

Audit of the Cannabis Storefront Dispensary Permitting Process

Report# 2020/21-09 | November 2020

Ownership of Cannabis Dispensary Operating Permits were Transferred Between Individuals and Corporate Entities as a result of Ambiguity in the City Code and an Evolving Regulatory Environment

The City Needs to Better Define Ownership if it Expects to Enforce City Code Restrictions on Ownership and Manage who is Truly Behind its Permitted Cannabis Related Businesses

Determining Beneficial Ownership is Critical to Enforcing Ownership Restrictions in the City's Cannabis Regulations

Measured Expansion in the Number of Dispensary Permits Would be Consistent with Municipal Best Practices



City of
SACRAMENTO
Office of the City Auditor

Performance Audit Division

Jorge Oseguera, City Auditor
Lynn Bashaw, Assistant City Auditor
Kevin Christensen, Senior Fiscal Policy Analyst
Nathan Lugo, Senior Fiscal Policy Analyst



The City of Sacramento's Office of the City Auditor can be contacted by phone at 916-808-7270 or at the address below:

915 I Street
MC09100
Historic City Hall, Floor 2
Sacramento, CA 95814

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AUDIT FACT SHEET

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RECOMMENDATIONS

We made recommendations aimed at improving the cannabis dispensary permitting process. Our recommendations included:

Clarify Transfer Permit Restrictions

- Seek direction from the City Council to determine whether cannabis dispensary transfers should be permitted by the City Code.
- Propose and update transfer regulations that articulate the policy and legal goals of City Council.
- Design and implement an internal control framework over the cannabis dispensary permitting process.

Clarify Ownership Standards

- Determine whether all cannabis dispensary owners must comply with new City Code ownership limitations.
- Determine and define standards of ownership to include controlling ownership and limits of ownership for all cannabis dispensary permit holders.

Identify Beneficial Ownership

- Incorporate researching beneficial ownership into the cannabis dispensary permit application and renewal processes.

Perform Market Study

- Perform economic study to determine local cannabis market demand and evaluate whether 40 dispensaries are sufficient.

BACKGROUND

The City of Sacramento was an early entrant in regulating California's new and rapidly evolving medical cannabis industry in the late 2000s. Shortly after the initial regulations were enacted, the City implemented a prohibition on the transfer of cannabis dispensary permits. Since that time, the City has issued 30 permits to cannabis dispensaries. Media articles in 2019 reported that some cannabis dispensary permits were improperly transferred and consolidated. In response, the City Council requested the Office of City Auditor conduct an audit of the City's cannabis storefront dispensary permitting process.

FINDINGS

Finding 1: Ownership of Cannabis Operating Permits were Transferred Between Individuals and Corporate Entities as a result of Ambiguity in the City Code and an Evolving Regulatory Environment

The City implemented a cannabis dispensary permit application processing policy called "continuity" to balance state and local regulations. Despite the City's registration ownership restrictions and the prohibition on cannabis dispensary permit transfers, we found that:

- At least 18 cannabis dispensaries have changed ownership; and
- One group of business associates consolidated nine dispensary permits.

Finding 2: The City Needs to Better Define Ownership if it Expects to Enforce City Code Restrictions on Ownership and Manage who is Truly Behind its Permitted Cannabis Related Businesses

The City has not updated cannabis dispensary ownership regulations to appropriately allow for the enforcement of the City Code. We found that:

- New City Code provisions may create equity issues; and
- More transfers may occur without changes to ownership rules.

Finding 3: Determining Beneficial Ownership is Critical to Enforcing Ownership Restrictions in the City's Cannabis Regulations

In order for the City to determine the true ownership of cannabis dispensaries, it is imperative to determine the identity of beneficial owners.

Finding 4: Measured Expansion in the Number of Dispensary Permits Would be Consistent with Municipal Best Practices

City leaders have expressed concerns that a key tenet of legalizing cannabis—correcting injustices inequitably inflicted on people of color and low-income communities—has neither been prioritized or effectuated in the City's cannabis regulations, including:

- The City could increase the number of permitted dispensaries and effectuate policy goals.

Introduction

In accordance with a request from the Mayor and City Council, we have completed the *Audit of the Cannabis Storefront Dispensary Permitting Process*.¹ We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The City Auditor's Office would like to thank the Office of Cannabis Management and the City Attorney's Office for their cooperation during the audit process.

Background

In 2009, cannabis permitting application processing was originally housed in the Revenue Division of the City's Finance Department. The Revenue Manager was tasked with drafting and interpreting cannabis policy and regulations, reviewing and approving cannabis-related permits, and collecting revenues related to cannabis taxes and fees. The Office of Cannabis Policy and Enforcement was created in 2017. The creation of this division included funding for a director and staff. The division was later rebranded as the Office of Cannabis Management and was moved from within the Finance Department to a division in the City Manager's Office.

Currently, cannabis regulations and permitting are overseen by the Office of Cannabis Management. However, there are several divisions and departments that play a role in cannabis program operations. The Revenue Division still maintains responsibility for collecting tax revenue. The City Manager's Office is overseeing the Office of Cannabis Management's work. The City Attorney's Office serves as the legal advisor to the Office of Cannabis Management which includes rendering advice and counsel, and preparing ordinances, resolutions, contracts, opinions, and other legal documents. The Office of Cannabis Management develops, issues, and administers permits, and provides regulations for commercial cannabis in the City. This includes oversight and coordination of an interdepartmental team to ensure safe and legal cannabis business operations. The Office of Cannabis Management's approved budget for fiscal year 2020-21 is \$1.2 million and includes 7 full-time staff.

In November 1996, California voters approved Proposition 215, also known as the Medical Use of Marijuana Initiative or the Compassionate Use Act. The law exempted patients and defined caregivers who possess or cultivate cannabis for medical treatment recommended by a physician from criminal laws which otherwise prohibited possession or cultivation of cannabis.

In 2003, the California State Legislature passed SB 420, also called Medical Marijuana Program (MMP), that allowed patients using cannabis for medicinal purposes to collectively or cooperatively: cultivate

¹ For this report, the terms "dispensary" and "dispensaries" are used to indicate cannabis storefront dispensaries. These terms should not be construed to include other types of dispensary permits issued by the City.

cannabis for medicinal purposes and set limits on where cannabis may be consumed. The law became effective in January 2004.

In August 2008, in an effort to provide local municipalities and law enforcement clearer guidelines for setting up a legislative framework to regulate the medical cannabis industry, the California Attorney General issued a legal opinion titled, *Guidelines for the Security and Non Diversion of Marijuana Grown for Medical Use*. The opinion included guidance on the type of corporate structure medical cannabis dispensaries should use in order to comply with State law.

For purposes of local regulation the Attorney General stated that a properly organized and operated collective or cooperative that dispenses medical cannabis through a storefront may be lawful under California law, but that dispensaries that do not substantially comply with the guidelines are likely operating outside the law and are subject to arrest and prosecution. One critical element of the guidance was the explanation that dispensaries must organize and operate as cooperatives or collectives. The corporations code states that cooperatives “are democratically controlled and are not organized to make a profit for themselves, as such, or for their members, as such, but primarily for their members as patrons.”

In early 2009, the City did not have any procedures or zoning regulations governing medical cannabis dispensary operations. Therefore, a mechanism did not exist to grant a business operations tax certificate (BOT certificate) to a dispensary. Meanwhile, applicants started to approach the City seeking Business Operations Tax Certificates to open new or legitimize existing medical cannabis dispensaries in Sacramento. A BOT certificate would illustrate the City’s recognition of a business engaging in the distribution and/or sale of medical cannabis. City Council members voiced concerns about the increased interest and City staff were unsure of the number of unlicensed medical cannabis dispensaries already operating in the City.

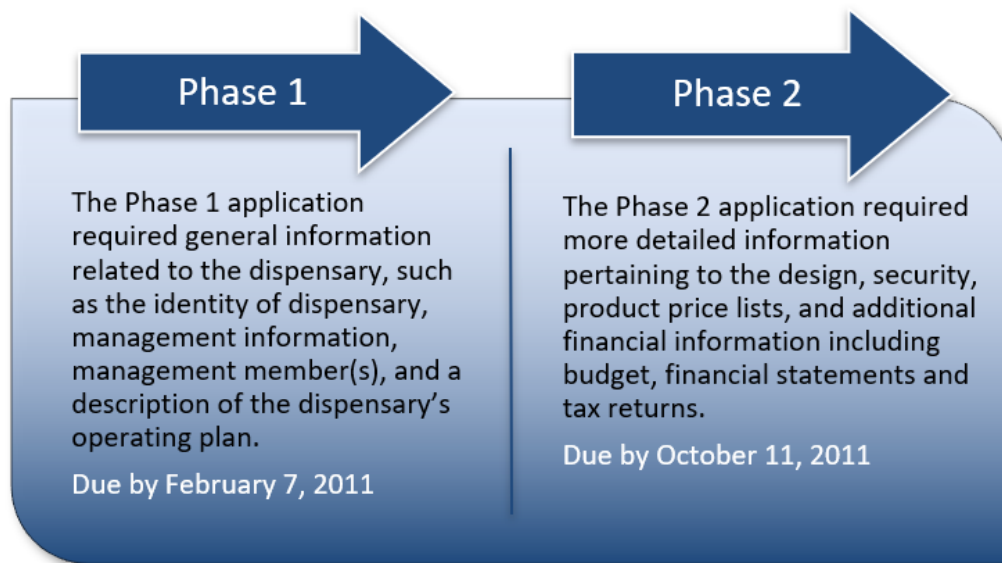
In July 2009, the Sacramento City Council adopted an ordinance titled, *An Ordinance Establishing A Moratorium on New Medical Marijuana Dispensaries in the City of Sacramento and Declaring the Ordinance to be an Emergency Measure to Take Effect Immediately Upon Adoption*. The emergency ordinance achieved the following:

- Established a 45-day moratorium on the establishment of new or the modification/expansion of existing medical cannabis dispensaries;
- Required all existing medical cannabis dispensary operators to register with the City within 30 days of enactment of the ordinance; and
- Recognized that a dispensary would be deemed an “established operation” if the owner or operator of a dispensary in operation since July 16, 2009 timely submits an application and the City Manager finds that, based on credible evidence, the dispensary has been providing cannabis to qualified patients in a manner consistent with The Compassionate Use Act and the Medical Marijuana Program.

