



July 17, 2018

Honorable Gary Gibson
Presiding Judge, Shasta County Superior Court
1500 Court Street, Room 205
Redding, CA 96001

Re: 2017/18 Shasta County Grand Jury Report: Green Rush...Up in Smoke? Legal Cannabis in the City of Shasta Lake

The City of Shasta Lake City Council provides the following required responses to the Findings (F) and Recommendations (R) contained in the 2017/18 Shasta County Grand Jury report entitled: Green Rush...Up in Smoke? Legal Cannabis in the City of Shasta Lake.

Required Findings Responses:

F1: The City of Shasta Lake wholly disagrees with the finding. The City worked with the local Shasta County Sheriff's office staff and consultants to complete a comprehensive Commercial Cannabis Business Regulatory Ordinance regarding onsite security measures. With this input, all commercial cannabis businesses are required by ordinance to comply with a number of security items prior to receiving a permit to operate including: Interior and exterior locations of the business property shall be monitored at all times by closed circuit cameras, and all points of ingress/egress and point of sale areas must have fixed cameras. Recordings shall be maintained unaltered in a secure onsite location for a period of not less than fourteen (14) days, and be available for inspection at any time. The City also requires all owners to be live scanned as a part of the application background check. In discussions with the Sheriff's Department, they do not see a need for an increase in the current allocated positions which are believed to be adequate to handle the expected growth of the cannabis industry for the next few years.

F2: The City of Shasta Lake partially disagrees with the finding. It is unclear exactly what is meant that the "Since the passage of Proposition 64, code enforcement has been in a state of flux." It has been discussed with the City Council during budget meetings and at Council meetings that code enforcement complaints exceed the limited resources of the City to adequately respond for both cannabis complaints during the cultivation season and for general code compliance complaints which far exceed cannabis complaints. Code enforcement has been a priority for the City as demonstrated by the inclusion of this activity when Measure A was drafted in February and March of 2017, a few months after the Proposition 64 was approved. Further, although the City has not received any additional cannabis tax from the passage of Measure A to date, the City's Finance Committee on May 22, 2018, reviewed and recommended within the City's two-year fiscal year budget additional funding for code enforcement activities. This recommendation was included in the two-year fiscal year budget forwarded to the City Council and subsequently adopted on June 5, 2018.

In addition, Proposition 64 only became effective on January 1, 2018. The proposition allows up to six cannabis plants to be cultivated per residence. Prior to the passage of Proposition 64, the City allowed outdoor cannabis cultivation. On February 21, 2018, the City held a Cannabis Ad Hoc Committee meeting, which was open to the public, to discuss the future of outdoor cannabis cultivation. Subsequently, on April 17, 2018, the City Council adopted the intent of Proposition 64 to limit cultivation to six plants per residence. In many instances, this is a cultivation quantity less than what the City previously allowed on some parcels simplifying the code enforcement process. The outdoor cultivation season typically begins at the end of April with any formal complaints received in the months of August and September.

F3: The City of Shasta Lake partially disagrees with the finding. The City agrees that mismanagement of cash could lead to serious accounting errors and criminal activity at any business. However, the City strongly disagrees that it does not follow generally accepted cash management standards. The City follows accounting principles set forth by the Governmental Accounting Standards Board (GASB). GASB is the standard for accounting for California governmental agencies. The City has internal control policies in place such as segregation of duties, timely processing and deposit of receipts, timely reconciliation of ledgers, and the use of integrated receipt and accounting systems. Staff has previously implemented and uses the California State Controllers Internal Control guidelines for internal controls related to cash receipts, cash disbursements, and payroll. The City also employs two Certified Public Accountants on staff that are trained in fraud detection and prevention, internal controls, ethics, and regulatory issues as part of their bi-annual 80 hours of continuing education to maintain their licenses.

Further, the City has a financial statement audit conducted annually by an independent 3rd party auditor, and the City's financial statements have been found to be clear of any material issues according to GASB accounting standards. The City's 3rd party auditors also conduct an internal fraud assessment each year that includes the interview of management and clerical employees. The City has received the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting for its Comprehensive Audited Financial Report for each of the last four years.

