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April 29, 2022

VIA EMAIL:

Hermosa Beach City Council
c/o Michael Jenkins, City Attorney
1315 Valley Drive, 2nd Floor
Hermosa Beach, CA 90254
Phone: (310) 318-0216
Email: michael.jenkins@bbklaw.com

Copy to VIA EMAIL:

Suja Lowenthal
City Manager, City of Hermosa Beach
1315 Valley Drive, 2nd Floor
Hermosa Beach, CA 90254
Phone: (310) 318-0216
Email: suja@hermosabeach.gov

RE: Settlement Offer (the “Offer”) Regarding Withdraw of The Hermosa Beach Cannabis Regulation & Public Safety Measure

Dear Hermosa Beach City Council:

My name is Damian A. Martin. I am a Co-Founder and an Attorney for Catalyst Cannabis Co., which along with Tradecraft Farms are the backers and funders of The Economic Development Reform Coalition of Southern California - Hermosa Beach (“we”, “EDRCSC - Hermosa Beach”, or my “Client”), the political action committee advancing The Hermosa Beach Cannabis Regulation & Public Safety Measure (the “Measure”). I am providing you this Offer in the capacity of administrative legal counsel (SBN: 309684) for EDRCS - Hermosa Beach.

The purpose of this Offer is to produce a settlement with you that results in a win-win for the residents of the City of Hermosa Beach (the “City” or “Hermosa Beach”) whereby the Measure is withdrawn and replaced by a competing City Council measure (the “City Council Measure”) that includes a tax and retains City Council’s control and ability to enact future changes, while providing the residents of Hermosa Beach access to safe, legal, and taxed cannabis (as opposed to the unsafe, illegal, and untaxed cannabis flooding Hermosa Beach via unpermitted delivery services) and resulting in a collaborative and cooperative relationship between the City and my Client for the support of the City Council Measure on the November 2022 ballot and beyond.

I. WHO WE ARE

First and foremost, we would like to take an opportunity for you to get to know the cannabis businesses backing the Measure. Accordingly, Enclosure #1 provides some background information on Catalyst Cannabis Co. and Enclosure #2 provides some background information on Tradecraft Farms. Overall, both Catalyst Cannabis Co. and Tradecraft Farms are well-established cannabis businesses with unmatched track records of successful development, establishment, and operation of cannabis businesses—in particular cannabis dispensaries—throughout California, and starting into the rest of the United States, with each dispensary being custom-tailored to and completely integrative and symbiotic with the local community in which is based. But don't again take our word for it . . . below is a list of local government officials and elected representatives that I believe would proudly attest to the good that Catalyst Cannabis Co. and Tradecraft Farms have brought to their respective communities through the operation of highly professional and neighborhood compatible dispensaries:

A. References for Catalyst Cannabis Co.

- i. Mary Zendejas, City Councilmember, Long Beach District 1

411 W. Ocean Blvd., 11th Floor
Long Beach, CA 90802
Phone: (562) 570-6919
Email: district1@longbeach.gov

- ii. Cindy Allen, City Councilmember, Long Beach District 2

411 W. Ocean Blvd., 11th Floor
Long Beach, CA 90802
Phone: (562) 570-2222
Email: district2@longbeach.gov

- iii. Suzie Price, City Councilmember, Long Beach District 3

411 W. Ocean Blvd., 11th Floor
Long Beach, CA 90802
Phone: (562) 570-6300; (562) 570-8756
Email: district3@longbeach.gov

- iv. Stacy Mungo, City Councilmember, Long Beach District 5

411 W. Ocean Blvd., 11th Floor
Long Beach, CA 90802
Phone: (562) 570-5555

Email: district5@longbeach.gov

- v. Al Austin II, City Councilmember, Long Beach District 8

411 W. Ocean Blvd., 11th Floor
Long Beach, CA 90802
Phone: (562) 570-6685; (562) 570-1326
Email: district8@longbeach.gov

- vi. Vicente Sarmiento, Mayor, Santa Ana

20 Civic Center Plaza
Santa Ana, CA 92701
Phone: (714) 393-4388
Email: vsarmiento@santa-ana.org

- vii. Jeffrey L. Stewart, City Manager, Bellflower

16600 Civic Center Dr.
Bellflower, CA 90706
Phone: (562) 804-1424, ext. 2207; (562) 804-1424, ext. 2278
Email: jstewart@bellflower.org

- viii. Alma K. Martinez, City Manager, El Monte

City Hall East
11333 Valley Blvd.
El Monte, CA 91731
Phone: (626) 580-2001
Email: amartinez@elmonteca.gov