A goal of the moratorium was to provide time for City staff to research the impacts on public safety and zoning restrictions associated with medical cannabis dispensaries. The ordinance was also designed to provide City leaders with information on the number of dispensaries operating in the City.

In November 2010, the City Council passed a new slate of regulations that established a two-step process to permit a medical cannabis dispensary, titled Phase 1 and Phase 2. In short, Phase 1 established operating standards for permitting of cannabis dispensaries. Phase 2 required the applicant to file additional information, such as security plans for the site.

Figure 1: City of Sacramento Cannabis Dispensary Permitting Two-Phase Process



Source: City Auditor's Office based on Sacramento City Code.

The City Code required that medical cannabis dispensaries establish their corporate structure as a cooperative or collective of four or more members and operate on a not-for-profit basis. Additionally, the Code prohibited transfers of dispensary permits or dispensary ownership. Specifically, City Code sec. 5.150.210(B) stated, "A dispensary shall not transfer ownership or management control of a dispensary or transfer a dispensary permit to another person."

The City placed an administrative hold on processing Phase 2 applications in October 2011 due to concerns regarding uncertainty over the future of federal cannabis laws. During this time, the U.S. Attorney's Office commenced enforcement activities on medical cannabis dispensaries. The City's Revenue Division reported that owners of the properties that the dispensaries were located on received enforcement letters demanding that they discontinue cannabis distribution from the properties or face criminal and/or civil sanctions. The Revenue Division indicated that some dispensaries closed due to federal enforcement.

The City removed the administrative hold and proceeded with the review and issuance of Phase 2 applications in October 2013. As a result, there was about a two-year break from the time the Phase 2

applications were submitted to the time they were processed. Many of the dispensaries submitted new Phase 2 applications when the City restarted processing dispensary applications. In turn, the City's Revenue Division processed these applications. The City issued the 30th permit for medical cannabis dispensaries in May 2015.

In January 2015, California Legislature adopted three bills known collectively as the Medical Marijuana Regulation and Safety Act (MMRSA). When fully implemented on January 1, 2018, the bills licensed and regulated the lawful cultivation, manufacturing, distribution, transportation, sales, and testing of medical cannabis in the State. However, as part of the MMRSA, cities and counties retained the right to ban medical cannabis dispensaries within their jurisdiction. In addition, when fully implemented, MMRSA repealed the requirement that dispensaries incorporate as nonprofit cooperatives or collectives effective January 2019.

Prior to MMRSA's implementation, in February 2016, the City's Revenue Division presented a proposal to modify the City Code to address dispensary management and ownership changes. The proposal sought to remove specific prohibitions related to permit transfers. In its report to the City Council, City staff stated that "[current] City Code does not allow dispensaries to relocate or change management members...It is not practical to require a dispensary to keep its officers and manager static. The City should not allow the entity to change in its entirety, however employees, managers, and officers will need to change on occasion and City Code should reflect this reality." The City Council adopted the City Code modification in February 2016.

"Membership changes have occurred at most dispensaries... A small change in the code is necessary to clarify that membership changes are allowed while still not allowing the dispensary to be sold, transferred, assigned, or bequeathed."

-Revenue Manager

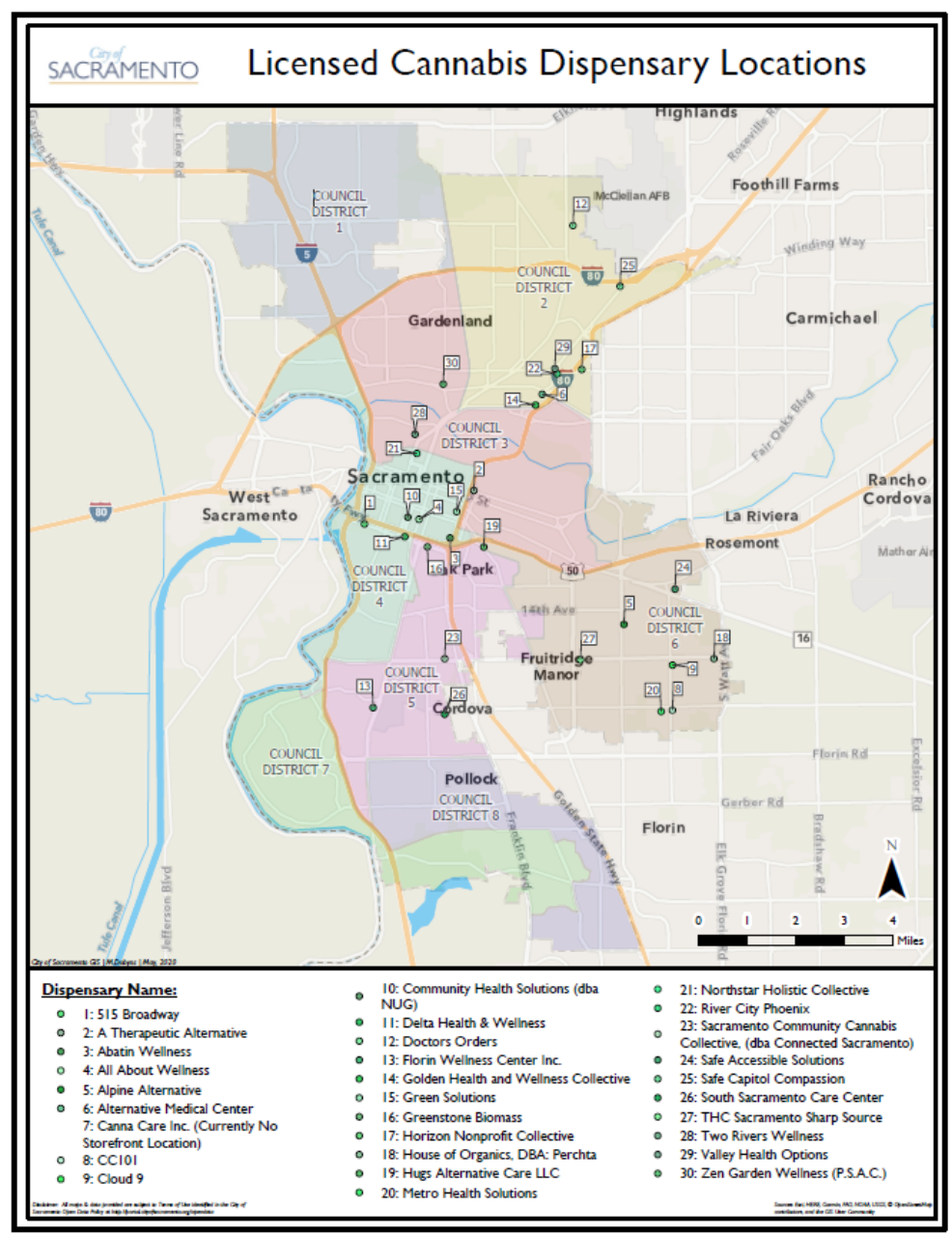
Shortly thereafter, in November 2016, California voters approved Proposition 64, also called the Adult Use of Marijuana Act (AUMA), the California Marijuana Initiative. The AUMA allowed adults aged 21 years or older to possess and use cannabis for recreational purposes. Prior to the initiative, the possession or use of cannabis for recreational purposes was illegal. The AUMA created two new taxes, one levied on cultivation and the other on retail sales. The taxes were designed to fund drug research, treatment, enforcement, health and safety, youth programs, and environmental damage prevention resulting from illegal cannabis production.

In November 2017, the City Council approved changes to the City Code to bring it in line with the AUMA and allow for permitting of recreational cannabis retail sales.

California's laws regulating cannabis were substantially revised in 2017 by comprehensive new legislation known as the Medicinal and Adult Use Cannabis Regulation and Safety Act (MAUCRSA). MAUCRSA established a uniform licensing regime for both medical and adult-use cannabis effective January 1, 2018. MAUCRSA supplants prior legislation known as MCRSA (formerly MMRSA), which applied only to medical cannabis. It also makes adjustments to California's legalization law, the Adult

Use of Marijuana Act (AUMA), consistent with the intent of the initiative. Licenses under MAUCRSA are to be issued according to regulations set by the Bureau of Cannabis Control and its affiliated agencies, the Department of Food and Agriculture (for cultivation) and the Department of Public Health (for manufacturing, packaging and labeling). In part, the MAUCRSA requires separate license applications for medical and adult-use facilities, but allows applicants to combine the two in the same facility. Currently, the City of Sacramento has issued permits for 30 storefront dispensaries, as illustrated in Figure 2.

Figure 2: Cannabis Dispensaries Permitted to Operate in Sacramento



Source: City of Sacramento.

As the map above shows, the dispensaries are spread through some, but not all, Council districts in the City.

City Auditor's Office Issued an *Audit of the City's Medical Marijuana Dispensaries*

In October 2017, the Office of the City Auditor issued the *Audit of the City's Medical Marijuana Dispensaries*. The scope of the project was to assess the controls surrounding the operations of the dispensaries and to identify areas of risk and opportunities for improvement. The audit included the following findings:

1. The Revenue Division Could Improve Its Monitoring of the Business Operations Tax (BOT) Collection Process to Better Detect Underreporting.
2. Medical Marijuana Dispensaries Are Not Complying with the City's Operating Requirements.
3. The Revenue Division Could Benefit from Improved Recordkeeping and More Thorough Reviews of Dispensary Permit Applications.

The audit included 20 recommendations aimed at strengthening monitoring of medical cannabis dispensary BOT payments, improving compliance with City Code, and enhancing recordkeeping. Management agreed with all 20 recommendations. To date, management has fully implemented 18 of the recommendations and is in the process of implementing the final two recommendations.