F4: The City of Shasta Lake partially disagrees with the finding. The transport of cash to the bank of any business that accepts cash places employees at risk. This is not a unique situation to the City of Shasta Lake. Keeping the cash handling process confidential for any business is key in safe guarding employees that handle cash. The City has made great strides to limit the intake of cash by implementing alternative methods to pay. These methods included drafting customer bank accounts, accepting credit/debit cards and accepting payments online through the City's website.

F5: The City of Shasta Lake partially disagrees with the finding. In coordination with the Shasta Lake Fire Protection District, the City constructed and improved a secondary emergency access road in 2010. The City agrees that a permanent secondary access road into the Shasta Gateway Industrial Park needs to be constructed, and it has been working on the matter for many years. However, a permanent secondary access road is no simple matter. The City has identified a proposed route. The cost of the road construction would be in the neighborhood of \$12 million. Right of way, if not donated by property owners, would be an additional and considerable expense. In the meantime, the City has been restricting the Park to low density uses. The commercial cannabis uses permitted in the Park are all low density. It is anticipated these uses

would contribute right-of-way dedications as well as financially to a permanent secondary access as a condition of development. All applications for development in the Park will continue to be submitted to the Fire District for review.

F7: The City of Shasta Lake wholly disagrees with the finding. Ethical violations can occur in any business. The City employs separation of duties to discourage unethical or criminal activities for most accounting functions. The City also performs background and credit checks on new employees during the hiring process. Additionally, California cities are required by law to provide in person ethics training to their local officials as outlined in California Assembly Bill 1234.

F8: The City of Shasta Lake partially disagrees with the finding. As with any development in the City, be it residential, commercial, or industrial, information is required from the applicant to determine their impact of development on City infrastructure as well as to determine any improvements required. In many instances, the developer would be required to pay for infrastructure improvements that would allow their project to operate and not place a burden on existing rate payers. This is a normal function of land use development. The City is not in the practice of overbuilding infrastructure years ahead of time in the hope that a development(s) may occur sometime in the future. Often, development agreements are required to outline a developer's requirement to fund water, wastewater, drainage, or electric infrastructure improvements. The City at that time may make the determination to upsize certain utilities if it is in the best interest of the City and its rate payers to do so. The City has been collecting utility usage estimate information for all proposed cannabis development. However, the information is either not being provided on a timely basis, or is in no way uniform, making accurate system modeling almost impossible.

F9: The City of Shasta Lake partially disagrees with the finding. The City agrees that code enforcement is inadequately staffed and funded which is not uncommon for small cities. The City disagrees that codes and ordinances are misinterpreted. The City has held numerous public workshops to receive comments and provide information to the public and potential commercial cannabis businesses. Input was also received from the Shasta Cannabis Industry Association related to the drafting of commercial cannabis regulations. The City also employs a robust online presence. The City's website provides a great deal of information to anyone interested in commercial cannabis business opportunities in the City. Each commercial cannabis applicant must complete a detailed application which outlines the specifics of their individual operations including how they will comply with the City's comprehensive commercial cannabis regulations before they are permitted to operate. The City also collects a fee from the applicant that pays for the regulatory inspection(s) of their facility to assure compliance with the City's regulatory ordinance. If the applicant cannot provide sufficient information in the commercial cannabis permit application packet process, the applicant is notified that they do not comply and must provide the requested information before moving forward to be permitted. This process is far and above what the City requires of any other type of business applicant. The City also placed Measure A on the ballot to levy a tax on commercial cannabis operations to fund future code enforcement activities.

F10: The City of Shasta Lake wholly disagrees with the finding. The City plans for its infrastructure improvement based on data provided to the City by the applicants for utility services. Applications must be complete, must be accurate, and must itemize all utility usage levels at the applicant's specific proposed service location. Since applicants are uniquely situated to determine

their utility usage levels based on their building design and business plans, all data are prepared and submitted by the applicant. The applications are required of all customer groups seeking new services and changes to existing services, including all commercial cannabis operations. Not one building project has been delayed due to developers not providing the City with accurate information.

Applications for electric service apply to all electric rate classes (residential, commercial & industrial, subdivision and multi-family) can be found on the city's website. The application facilitates the transfer of electric load information, load calculations, improvements, electric and plot site plans to the City of Shasta Lake electric department. After an application is received, the electric department will work with the applicant and the applicant's technical support staff to evaluate the accuracy of the applicant's data identify any necessary upgrades to city-owned electric infrastructure attributable to the applicant's request. The application and review process must be completed before an occupancy permit is issued.