B. References for Tradecraft Farms

- i. Joe Green, Deputy Mayor & City Councilmember, Vista

200 Civic Center Dr.
Vista, CA 92084
Phone: (760) 639-6130
Email: jgreen@cityofvista.com

- ii. Andrew Salinas, Chief of Police, Port Hueneme Police Department

250 N. Ventura Rd.

Port Hueneme, CA 93041
Phone: (805) 986-6538
Email: asalinas@cityofporthueneme.org

iii. Alma K. Martinez, City Manager, El Monte

City Hall East
11333 Valley Blvd.
El Monte, CA 91731
Phone: (626) 580-2001
Email: amartinez@elmonteca.gov

II. WITHDRAWING THE MEASURE

Our Offer to withdraw the Measure is as straightforward as straightforward gets. We have heard and appreciate your concerns that the Measure strips away the City Council's control and ability to enact future changes to Hermosa Beach's cannabis policy. Otherwise, the Measure is an extremely strong piece of public policy including the following highlights:

- The Measure permits only two cannabis dispensaries in Hermosa Beach.
- Cannabis cultivation, manufacturing, distribution, and/or testing would not be permitted in Hermosa Beach unless the City Council, at its discretion, established permit limits, regulations, and zoning rules for those businesses.
- The Measure would prohibit the establishment of cannabis retailers within 600 feet of any day care center or youth center, 1,000 feet of any school, and 1,500 feet of Clark Stadium or the Hermosa Beach Community Center.
- The Measure's zoning rules results in two limited pockets of real estate for the permitting of dispensaries—one on the northern end of Pacific Coast Highway and one on the southern end of Pacific Coast Highway—with no dispensaries permitted on Pier Avenue, Hermosa Avenue, or the City's beachfront.
- The Measure uses a stringent merit-based process to select permit winners in which only well-established cannabis businesses committed to the local community should be awarded permits.
- The Measure requires cannabis products to be independently tested to ensure public health and safety.

- Dispensaries would have to comply with various safety and security requirements, including but not limited to, alarm systems, 24-hour security, and 24-hour security cameras with live remote access by the Hermosa Beach Police Department.

Therefore, if you place a competing City Council Measure on the November 2022 ballot that essentially copies the Measure but adds in a section that provides the City Council full authority to enact future changes to the City Council Measure, we will arrange to have the Measure withdrawn such that the City Council Measure with full City Council authority to enact future changes is the only cannabis regulatory initiative on the November 2022 ballot (and, as a result, the only cannabis policy with a chance to become law of the land in Hermosa Beach).

This is not an empty promise. My Client works in good faith and keeps its word when interacting with municipalities like the City because my Client is repeating this very same process in other cities in the State and needs to maintain a reputation that we can be trusted. You don't have to take my word for it though; please just see Enclosure #3. In 2019, Catalyst Cannabis Co. and Tradecraft Farms backed two citizen initiatives in the City of El Monte, The El Monte Cannabis Regulation & Public Safety Measure and The El Monte Cannabis Taxation & Essential City Services Measure. The El Monte City Council accepted and ultimately adopted as written The El Monte Cannabis Regulation & Public Safety Measure; however, they preferred an alternative tax measure to The El Monte Cannabis Taxation & Essential City Services Measure. Accordingly, we promised that if the El Monte City Council put an alternative tax measure on the ballot and it passed, we would arrange to have The El Monte Cannabis Taxation & Essential City Services Measure withdrawn. The El Monte City Council's alternative tax measure, Measure PC, ultimately passed, and, as promised (and as thoroughly demonstrated by the enclosed email correspondence in Enclosure #3), The El Monte Cannabis Taxation & Essential City Services Measure was withdrawn and never actually went to an election.

Speaking of cannabis taxation, please also place a cannabis business tax on the November 2022 ballot. We greatly understand that cannabis businesses should be taxed and should benefit the residents of Hermosa Beach by providing tax revenue. The tax could be general or even special (like Measure PC in El Monte). On that note, we intentionally did not include a tax as part of the Measure because the lack of tax in the Measure provided the City Council the ability to adopt the Measure, and we felt that the City Council should develop the tax policy with our support. To illustrate, Measure PC in El Monte was a special tax that passed with over 71% of the vote largely due to aggressive campaigning on our part as demonstrated by the mailers in support of Measure PC enclosed with this Offer. See Enclosure #4. As far as we are aware and have been informed, Measure PC is the only local cannabis business special tax to successfully pass at the ballot in the entire State of California. With that in mind, as long as your tax is reasonable, we will support that tax. Below are tax regimes that we consider reasonable with the caveat that any general tax should be included in the competing City Council Measure and any special tax should be a separate ballot measure:

- A 5% (6% max) general cannabis dispensary gross revenue tax;

- A 3% (4% max) general cannabis dispensary gross revenue tax AND a 2% (2% max) special cannabis dispensary gross revenue tax with funds specifically allocated to public safety / the Police Department;
- A 2% (3% max) general cannabis dispensary gross revenue tax AND a 3% (3% max) special cannabis dispensary gross revenue tax with funds specifically allocated to public safety / the Police Department; OR
- A 5% (6% max) special cannabis dispensary gross revenue tax with funds specifically allocated to public safety / the Police Department.