City Establishes Cannabis Opportunity Reinvestment and Equity (CORE) Program

In November 2017, City Council approved a framework and authorized City staff to draft an ordinance establishing a program designed to lower barriers of entry into the cannabis market for communities negatively and disproportionately affected by the war on drugs and are currently not participating in the market. The program, titled the Cannabis Opportunity Reinvestment and Equity program (CORE), represents an effort to ensure the cannabis program is balanced, efficient, and accessible to every segment of the community.

In August 2018, City Council approved the establishment and operation of the CORE program. A central goal of the program is to assist in the establishment of cannabis businesses owned by persons from the communities negatively and disproportionately impacted by prior enforcement of cannabis-related crimes. The program was envisioned to include a small business support center, mentoring program, and priority permit processing for qualified participants.

The CORE program is currently operated by two independent service providers that have contracted with the City to manage the program. In March 2019, the City Council approved two agreements—one with the Sacramento Asian Chamber of Commerce (SACC) and the other with the Greater Sacramento Urban League (GSUL)—to administer the CORE program for a two-year period.

On November 12, 2019, the Mayor proposed the addition of five storefront dispensary permits exclusively for CORE program applicants. At that time, Council requested staff to return for an in-depth discussion and direction on the matter. As discussed in greater detail in Finding 4, OCM staff presented options of increasing permits and received direction from City Council in January 2020.

Media Reports Trigger Scrutiny of the City’s Cannabis Permitting Process

In October 2019, *The Sacramento Bee* reported that nine dispensary permits were consolidated with one group of individuals despite the City’s long-standing prohibition on dispensary permit transfers. As a result, the City Council in November 2019 approved a 120-day moratorium on ownership changes of cannabis dispensaries. In order to address the consolidation of the dispensary permits, the City Council also approved a new restriction stating that new cannabis dispensary owners can only hold an ownership interest in one cannabis dispensary. Finally, the Mayor also requested the Office of the City Auditor examine whether permitting rules should be changed to “safeguard against the over-concentration of permits with an individual or group.”

Objective, Scope, and Methodology

Our objective of this audit was to determine whether the City’s dispensary permitting process complied with the cannabis regulations and whether regulations should be updated to more adequately safeguard against overconcentration of permits with one individual or group. In addition, we reviewed proposed legislative changes related to increasing the number of cannabis dispensary permits issued in the City. As part of this project, we interviewed staff from the Office of Cannabis Management, the City Attorney’s Office, and the City’s Revenue Division. We reviewed best practices, law review articles, County and State laws and regulations for the cannabis industry and regulations adopted by agencies overseeing controlled activities such as gambling. We also interviewed staff from other California cities to determine how other agencies regulate, monitor, update, and enforce cannabis laws. We reviewed the more than 22,000 pages of materials that cannabis dispensaries submitted with applications and renewals from 2009 to 2019 to determine the dispensary ownership history and to determine whether the original corporate entity has remained the same over time. The Appendix documents the application and renewal processes of the 30 licensed dispensaries.

Finding 1: Ownership of Cannabis Dispensary Operating Permits were Transferred Between Individuals and Corporate Entities as a result of Ambiguity in the City Code and an Evolving Regulatory Environment

After California legalized medical cannabis in the mid-1990s, the expansion and operation of the industry was largely unregulated through the late 2000s. Substantial uncertainty hung over the medical cannabis markets because it was still considered an illegal substance by the federal government. In August 2008, the California Attorney General established guidelines to assist cities in regulating medical cannabis facilities. This prompted the City of Sacramento to take its first steps towards regulating medical cannabis dispensaries.

In an effort to identify and legitimize dispensaries that were already in operation, the City in 2009 prohibited opening new dispensaries and provided existing dispensaries one month to register with the City. In 2011, the City required that permit applicants must be the same owner that registered the dispensary. Additionally, in 2011, the City Code required existing dispensaries to complete a two-step application process, required consistent ownership throughout the initial application process, and prohibited ownership transfers of permits. In 2016 and 2017, the City further modified its prohibition on certain types of permit transfers and introduced the City's permit revocation authority. However, despite having established City Code provisions that required ownership consistency from registration through the application process and a prohibition on the transfer of dispensary permits, we found over time, many of the City's original cannabis dispensary owners have changed.

Specifically, our assessment of the evolution of the City's cannabis dispensary permitting process found:

- A "continuity" concept was established that allowed for dispensary permit ownership to be transferred among individuals;
- The City Code was subsequently amended and the continuity concept was more frequently applied to effectuate more transfers;
- The ambiguous continuity framework allowed a small group of individuals to obtain ownership of numerous dispensary permits; and
- The City can consider processes similar to other cities and agencies to better control transfers and strengthen internal controls.

In our opinion, the City's continuity concept, although designed with a practical purpose, quickly became a loophole that dispensary owners could exploit to circumvent the City's registration restrictions and prohibition against permit transfers. The City Code gave the impression of a very restrictive and controlled process, but in practice, it was not very effective at limiting transfers or changes in ownership. As a result, at least 18 of 30 dispensaries² completely changed owners or corporate entities between 2009 and 2019. If the City wants to have better control and oversight regarding who is granted

² If one dispensary underwent multiple ownership changes, we only counted it once.

the privilege of operating one of the coveted cannabis dispensaries, the City will need to better define what constitutes a transfer and memorialize the kinds of transfers that are permissible.

A “Continuity” Concept was Established that Allowed for Dispensary Permit Ownership to be Transferred Among Individuals

Regulation of medical cannabis in California was in a state of flux through the 2000s, in part, due to the uncertainty of potential enforcement of federal law, which listed cannabis as an illegal substance. In an effort to shield medical cannabis dispensaries from federal enforcement action, the State and the City required medical cannabis dispensaries to operate as nonprofit cooperative/collectives. In November 2010, new sections of City Code were established to regulate the medical cannabis market and prohibit transfers. They included:

City Code sections 5.150.040(C & D) Registered medical marijuana dispensaries:

“The applicant for the dispensary permit must be the same owner(s) or principal(s) named on the medical marijuana dispensary's registration as of July 27, 2010, and must be a management member of the registered medical marijuana dispensary.” Notwithstanding the provisions of Section 5.150.030, a person may continue to operate a registered medical marijuana dispensary without a dispensary permit until February 7, 2011. If an application for a dispensary permit is properly filed, a person may continue to operate that dispensary without a dispensary permit until January 9, 2012, and while the application’s approval is pending.”

City Code section 5.150.210(B) Relocation or permit transfer prohibited:

“A dispensary shall not transfer ownership or management control of a dispensary or transfer a dispensary permit to another person.”

City officials at the time acknowledged that the City’s registration restrictions and regulations prohibiting transfers did not align with State and City guidelines requiring medical cannabis dispensaries to operate as cooperatives or collectives. For example, State rules governing cooperatives and collectives envision that managers, officials, and directors may change over time, however City Code did not provide a mechanism for this type of management movement.³ Critically, the City Code did not provide a definition for “transfer”, “ownership”, “management control”, or “person” in the context of cannabis regulations.

³ California Corporations Code sec. 12201 states that co-ops “are democratically controlled and are not organized to make a profit for themselves, as such, or for their members, as such, but primarily for their members as patrons.”

When the City Code update was presented at a City Council meeting in November 2010, City staff attempted to identify what constituted a transfer and stated, “[A] collective transfers or sells 51 percent of ownership or management control to another person, then it has effectively transferred its ownership management control and is in violation of this ordinance.”⁴ However, this language was not included in the City Code which left ambiguity about whether changes in “ownership” or “management control” were permissible. Additionally, as previously mentioned, the term “person” was never specifically defined in the context of dispensary permits, thereby leaving ambiguous whether the holder of the permit was an individual person or a corporate entity. In other words, the City Code included a prohibition on transfers but did not include any criteria to define what kind of ownership change constituted a transfer.

As a result, according to City management, the City Code had to be interpreted to allow the kinds of management changes permitted by California law governing cooperatives and collectives. In response to this perceived conflict, City management, in consultation with the City Attorney’s Office, adopted an informal concept they called “continuity” in an attempt to bring the City’s new regulation into closer alignment with State laws. Specifically, the Revenue Division Manager, in response to a Council member’s question, clarified that “[when] a dispensary wanted to change their managers, or they wanted to change their name, or they wanted to change where their location was before they actually got their permit, we would look for some continuity. If they wanted to change everything at once, that wasn’t allowed, because obviously, that was new people running a new dispensary somewhere else. So, we’ve always looked for continuity on the board, the managers, [and] the original application. And, we look for a continuity trail along the way with the permit applications.” The continuity concept was intended to allow the addition and removal of dispensary managers, officials, and directors listed on the dispensary application filings. In other words, according to City management, senior management and directors could change without violating the City Code.

However, the City never formalized a definition of the continuity concept and did not document any processes directing how the continuity policy should be applied. Additionally, the City never created process narratives explaining application of the concept in permit applications and renewals. City staff stated that this concept of “continuity” was passed on by word of mouth. This resulted in wide differences in interpretation of the application of the continuity concept. What’s more, we found that the policy changed to meet the needs of the dispensary applicants as the industry and regulatory environment evolved.

City’s Administrative Pause on Permit Processing Stalled the Enforcement of the Transfer Prohibition

When the City Council initially approved the registration and permitting scheme for medical cannabis dispensaries in 2009, key deadlines were established for the submissions. The registration and the permit application process was intended to take from July 27, 2010 through January 9, 2012. This created an important expectation for the regulation of the cannabis dispensaries: once the last permit

⁴ Statement by former Special Projects Manager for the Sacramento City Manager’s Office, at the Sacramento City Council meeting on November 9, 2010.

was issued – by January 9, 2012 -- City Code section 5.150.210 prohibiting permit transfers would take effect.

However, the City placed an “administrative pause” on processing Phase 2 dispensary applications in October 2011 due to concerns regarding uncertainty over the future of federal cannabis laws, effectively halting the permitting process. The City removed the administrative hold and proceeded processing Phase 2 applications in October 2013. During this two year pause in the application process, the City did not update the City Code to facilitate changes in ownership and management control at medical cannabis dispensaries that happened during this time. In total, registered medical cannabis dispensaries in the City operated from 2009 to 2013 without any applicable regulations limiting changes in ownership and management control. We found this created the opportunity for many dispensaries to change ownership.