For water and wastewater utilities, usage volumes for cannabis businesses are solely determined by the means and methods used by the specific businesses and the rate of irrigation recovery achieved. The City requests this usage information for every cannabis business developer; however, because of the variability of the irrigation systems used for these businesses, 'standardized' usage information does not exist, and many developers are ill-prepared to provide accurate usage information to the City. This makes accurate modeling of the City's utility systems to determine the impacts and improvements required by specific businesses very difficult. The whole analysis process is driven by data provided by applicants to the city to ensure city utility infrastructure is adequate to meet applicants' needs. In addition, it allows the city to identify costs attributable to the request so funding arrangements can be made with the applicant. This reduces cost impacts to other customers and supports the long-term viability of the city infrastructure departments.

F11: The City of Shasta Lake partially disagrees with the finding. The City agrees that if the Federal Government asserts its authority, the City of Shasta Lake, many other cities, counties, and the State of California, as well as other states across the nation could find themselves in a confusing situation. However, funds are accounted for separately by funding source. The City operates approximately 27 wholly separately accounted for funds, each with their own cash account and chart of accounts. These individual funds are reported separately in the City's Comprehensive Annual Financial Report each year. It is not uncommon for agencies to commingle funds in a single bank account for all operations as long as funds can be tracked separately. The City's financial accounting software allows for the tracking of any funds received by the City. Cash received from cannabis businesses is tracked in a separate account and is detailed by transaction. It is rather simple for the City to determine how much governmental, utility or cannabis related revenue has been received daily, weekly, monthly or yearly at any give time.

F12: The City of Shasta Lake wholly disagrees with the finding. With any new business, the City requires the completion of an Industrial Wastewater Discharge form detailing the prospective wastewater discharge related to the specific operation of the business. In some instances, based on the stated discharge, the City may require pretreatment prior to the release of any discharge to the City's wastewater treatment plant. Cannabis operations use a batch discharge process where wastewater is discharged on a scheduled basis. The City employs a State of California certified

Grade V Wastewater Superintendent as well as two other certified wastewater operators. These individuals are highly trained to monitor and conduct wastewater treatment operations. Sampling stations are not installed to provide continuous monitoring. They are to assist with the collection of data if a problem is found that is impacting the City's wastewater collection or treatment systems. It is a standard installation in industrial waste discharge locations wherever staff believes the business has the potential to cause issues in the wastewater system. The standard detail is outlined in the City of Shasta Lake's Construction Standards (380.60).

Required Recommendation Responses:

R1: The recommendation will not be implemented because it is not warranted or is not reasonable. This recommendation has already been implemented. The City of Shasta Lake has, prior to the beginning of the regulation of commercial cannabis businesses in the City, consulted with the Shasta County Sheriff's Department and other stakeholders regarding law enforcement needs. Any proposed changes or amendments to the City's cannabis regulations have been discussed with the Sheriff's Department. The Sheriff's Department has been forthright and helpful formulating the City's regulations. The communications with the Sheriff's Department is such that in the event the need for change occurs, the Sheriff's Department will communicate and work with the City to implement necessary changes.

R2: The recommendation has been implemented. The City has already budgeted for additional code enforcement. The cannabis-related code enforcement deals primarily with personal, outdoor cultivation. The City has not experienced code enforcement problems with other related cannabis businesses. The City has already addressed the issue of law enforcement's participation in code enforcement. In consultation with the Sheriff's Department, the City has concluded that code enforcement is a civil function. Law enforcement does not play a role in this enforcement other than to provide civil standby service if requested by code enforcement.

R3: The recommendation will not be implemented because it is not warranted or is not reasonable. The City already has in place policies and procedures for handling cash deposits. The City has been handling cash deposits for years. The City has on staff two certified public accountants and its annual audits include review and evaluation of the City's cash-handling procedures. No recent audit has identified any cash-handling deficiency. The auditing has also verified the City's procedures in maintaining fiscal integrity of various accounts. The Grand Jury Report identifies no cash handling deficiency. The City's procedures are in compliance with general public accounting procedures. For security reasons, the City would be ill-advised to make public the details of its cash handling.