III. OTHER ISSUES FOR CONSIDERATION

Ultimately, withdrawing the Measure if the City Council places a competing City Council Measure that essentially copies the Measure but adds in a section that provides the City Council full authority to enact future changes and includes a tax is the crux of my Client's Offer. If we agree on that, there is not much else to discuss / debate. Having said that, below are some additional issues we should address or at least consider:

- A. *Application Procedure & Operational Regulations* – We are of the position that the application procedure and regulations in the Measure on the actual operation of a dispensary (security, operations, aesthetics, delivery, neighborhood compatibility, etc.) are more than adequate. In fact, the application procedure and regulations are based on our years and years of deep experience crafting dispensary policy and operating dispensaries in numerous jurisdictions. Having said that, we are open to additional and alternative dispensary regulations proposed by you. However, we cannot commit to those additional and alternative dispensary regulations proposed by you until we actually know what they are.

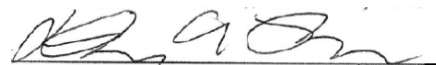
We can, however, make a couple items clear up front. One, we will not agree to dispensary-related Blue Laws where we are forced to close on Sundays or to have operating hours unreasonably constrained (for the record, we consider having requirements to open after 11:00 a.m. and/or close before 8:30 p.m. to be unreasonable constraints). Cannabis is medicinal and a dispensary should be accessible similar to a pharmacy. Two, we will not agree to a conditional use permit process for the allocation of dispensary permits. In our many years of experience in numerous local jurisdictions, a conditional use permit process for permitting dispensaries is highly inefficient and will result in potentially years of delay in the residents of Hermosa Beach having reasonable access to legal, tested cannabis and the City receiving tax revenue from the actual operation of cannabis dispensaries. Furthermore, a conditional use permit process is essentially duplicative of the stringent merit-based process to select permit winners already contained in the Measure.

B. *Community Benefits / Veterans Issues* – As implied above in our discussion on a tax measure for the November 2022 ballot, we are strong believers that operating a cannabis dispensary involves more than just simply selling regulated and tested cannabis, and, in addition, our cannabis dispensary operations in the City should generate benefits to the entire Hermosa Beach community, not just those residents or visitors that purchase cannabis. Accordingly, the Measure includes a section of the merit-based point system solely to evaluate an applicant’s community benefits plan. We are very open to improving / altering this component of the merit-based point system. For example, the City Council could intentionally target certain causes / efforts, and we of course would not object. On that note and given the City’s “Veterans are Timeless” campaign and that Veteran’s causes are near and dear to the cannabis companies backing the Measure (for the record, I am a Veteran having served six years as an Intelligence Specialist in the U.S. Navy before I eventually went to law school using the Post-9/11 G.I. Bill; see Enclosure #1, Pages 4-5), we think the community benefits section of the Measure’s merit-based point system could be improved in the City Council Measure by requiring that a dispensary’s community benefits specifically target Veterans. Just to provide you some food for thought, Tradecraft Farms operates a Veterans Compassion Program (see Enclosure #5), Catalyst Cannabis Co. recently hosted a “Harvest for Heroes” Festival (see Enclosure #6), and the Measure includes a local hiring requirement that could readily be applied to Veteran hiring.

IV. CONCLUSION

We hope this Offer and the effort put into it changes your perspective on the Measure and my Client. As demonstrated above and by the attached enclosures, we have put together a comprehensive and thoughtful Offer in the hope of producing a settlement with you that results in a win-win for the residents of Hermosa Beach. Ultimately, we hope you see this Offer the same way and accept it so that we can move together collaboratively and cooperatively in support of a competing City Council Measure on the November 2022 ballot and beyond.

Respectfully Submitted,



Damian A. Martin, Esq., M.B.A.
Co-Founder & Attorney,
Catalyst Cannabis Co.
Administrative Legal Counsel,
EDRCSC - Hermosa Beach

Enclosures:

1. Background Information on Catalyst Cannabis Co.
2. Background Information on Tradecraft Farms
3. Email Correspondence RE Withdraw of The El Monte Cannabis Taxation & Essential City Services Measure
4. Mailers in Support of Measure PC, The Cannabis Business Tax for Public Safety, Parks & Youth Programs
5. Veterans Compassion Program by Tradecraft Farms
6. Harvest for Heroes Festival by Catalyst Cannabis Co.