Figure 3 shows the deadlines that were initially established and the impact to the timeline created by the two-year administrative hold on processing applications.

Figure 3: Registration and Permit Application Key Dates

Date	Description
August 12, 2009	Dispensary needed to register with the City.
July 27, 2010	The applicant for the dispensary permit must be the same owner(s) or principal(s) named on the medical marijuana dispensary's registration as of July 27, 2010.
February 7, 2011	Phase 1 applications and fees due. Applications received after this date shall be rejected.
October 11, 2011	Phase 2 application and fees due.
October 2011	Administrative Pause. City halted permit application processing due to concerns over federal enforcement.
January 9, 2012 ⁵	The last day to operate a dispensary without all permits approved.
October 2013	Administrative Pause lifted and City continued processing permit applications.
May 2015	30 th dispensary permit issued.

Source: City Auditor’s Office based on City records.

The prohibition on ownership and permit transfers was not in effect during the administrative hold because no permits had been issued. In other words, there was no City Code restriction and no City control over changes in ownership or management control at the dispensaries for more than four years. The City, during this period, likely approved some of the types of ownership and management control changes that would likely have been prohibited had a permit been issued.

⁵ In November 2011, the City extended the final permit date to August 13, 2012.

The City Applied the Continuity Concept to Allow Medical Cannabis Dispensaries to Change Owners and Entities After the Administrative Pause on the Permit Process Ended

When the permitting process re-commenced in 2013, staff became aware that partial and complete ownership changes had been completed during the moratorium and continued to process those applications. We found that following the administrative pause on permit applications, the City applied the continuity concept more frequently to a variety of dispensary ownership changes. However, as previously mentioned, these ownership changes may not have been a problem because the City Code did not prohibit ownership changes that occurred prior to a permit being issued.

During our fieldwork, we found that between 2011 and 2015, the City allowed dispensaries to proceed through the permitting process and approved permits for existing dispensaries that changed ownership or transferred to a separate corporate entity. These ownership changes occurred in different ways and illustrate how the continuity concept expanded. For example, in the case study below, the City approved applications and issued a permit to a dispensary that changed owners and subsequently transferred dispensary operations to a separate corporation.

Case Study 1: Community Health Solutions

The City allowed *Unity Non-Profit Collective, Inc.* to proceed through the permitting process after the person named on the medical marijuana dispensary's registration (as of July 27, 2010) changed and allowed the new permit applicant to transfer the dispensary operations to a different corporation, *Community Health Solutions, Inc.* This case study describes the process by which this occurred.

Unity Nonprofit Collective was incorporated as a nonprofit mutual benefit corporation with the State of California in early 2009. It later filed a Medical Marijuana Dispensary Registration with the City in July 2009. The registrant was Don Johnson. In September 2009, the City sent Don Johnson a letter notifying the dispensary that the registration was complete.

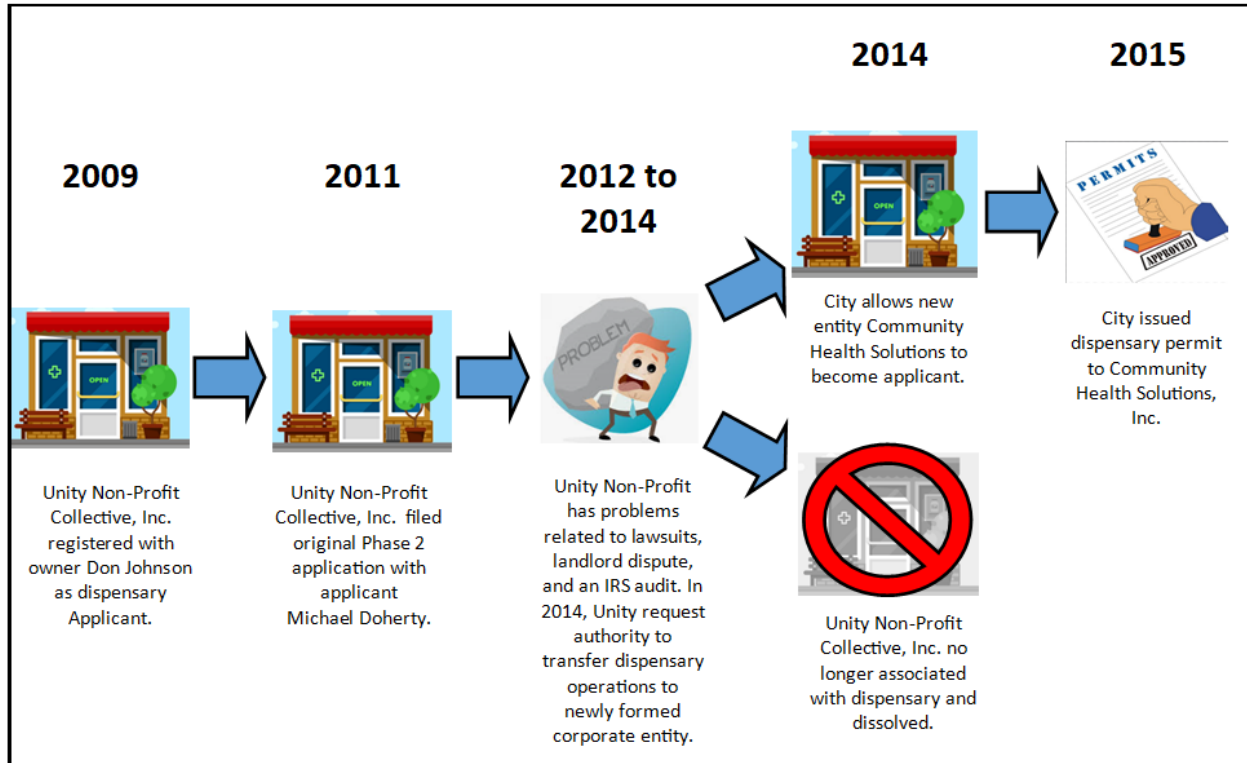
Unity Non-Profit Collective filed Medical Marijuana Dispensary Application – Phase 1 to the City in February 2011. The applicants listed included Don Johnson and Ke Johnson. Managers listed in the application included Don Johnson, Stephen Squaglia, Michael John Doherty, and Ke Johnson.

The Phase 2 application was filed in August 2011. The applicant listed in the filing was Michael Doherty.

In January 2014, an attorney representing Unity Non-Profit Collective sent a letter to the City stating the dispensary would be audited by the U.S. Internal Revenue Service (IRS). The attorney stated the existence of the IRS audit was one of several factors—including cash flow problems and threat of federal enforcement actions—that created uncertainty which the dispensary owners sought to avoid by creating a new corporate

entity. After being notified about these issues, the City allowed a transfer of the registered cannabis dispensary operations to allow the business to continue functioning. Figure 4 provides a brief summary of this case study.

Figure 4: City Allowed Transfer of Authority to Operate a Cannabis Dispensary

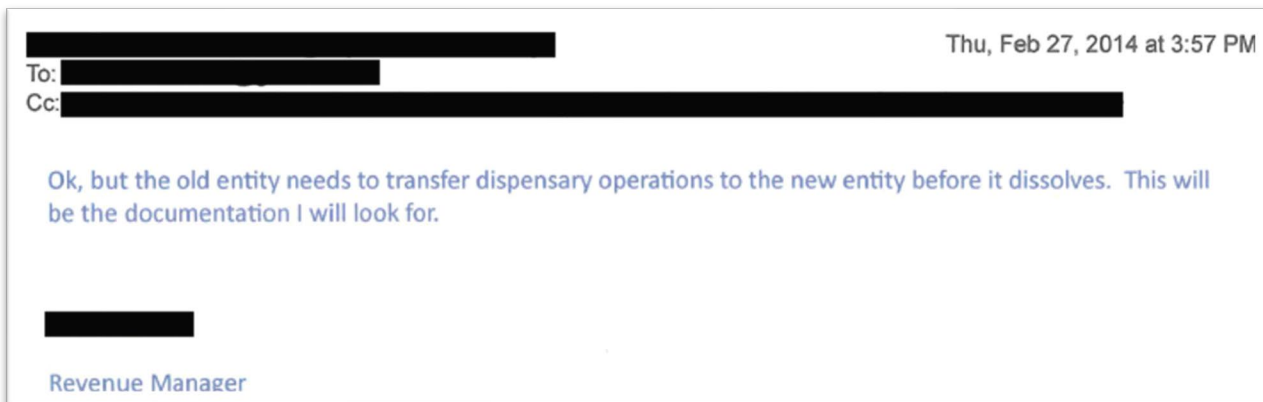


Source: City Auditor’s Office generated based on documents provided by Office of Cannabis Management.

Based on the documentation provided to the City, the dispensary owners wanted to dissolve the corporation called *Unity Non-Profit Collective*, create a new corporation, and maintain the current owners to continue progressing through the application process. The dispensary owners wanted to execute the transaction to escape the pressure and “uncertainty” of conducting business while under IRS audit, an eviction from its landlord, cash flow problems, and additional legal actions.

The City’s former Revenue Manager, responded in February 2014 and stated that dissolving the entity and creating a separate corporation to assume the dispensary’s registered cannabis dispensary operations is acceptable. The City’s Revenue Division Manager, however, advised the dispensary to transfer the operations to a new entity.