R4: The recommendation has been implemented. Since the publishing of the Grand Jury Report, the City has instituted a procedure for all cash deposits to be transported by law enforcement personnel.

R5: The recommendation will not be implemented because it is not warranted or is not reasonable. The construction of a secondary access will not be and cannot be approved by December 31, 2018. No project work has been completed, right-of-way has not been secured, the roadway has not been designed, environmental review has not been completed, and permits have not been obtained. The majority of these activities are contingent on the availability of funding, and no source of funding

has been secured or identified. The suggestion that funding can be achieved through “performance bonds, grants, assessments, and fees/taxes” is of little help. Performance bonds are not a source of funding for construction projects. Grants are seldom free money. Grants are normally given for a specific purpose and are awarded through a lengthy, competitive process. Assessments and taxes are subject to the strict constraints of Article 13 of the State Constitution and both require elections. There is not always a source of funding for every desired public project. Finding funding for public projects is seldom a simple matter. The City’s goal is to have the secondary access paid for by the people who benefit from it...i.e., the new users of Park. Construction of the secondary access road and discussions with the Shasta Lake Fire Protection District were disclosed during the sale of the expansion area of the Shasta Gateway Industrial Park.

R6: The recommendation will not be implemented because it is not warranted or is not reasonable. The City has already implemented a procedure requiring lot splits and building development in the Shasta Gateway Industrial Park to be submitted to the Shasta Lake Fire Protection District for review and recommendation.

R8: The recommendation will not be implemented because it is not warranted or is not reasonable. The City of Shasta Lake already has procedures in place for addressing embezzlement, misappropriation of funds, and conflicts of interest. There is already in place a large body of law dealing with conflicts of interest and other ethical issues. This is regulated by state law. The City provides and maintains of all necessary training pursuant to Government Code Section 53235. These laws apply to all public agencies. An attempt to rewrite or amend state law would not be considered wise or fruitful.

R9: The recommendation will not be implemented because it is not warranted or is not reasonable. Applicants have already been advised that permits will not be issued unless the City is assured it can provide the necessary infrastructure required of the applicant. The City's application form, which the Grand Jury listed as documents reviewed, requires applicants to give detailed information provided by competent professionals setting forth the anticipated infrastructure demand. If the demand cannot be met, the permit will not be approved. If a permit is approved, it is approved on condition that the infrastructure demands will not be exceeded, or that the applicant will upgrade required infrastructure to provide for any increased demands. The City will continue this practice for all future applicants or any existing permit holder which may want to expand its business.

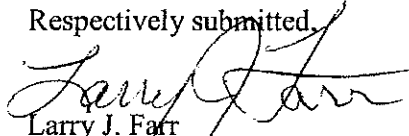
R10: The recommendation has been implemented. The City has already budgeted for expanded code enforcement during the fiscal year 2018/19 budget process.

R11: The recommendation will not be implemented because it is not warranted or is not reasonable. The City has a process in place to obtain information from potential businesses by requiring the completion of an Industrial Wastewater Discharge Application. The application details the prospective wastewater discharge related to the specific operation of the business. If the business’s discharge is a Categorical Industrial User (CIU), the business would be subject to pretreatment standards as specified. Although Cannabis operations are not listed as a CIU, the City took the precaution of requiring commercial cannabis businesses to install sampling ports at any potential discharge points. To date, cannabis businesses have indicated that wastewater discharges will be small or in batches if at all. The City is confident that its existing sampling and

testing procedures at the wastewater treatment plant (WWTP) are sufficient to detect any issues related to cannabis discharges. If necessary, the sampling ports installed by the cannabis businesses would aid the City in identifying the source. The City has the authority to require any business found to be causing treatment issues at the WWTP to install pretreatment equipment to eliminate the issue. Funding for sampling port inspections, when necessary, would come from user fees collected in the wastewater utility operating fund. This is not an authorized funding category under Measure A.

If there are any questions regarding the above responses, please contact John Duckett, City Manager, at 530-275-7411.

Respectively submitted,



Larry J. Farr
Mayor, City of Shasta Lake

cc: City File – Grand Jury Reports