the City of Desert Hot Springs.

FISCAL IMPACT

Funds have been appropriated in both FY 2019-20 and FY 2020-21 approved budgets to address the \$13,800 monthly costs for cannabis compliance contract services in account 245-42-24-4319.

EXHIBIT(S)

1) Professional Services Agreement