Figure 5: City Advises on Way to Transfer Dispensary Operations Between Separate Corporate Entities

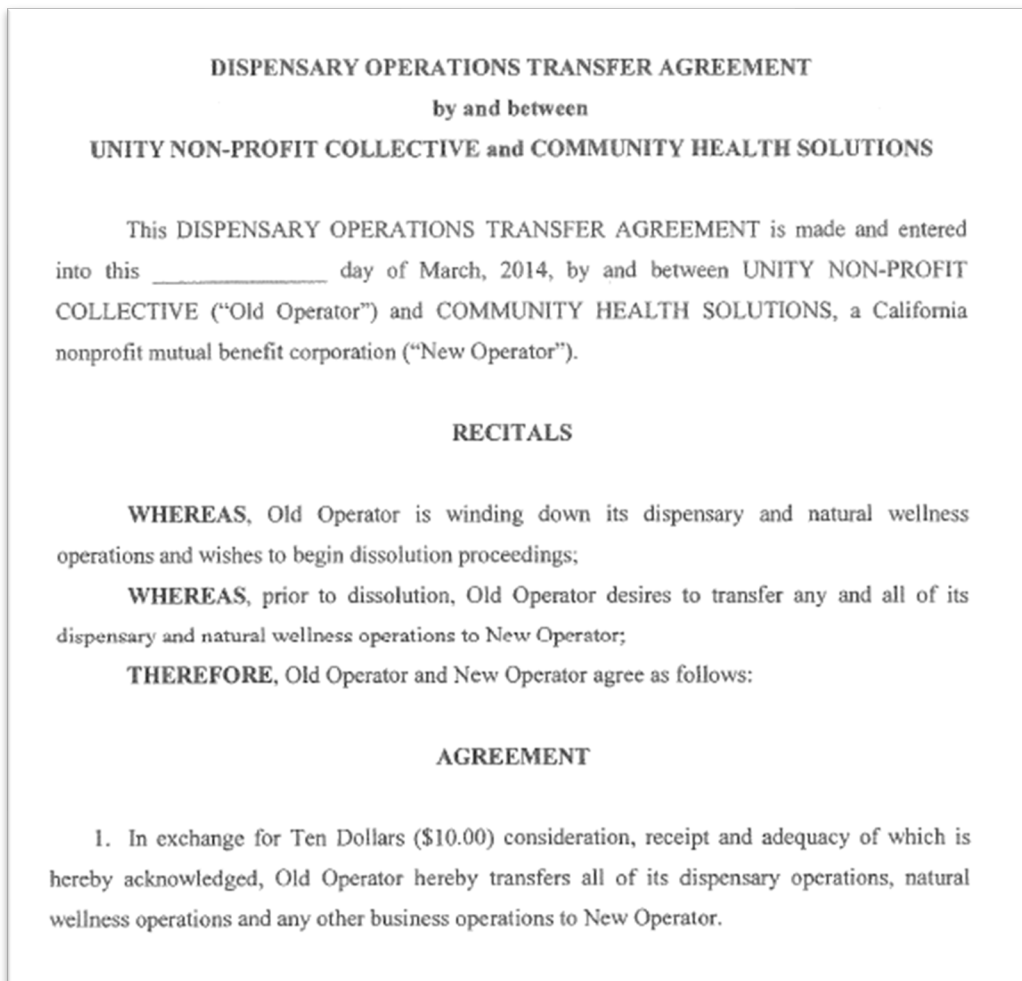


Source: Documents provided by the Office of Cannabis Management.

Shortly after the email from the City's Revenue Manager, *Community Health Solutions* incorporated as a nonprofit mutual benefit corporation. About a week later, an attorney representing the dispensaries submitted a draft contract that would effectuate the transfer of dispensary operations from the old dispensary to a new corporate entity.⁶ The draft contract stated:

⁶ According to the corporate resolution that dissolved Unity, the IRS audit involved "issues related to 280E." According to OCM management, tax issues related to sec. 280E essentially provides that drug traffickers cannot deduct certain business expenses like non-cannabis businesses regularly do; and the IRS did not distinguish between illicit drug traffickers and medicinal cannabis dispensaries. Multiple California dispensaries were targeted with 280E audits around this time period and the cannabis industry continues to face hurdles created by the IRS' strict interpretation of 280E.

Figure 6: Draft Dispensary Operations Transfer Agreement



Source: Documents provided by the Office of Cannabis Management.

As shown in the draft agreement above, the owners of Unity Nonprofit Collective charged \$10 to transfer the dispensary’s permitted cannabis retail operations. In March 2014, *Community Health Solutions* filed an updated Medical Marijuana Dispensary Application – Phase 2 with the City. The City issued a dispensary permit to *Community Health Solutions* in May 2015. The permit holder listed was Michael Doherty.

This case study highlights the City's use of the continuity concept which allowed an individual that was not the initial registration applicant to proceed through the application process. Specifically, the owner listed on the initial registration was Don Johnson. Mr. Johnson was the applicant on the Phase 1 application but added Michael Doherty as a management member. Mr. Doherty was then listed as the applicant on the Phase 2 application. Under the continuity concept, we believe, the City traced Mr. Doherty's continuity because he appeared on the Phase 1 application as a management member and then as the Phase 2 applicant.

This case study is also notable because *Unity Non-Profit Collective* was allowed to transfer the medical cannabis dispensary operations to *Community Health Solutions*. While this change was not prohibited by the City Code at the time, the case illustrates the City's application of the continuity concept in processing different kinds of ownership changes.

In our opinion, the dispensary owners sought to transfer the registered medical cannabis dispensary operations to a new corporate entity to commence business operations while avoiding difficulties stemming from a myriad of problems including the uncertainty of federal enforcement, legal issues, and an impending IRS audit. We believe that allowing dispensary owners to transfer registered cannabis dispensary operations or permits to separate corporate entities or executing contracts to transfer authorization to manage and operate a dispensary may create risks for the City, such as compromising the ability to seek legal redress against the original corporate entity.

If the intent of the Council was to allow transfers and ownership changes through the application process, the continuity concept and the City Code language requiring the same owner through the permit application process should have been revisited and revamped. As structured at the time, the City's practices and code did not prevent ownership changes from occurring during the nearly four-year permit application process.

City Code was Subsequently Amended and the Continuity Concept was More Frequently Applied to Effectuate More Transfers

Once the dispensary permits were issued, dispensaries were required to submit annual renewal applications and to notify the City of any changes. Between 2014 and 2019, the City continued to apply its expanding "continuity" concept to allow ownership or corporation transfers. Notably, the City approved different types of changes of ownership including (i) individual ownership; (ii) corporate ownership; and (iii) management control over the dispensary operations.

- An individual ownership change occurs when one individual passes possession or control of a permit to another individual.
- A corporate ownership change occurs when one corporation duly created with a Secretary of State transfers a permit or control over dispensary operations to a separate corporate entity.

- A change in management control occurs when the holder of the permit enters into a contract with a separate entity to pay a fee for the authority to operate the cannabis dispensary.

As discussed above, the original concept of continuity was designed to allow changes in managers, officials, and directors of a dispensary in conformance with State law governing cooperatives and collectives. The continuity concept continued to be applied after the permits were issued and the City approved permit renewals for dispensaries that undertook complete changes in ownership, corporate ownership, management control, or change in location.

In February 2016, the Revenue Division requested a change to the City Code seeking to modify the regulation prohibiting transfers, which was approved by City Council. The staff report to City Council requesting the code change stated, “Current City Code does not allow management members to change. This is not practical for ongoing operations and City Code should reflect this.... It is not practical to require a dispensary to keep its officers and managers static. The City should not allow the entity to change in its entirety, however, employees, managers, and officers will need to change on occasion and City Code should reflect this reality.” Figure 7 is a side by side comparison of the City Council approved changes to Section 5.150.210.

Figure 7: Comparison of City Code Section 5.150.210

Original - 2010 City Code sec. 5.150.210	New - 2016 City Code sec. 5.150.210
<p>5.150.210 - Relocation or permit transfer prohibited</p> <p>B. A dispensary shall not transfer ownership or management control of a dispensary or transfer a dispensary permit to another person.</p>	<p>5.150.210 - Dispensary location -- Permit transfer prohibited</p> <p>B. A dispensary permit may not be transferred, sold, assigned, or bequeathed to another person.</p>

Source: City Auditor’s Office generated based on Sacramento City Code.

As noted above, the updated language focuses more on the permit, rather than the dispensary, and limits what can be done with the permit. Since the updated code focuses on the permit, a permit holder could now add individuals to the company and more easily effectuate an ownership transfer by, for example, later removing themselves from the company. A practice like this, coupled with the continuity concept, created a path for dispensary ownership and permits to change hands between interested parties.

In 2017, the City once again updated the transfer prohibition provision of the City Code. The new provision, now listed under City Code sec. 5.150.050, expressly provided the City with the authority to

revoke a permit when an unauthorized transfer occurred.⁷ To date, the City has not revoked any permits due to unauthorized transfers.

As of yet, none of the revisions to the City Code relating to cannabis have clarified what constitutes a “transfer” of a permit or ownership change or clarified “person” to indicate whether an individual or a corporation holds the permit. Therefore, it remains ambiguous what kinds of transfers/changes in ownership should be permitted under the application of the continuity concept. The ambiguity has resulted in a looser interpretation of the language and led to a wide variety of changes to dispensary officials, board members, owners and corporate structures.

The Ambiguous Continuity Framework Allowed a Small Group of Individuals to Obtain Ownership of Numerous Dispensary Permits

The City’s use of the continuity concept allowed one group of five businessmen to gain control of 30 percent of the cannabis dispensaries permitted in the City through complete changes of dispensary management control and ownership transfers.

As discussed above, the City’s adoption and expansion of the continuity concept coupled with ambiguities in the City Code allowed changes of dispensary ownership. Savvy dispensary owners, attorneys, and consultants recognized the malleability of the continuity concept. These businesses sought the City to allow dispensary applications to proceed through the permitting process despite changes in owners and registrants. Despite the City’s prohibitions on permit transfers, the City used the continuity concept as justification for approving application changes and issued permits to dispensaries where the original registered owners had either left the company or resigned.

As a result, one group of five owners have, in some cases, individually, and in other cases, collectively, gained ownership control over nine of the 30 dispensary permits issued by the City. As illustrated in Figure 8, these individuals include Garib Karapetyan, Joe Karapetyan, Gevorg Kadzhikyan, Gayk Serobyan, and Greg Serobyan. Figure 8 lists these five owners and their dispensaries.

⁷ The updated City Code sec. 5.150.050 states, “Cannabis business permits issued pursuant to this chapter are not property and have no value. Cannabis business permits may not be transferred, sold, assigned or bequeathed expressly or by operation by law. Any attempt to directly or indirectly transfer a cannabis business permit shall be unlawful and void, and shall automatically revoke the permit. (Ord. 2017-0046 § 1)”

Figure 8: Consolidation of Nine Cannabis Dispensaries Between Five Owners

Owner	Dispensary							
Garib "Justin" Karapetyan	Golden Health and Wellness dba Kolas	Cloud 9	Safe Accessible Solutions	DOC's Inc.	House of Organics	Alternative Medical Care	CC101 dba Mad Medicine	Sacramento Sharp Source dba THC
Joe Karapetyan	Golden Health and Wellness dba Kolas	Cloud 9	Safe Accessible Solutions	DOC's Inc.	House of Organics	Alternative Medical Care	CC101 dba Mad Medicine	
Gevorg "George" Kadzhikyan	Golden Health and Wellness dba Kolas	Cloud 9	Safe Accessible Solutions					Sacramento Commercial Services, Inc.
Gayk Serobyen	Golden Health and Wellness dba Kolas	Cloud 9	Safe Accessible Solutions					Sacramento Commercial Services, Inc.
Grach "Greg" Serobyen	Golden Health and Wellness dba Kolas	Cloud 9	Safe Accessible Solutions					Sacramento Commercial Services, Inc.

Source: City Auditor's Office generated based on documentation from the Office of Cannabis Management.

It is important to note that two of these individuals registered two of the initial medical cannabis facilities permitted in the City, *Alternative Medical Care* and *Sacramento Commercial Services, Inc. (dba Florin Wellness Center)*. However, through the methods described in the examples discussed previously and a variety of additional methods and techniques, this group of five individuals listed in the table above, collectively and individually, gained control of an additional seven dispensary permits. Notably, no one individual owns more than eight of the dispensaries.

In this case study, we demonstrate one of the ways this group was able to take over ownership of a dispensary permit. Ownership was transferred after the original owner disappeared. In the transfer letter, the attorney states that the previous owner's "whereabouts are unknown." Essentially, the ownership was then split between five new owners after the original owner disappeared.

Case Study 2: Cloud 9

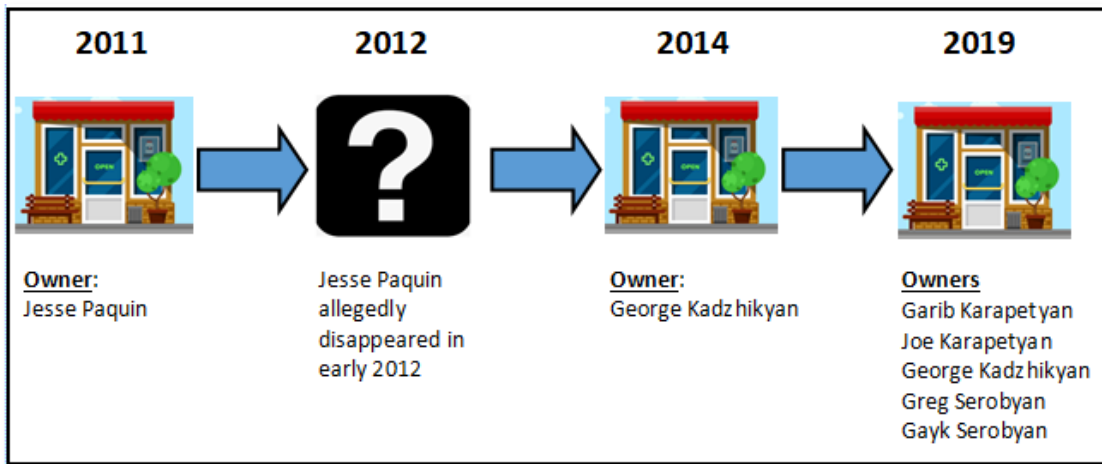
According to City and State tax certificates, the *P Street Health Center* was owned and operated by Jesse Paquin in 2008 and 2009. Mr. Paquin submitted a Medical Marijuana Dispensary Registration to the City for *P Street Health Center* in July 2009. The City approved the registration in September 2009 recognizing Mr. Paquin as owner of *P Street Health Center*.

P Street Health Center filed a Medical Marijuana Dispensary Application Phase 1 in February 2011 and the original Phase 2 application in October 2011. Both documents listed Mr. Paquin as owner and applicant. Unfortunately, Mr. Paquin allegedly disappeared in 2012. At that point, the dispensary appeared to have no owner.

In March 2014, *Cloud 9* filed a Medical Marijuana Dispensary Application – Phase 2 with the City. The applicant and owner listed was George Kadzhikyan. The corporate name of the dispensary was *Cloud 9 Alliance, Inc.* The application, however, was accompanied by a document on the letterhead of an attorney representing the applicant. The letter, in pertinent part, stated: “It was decided that the better part of valor was to continue the dispensary in another location and possibly another entity. Mr. Paquin discussed this with a collective member, George Kadzhikyan, who offered to help facilitate the transition. There is no documentation of this corporate decision available today because of the haste of the decision and chaos of immediately vacating the premises. Mr. Paquin departed Sacramento shortly after. His whereabouts today are not known.”

According to Mr. Kadzhikyan’s attorney, Mr. Paquin allegedly gave the dispensary to George Kadzhikyan without memorializing the transaction and then fled the City so that no one could contact him. Notably, the City’s files did not contain any records to indicate that City staff conducted any research to determine whether the attorney’s assertions about Mr. Paquin were true. Additionally, our efforts to locate Mr. Paquin through public records databases did not yield any information about his current whereabouts.

Figure 9: Cloud 9 Change of Ownership



Source: City Auditor’s Office generated based on documents provided by the Office of Cannabis Management.

The City issued Dispensary Permits to *Cloud 9* in March 2015, 2016, and 2017. The organization name listed on the permit was *Cloud 9*. The permit holder listed was George Kadzhikyan.⁸

⁸ Based on information provided by the Office of Cannabis Management, we believe that George Kadzhikyan also uses the name Gevorg Kadzhikyan.

Cloud 9 filed a Cannabis Dispensary Permit Application in January 2018. Gevorg Kadzhikyan was listed as the applicant, owner, and member of board of directors. In March 2018, the City issued a dispensary permit to *Cloud 9*. The permit holders listed did not include the applicant, Gevorg Kadzhikyan. Rather, the permit included Greg Serobyany, Joe Karapetyan, Gayk Serobyany.

In July 2018, *Cloud 9* filed paperwork with the City to change the ownership of the company. Specifically, the form included the following new owners, their respective ownership shares, and their new position with the company:

Figure 10: Cloud 9 Dispensary Ownership Change Disclosure

Owner	Ownership Percentage	Title
Greg Serobyany	16.66%	Director
Joe Karapetyan	25%	Director
Gayk Serobyany	16.67%	Director
Garib Karapetyan	25%	Director
Gevorg Kadzhikyan	16.67%	Director

Source: City Auditor’s Office generated based on documents provided by the Office of Cannabis Management.

The City issued a new dispensary permit to *Cloud 9* in March 2019. The permit holders listed included Greg Serobyany, Joe Karapetyan, Gayk Serobyany, Gevorg Kadzhikyan, and Garib Karapetyan.

As can be seen in the case study above, the original dispensary owner was Jesse Paquin, who filed the Registration, Phase 1 and original Phase 2 applications. However, Mr. Paquin allegedly agreed to give the dispensary to George Kadzhikyan. The City then allowed Mr. Kadzhikyan to proceed through the permit process despite the City Code requirement stating that the applicant must be the same owner as listed on the initial Medical Marijuana Dispensary Registration. In July 2018, Mr. Kadzhikyan then became a minority member of the corporation after adding four new owners of the dispensary.

These businessmen, two of whom originally owned one dispensary each, subsequently acquired ownership control of seven additional dispensaries by adding new individuals into positions as managers, corporate officials, members of the board of directors, and finally owners.⁹ In most of these cases, over time the original dispensary owners were cycled out of the dispensary ownership or management.

⁹ See Appendix for case studies describing management, corporate official, board of director, and ownership changes for the following seven marijuana dispensaries: *Golden Health and Wellness*, *Cloud 9*, *Safe Accessible Solutions*, *DOC’s Inc.*, *House of Organics*, *CC101*, and *Sacramento Sharp Source*.

The Sacramento Bee reported on this consolidation in a series of news reports in late 2019. In addition to the consolidation, the media reports alleged that representatives associated with the five owners referenced above may potentially have ties to individuals engaged in criminal activities. In response, members of the City Council expressed concern over the potential monopolization of the local dispensary market and raised issues with approving permits to business owners that have not been vetted through the City's cannabis dispensary permit application review process.

The City Council's concerns about concentration and potential monopolization of the cannabis industry was based in economic and antitrust principles. It is commonly held in economics that as markets evolve, they show tendency towards consolidation – or the combination of multiple businesses – and this puts consumers and businesses seeking to enter the market at risk of competing against larger corporate suppliers. The worst-case scenario is when one company or organization gains too much market share in the provision of a given product or service. In these situations, it is relatively easy for providers to erect barriers to entry for new entrants and dictate price points thereby detracting from robust competition in the market. One key tool the City has in regulating the competitive market to avoid consolidation that may damage the healthy operation of the market is overseeing mergers, acquisitions, joint ventures, or, in other words, regulating the transfer of ownership.

If the City Council wants to restrict and limit the ability of a person or entity to transfer a dispensary permit, more comprehensive and precise rules surrounding transfers must be implemented. These rules must specifically indicate the kinds of transfers allowable. Failure to do so will continue to leave the City vulnerable to permit transfers to entities or individuals that may not have been fully vetted by the City and increases risk of manipulation of the local cannabis market.

The City Can Consider Processes Similar to Other Cities and Agencies to Better Control Transfers and Strengthen Internal Controls

It is clear the City would like to enhance its control and oversight regarding permit transfers. Representatives of the City Council stated that allowing consolidation of the dispensary permits with one individual or group of owners was not the intent of the City Code. The Council stressed that the regulatory structure should ensure transparency and equity so that City leaders are confident they know who is selling cannabis and that they are operating within the rules. However, as discussed below, the complete prohibition of transfers is not consistent with how some other municipalities and agencies regulate cannabis businesses and other businesses dealing in controlled activities, such as gambling.

To assess how others approached similar issues, we surveyed other cities governing cannabis operations and regulatory agencies overseeing control activities (e.g. card rooms and gambling) to evaluate their practices. Based on our research, we found that other municipalities and agencies allow transfers in certain instances while others prohibit transfers. For municipalities and agencies allowing transfers, we found specific language in their codes to define what exactly is permissible. More specifically, these agencies distinguish in their codes the difference between an outright transfer of the permit, and the percentages of ownership stakes in the dispensary business that are transferrable. These agencies

clearly also establish an application process, documentation required for submittal by transferor and transferee, criteria for review, and designate clear authority to approve or deny transfer requests.

In our review of municipalities regulating cannabis sales, we found municipalities allow for permit transfers, specifically provide limits on permissible transfers, and provide a documented approval process to execute these kinds of transactions. For example, the City and County of San Francisco does not allow a dispensary permit holder to transfer a majority ownership in the dispensary for a period of 10 years. As another example, the City of Oakland requires that individuals seeking a transfer must go through the entire application process.

Figure 11: Examples of Transfer Rules for California Cities

Agency	Transfer Information
City of Oakland	<p>The City of Oakland issues special business permits for a term of one year across the cannabis supply chain.</p> <p>According to City of Oakland officials, the permits are non-transferable unless the applicant submits a request in writing and the new owner satisfies the same criteria that was in place when the original permittee obtained their permit.</p>
City of Santa Ana	<p>The City of Santa Ana issues a Regulatory Safety Permit to retail cannabis facilities. The City of Santa Ana's Code of Ordinances states that upon the transfer of any interest in a commercial cannabis business, the Regulatory Safety Permit shall be null and void.</p> <p>If a retail cannabis facility seeks to sell or a new business owner seeks to obtain a dispensary, the person, firm or entity desiring to own and operate the commercial cannabis business must file a new permit application and complete the application procedure. When a retail dispensary requests a transfer, the City conducts a close out audit and a tax audit of the dispensary.</p>
County and City of San Francisco	<p>The City and County of San Francisco place a prohibition on permit transfers for a period of time. The Police Code states that once a permit is issue to a cannabis dispensary, that owner may not transfer a majority ownership for a period of 10 years. If the ownership of the dispensary is transferred, the permit is automatically surrendered. Notably, a change in corporate form is not considered a change in ownership.</p> <p>The City and County of San Francisco's cannabis regulatory framework is codified in its Police Code. The code defines ownership, requires that changes of certain percentages of ownership be reported to the City, and bars certain percentage transfers without express permission from the City. For example, an ownership change of more than 50 percent is considered a prohibited permit transfer.</p>

Source: City Auditor's Office generated.

To provide additional context, we reviewed transfer rules related to permits and licenses for other regulated activities, such as gambling, card rooms, and adult entertainment. We reviewed transfer

policies from the City of Sacramento, the California Department of Alcoholic Beverage Control (California ABC), and the Clark County, Nevada, Department of Business License Liquor and Gaming. While comparing the City’s cannabis regulations to these other industries is not intended to be an “apples to apples” comparison, we believe a review of the policies provides insight into potential different frameworks designed to control a regulated activity. For example, the California ABC allows transfers but requires both the transferor and the transferee to submit application packets based on the type of transfer, the type of business structure, and the significance of the ownership stake. In contrast, the Clark County Gaming Commission, which regulates the multi-billion-dollar Las Vegas casino industry, does not permit transfers.

Figure 12: Examples of Transfer Rules for Agencies Overseeing Regulated Activities

Agency	Transfer Information
City of Sacramento - Card Rooms	<p>The City of Sacramento has limited the number of card room licenses granted based on a ratio of one cardroom for every 100,000 population. The privilege conferred by the licenses and permits are not transferable, except as approved by the City. The City permits transfer under certain conditions including a change of location; a change in the business organization (e.g. incorporation of a sole proprietorship) where there is no change of owners; application by a spouse or children of a licensee with the licensee’s consent; or an application by a successor in interest to a licensee.</p> <p>An application for the transfer of a cardroom license made under this section shall be made to the city manager considered and acted upon in the same manner as an application for an original license. Any attempt to transfer, directly or indirectly, in violation of the City Code shall be unlawful and void and shall automatically revoke the license.</p>
City of Sacramento - Adult Entertainment	<p>Upon sale, transfer or relocation of an adult-related establishment, the permit therefore shall be void unless permission to transfer is first obtained. Any person desiring to obtain a permit to operate an adult-related establishment shall apply to the chief of police on a form provided by the revenue division.</p> <p>Additionally, the transfer must also have the written consent of the city manager. An application for such a transfer shall be in writing and contain the same information as required herein for initial application for such a permit.</p>

<p>California Department of Alcoholic Beverage Control (ABC)</p>	<p>The ABC allows and regulates the transfer of ABC licenses. A license issued by the ABC is a permit to do that which would otherwise be unlawful. According to the ABC, a license is not a right, but is a privilege, which can be suspended or revoked by administrative action because of violation of the Act or departmental rule.</p> <p>The ABC has developed application and disclosure requirements to regulate the transfer of licenses based on type of license, the type of transfer, and the corporate structure of the licensee. For example, the ABC has different requirements for a transfer from one person to another than for stock transfers related to the ownership of a license.</p> <p>According to the ABC, neither the transferor nor the transferee should assume that the license will be transferred on a particular date, or at all, merely because the application has been filed. ABC conducts a thorough investigation, as required by law, to see if the applicant and the premises qualify for a license. ABC may deny the application, or protests or accusations may be filed which may result in delay or denial of the transfer.</p>
<p>Clark County Department of Business License Liquor and Gaming</p>	<p>Clark county, Nevada, has also prohibited transfer of licensed for gaming. Clark County is home to the City of Las Vegas and views licensure as a privilege.</p> <p>According to the Nevada Code of Ordinances, no license issued shall be transferable by the licensee to any other person, and a license shall be valid only for the particular establishment described in the license. Additionally, the license is not an asset of the licensed entity and may not be inherited, sold, assigned, maintained or operated by a trustee or receiver unless approved by appropriate state and county licensing agencies.</p>

Source: City Auditor’s Office generated.

As can be seen in these examples, municipalities and agencies regulating cannabis and other controlled activities implemented different schemes based on whether transfers are permitted or prohibited. Notably, those agencies that allow transfer activity specifically and comprehensively identify the kinds of transfers and specific circumstances in which transfers are permissible.

We must caution, any decision or discussion regarding the permissibility and regulation of dispensary transfers should be weighed in conjunction with the policy goals established in the City’s CORE program. As described in the Background section, the CORE program was created and funded in order to provide business opportunities in the cannabis industries to individuals living in communities disproportionately and detrimentally impacted by the war on drugs.

We believe that, depending on how the City Council wants to proceed in terms of regulating transfers, the City can pull from these benchmarked entities to assist in designing regulatory frameworks and internal controls that adequately reflect the City Council’s policy of ensuring transparency and safety

while allowing the retail cannabis dispensary business environment the kind of flexibility needed to function effectively.

RECOMMENDATION

We recommend the Office of Cannabis Management:

- 1. Seek direction from City Council to determine whether dispensary transfers should be allowed. The Office of Cannabis Management in conjunction with the City Attorney's Office should then propose a City Code update that clearly articulates the policy and legal goals of the City Council, that are in conformance with State law.**

Finding 2: The City Needs to Better Define Ownership if it Expects to Enforce City Code Restrictions on Ownership and Manage who is Truly Behind its Permitted Cannabis Related Businesses

Regulation of the cannabis industry underwent a tremendous shift between 2015 and 2019, when California voters legalized recreational marijuana and the State legislature passed a series of regulatory packages, in an effort to facilitate the transition. The scope of these changes sometimes left the City in a reactive position, passing nearly 40 resolutions and ordinances, and struggling to keep up in some cases. We believe the City missed opportunities to propose regulatory changes to comprehensively refine rules for dispensary ownership and strengthen internal controls to ensure the City Code restrictions on ownership are enforced.

One significant change in State legislation allowed dispensaries to change from non-profit, to for-profit companies. We believe the City missed this opportunity to comprehensively update the City Code to adjust its regulatory framework to align with the State's new corporate and ownership rules governing cannabis.

Meanwhile, media reports in late 2019 highlighted that a small group of businessmen had obtained and consolidated ownership in multiple cannabis dispensaries. To address these concerns, the City Council updated the City Code to restrict new dispensary owners to having an interest in just one dispensary. We believe this may create two sets of ownership rules, causing confusion going forward between new owners and existing owners, potentially allowing for continued ownership changes and transfers of dispensary permits.

Despite the implementation of new rules seeking to restrict consolidation, the City's inability to update and refine ownership definitions likely will allow dispensaries to continue to transfer ownership control and ownership of permitted dispensary operations. Failure to adequately define ownership will continue to hinder the City's ability to prohibit permit transfers.

Specifically, we found that:

- The City did not adjust to changes in State law that allowed dispensaries to incorporate as for-profit entities;
- New City Code provisions limiting dispensary ownership may create equity issues between old and new dispensary owners;
- The continued application of the continuity framework without changes to ownership rules may allow individuals to transfer dispensary permits;
- Opportunities exist for the City to update dispensary ownership regulations and disclosure requirements; and
- Internal control standards can be used to achieve recreational cannabis program objectives.

We believe the City should explore whether the establishment of two different rules for ownership of dispensaries is consistent with policy goals. Establishment of a two-tier system creates potential issues related to equity across all dispensary permit holders.

We also believe that opportunities remain for the City to propose City Code updates to clearly define what constitutes cannabis dispensary permit ownership and the magnitude of allowable ownership changes. Once ownership is defined, and transfer and consolidation rules are adequately detailed, in our opinion, the City should establish a robust internal control environment that includes policies and procedures to monitor dispensary ownership and transfers. The City can benchmark and learn from best practices adopted by other municipalities and agencies regulating cannabis and other controlled activities. These changes can help the City better monitor and regulate ownership and transfers of dispensary permits.

The City Did Not Adjust to Changes in State Law That Allowed Dispensaries to Incorporate as For-Profit Entities

When the California legislature passed the Medical Marijuana Regulation and Safety Act (“MMRSA”) in 2015, staff in the City’s Revenue Division and the City Attorney’s Office quickly realized the legislation would require changes to the City Code to prepare for the shift from nonprofit businesses to for-profit businesses. The change from nonprofit to for-profit corporate structures envisioned in the MMRSA represented a material change in how these businesses are regulated and the risks associated with regulation. However, no action was immediately taken given that the change in State law would not take effect until 2019.

During this time, the cannabis industry throughout the State was experiencing massive changes in who was permitted to use, cultivate, and distribute cannabis. California voters in 2016 approved Proposition 64 which allowed the distribution and consumption of recreational cannabis. Up to this point, the entirety of the City’s regulatory structure was designed for the distribution and sale of medical cannabis exclusively. The City therefore needed to design and implement comprehensive changes to the City Code to regulate the sale of recreational cannabis.

At the time MMRSA was passed, as discussed in Finding 1, the City applied the continuity concept to accommodate changes in dispensary directors, officials, and managers. The City had designed this continuity concept to better align with State law, which required cannabis dispensaries to operate as nonprofit cooperatives and collectives. Corporate laws governing these structures are designed for more flexibility in management and director changes, in part, because these organizations conduct business for the benefit of its members, without a profit motive. In fact, State law governing non-profit mutual benefit corporations prohibit the entity from making distributions to its members except to redeem membership and upon dissolution.¹⁰

¹⁰ Cal. Corp. Code sec 7411: (a) Except as provided in subdivision (b), no corporation shall make any distribution except upon dissolution.

In contrast, corporate law governing for-profit corporations and limited liability entities require different disclosures for owners, officers, and shareholders, in part, because these businesses exist for the benefit of the owners and shareholders. The City faces a very different risk profile in the regulation of for-profit entities because profits generated by the entity flow directly to owners and shareholders. As a result, as described in greater detail below, owners of these entities may engage in efforts to shield their profits from liability through forming layers of corporate or other legal entities. The layering of corporate entities can make tracking ownership increasingly difficult.

City staff first notified the City Council of the impending need to change the ownership portions of the City Code in late 2016. City staff noted that the State would allow businesses to operate as for-profit businesses starting as early as 2018. This change would allow for removal of the City Code's requirement to operate as cooperatives and collectives.

In early 2018, staff from the Office of Cannabis Management implemented a new financial and corporate disclosure document for dispensaries seeking to change ownership and corporate structure. The new document called "Cannabis Business Permit Name, Ownership and Management Change Form" set more stringent reporting requirements for dispensaries changing corporate form. It required the new corporate entity's name, names of individuals relinquishing ownership, and the disclosure of new owners holding more than 20 percent ownership. Although this form has been incorporated in the City's processes, ownership concepts based on percentages of ownership were never proposed to City Council for inclusion in the City Code.

Between January 2015 and January 2019, the City had plenty of opportunities to propose changes to the City Code in anticipation of implementation of MMRSA. In fact, the City Council approved nearly 40 other separate ordinances and resolutions amending the City's cannabis regulations. According to City management, staff time was largely focused on the legislative updates to the City Code required to facilitate the cannabis industry's shift from solely medical cannabis cultivation, distribution, and use to recreational cannabis. However, we believe the City missed opportunities to act on City staff warnings about the potential effects that the changes in State law would have on dispensary corporate structure and the City's ability to regulate permit ownership.

When MMRSA took effect in early 2019, allowing cannabis-related businesses to operate as for-profit entities, staff again notified City management that changes to the City Code were needed. Staff discussed the need to change the cooperative and collective requirement and codify clearer definitions of ownership and ownership transfers more appropriate for for-profit corporations. However, these regulatory changes were not proposed to Council. According to City Management, staff was working on significant legislative changes required to shift the local cannabis industry from medical to recreational cannabis cultivation, manufacturing, distribution, and use.

Meanwhile, by November 2019, at least 19 of 30 Sacramento cannabis dispensaries changed corporate structure to either general stock corporations or limited liability entities, as illustrated by Figure 13.

Figure 13: Dispensaries that Changed Corporate Structure

Dispensary Name	Original Corporation Structure	New Corporate Structure	Corporate Entity Number
A.T.A.C.H.S. Inc. dba A Therapeutic Alternative	Nonprofit Mutual Benefit Corporation	General Stock Corporation	C4134128
Migliore, LLC dba Abatin Wellness Center	A Cooperative Corporation	Limited Liability Company	201735410263
PEED, Inc dba All About Wellness	General Corporation	Domestic Stock Corporation	C3266270
Alpine Alternative Naturopathic	Mutual Benefit Corporation	General Stock Corporation	C3585281
Alternative Medical Care	Nonprofit Mutual Benefit Corporation	General Stock Corporation	C3212192
CC101 dba Mad Medicine	Nonprofit Mutual Benefit Corporation	General Stock Corporation	C3352718
C9 Alliance Cooperative, Inc. dba Cloud 9	Cooperative Corporation	General Stock Corporation	C3467127
Delta Health & Wellness, Inc.	Mutual Benefit Corporation	General Stock Corporation	C3271987
DOC's Inc.	Cooperative Corporation	General Stock Corporation	C3230553
Sacramento Commercial Services, Inc. dba Florin Wellness Center;	Nonprofit Mutual Benefit Corporation	General Stock Corporation	C3168625
Golden Health & Wellness dba Kolas;	Nonprofit Mutual Benefit Corporation	General Stock Corporation	C3222255
Greenstone Biomass dba: 1841	Cooperative Corporation	General Stock Corporation	C3665665
Horizon Collective, Inc.	Nonprofit Mutual Benefit Corporation	General Stock Corporation	C3083717
Perchta, Inc. dba House of Organics	Cooperative Corporation	General Stock Corporation	C3504671
Hugs Alternative Care, LLC dba Perfect Union;	Nonprofit Mutual Benefit Corporation	Limited Liability Company	201731010259
Sacramento Community Cannabis Collective	Nonprofit Mutual Benefit Corporation	General Stock Corporation	C3607129
Safe Accessible Solutions	Nonprofit Mutual Benefit Corporation	General Stock Corporation	C3594427
Septem Coma, Inc. dba South Sacramento Care Center	Nonprofit Public Benefit Corporation	General Stock Corporation	C3193455
Valley Health Options Collective, Inc.	Nonprofit Mutual Benefit Corporation	General Stock Corporation	C3382713

Source: City Auditor's Office generated based on document provided by Office of Cannabis Management and California Secretary of State.

Applications and transfer requests for these dispensaries were processed by the City using the outdated continuity concept for collectives and cooperatives because a new definition of ownership for for-profit businesses was never proposed. In fact, City management summarized their ownership change application process: “The State’s law allowing dispensaries to operate as collectives was phased out in early 2019, so some dispensaries re-structured and began operating as corporations and/or a variety of other business entities. Changes to these entities have been reviewed using the same standard of continuity as their predecessor collectives.” In other words, the City continued to apply the continuity policy described in Finding 1 and, therefore, treated transfers of for-profit and limited liability entities with the outdated policy designed for non-profit businesses.

The City’s delayed response to changes in the regulatory environment increased the risk that the City could not adequately regulate dispensary ownership changes and transfers. In our opinion, without significant updates to the City Code rules pertaining to transfer, as discussed in Finding 1, coupled with significant changes to how ownership is quantified and codified, ownership transfers and comprehensive management control changes in cannabis dispensaries may continue.

Media Reports Highlighting Consolidation Sparks Renewed Interest in Clarifying Allowable Ownership Changes

In response to a series of media articles in *The Sacramento Bee* that raised the specter of improper transfers and consolidations in dispensary ownership, the City Council took a series of actions in November 2019 to limit cannabis dispensary ownership changes. First, the City Council amended the City Code to prohibit any person from obtaining an ownership interest in more than one storefront dispensary. Second, the City Council approved an ordinance setting a moratorium on all storefront dispensary ownership changes for 120 days.

It was not until January 2020, that the City Council rescinded the City Code requirement for dispensaries to organize as nonprofit cooperatives or collectives. As illustrated in Figure 13, most cannabis dispensaries had already restructured. However, the City did not propose a regulatory package to realign definitions of ownership more appropriate for regulating these for-profit business entities.

In our opinion, the City missed an opportunity to align the ownership regulations in the City Code with State law changes in the MMRSA on January 7, 2020. City Management again discussed ownership issues before the City Council on January 14, 2020. However, at this meeting the focus was ownership issues related to the City’s new Cannabis Opportunity Reinvestment Equity (CORE) program. At this meeting, the City Council directed staff to designate new ownership restrictions for the dispensaries to be permitted through the CORE program. These standards, while not incorporated in the City Code, were slated to be adopted into the Office of Cannabis Management’s CORE program policies.¹¹

¹¹ Office of Cannabis Management presented the following standards and definition for ownership for CORE applicants seeking storefront dispensary permits: (i) Any storefront dispensary permit issued to a CORE participant business shall remain with the participant’s business for a minimum period to be specified by Council, unless

We believe the City could have used this opportunity to propose the needed changes to ownership definitions for the existing dispensaries.¹² However, rather than proposing new City Code language at the January 2020 meetings, the City presented an informational item to the City Council related to new ownership standards. The City Council discussed potentially aligning ownership definitions with those promulgated by the California Department of Alcoholic Beverage Control (ABC). However, these standards or definitions have never been officially proposed to the City Council for adoption into the City Code.

We also believe the new dispensary ownership restrictions may add confusion to enforcing the City Code. As discussed above, the City Council restricted the number of dispensaries a person may have an ownership interest to one dispensary. The new ownership restriction, however, is applicable only to new CORE participant dispensary owners.¹³ In other words, the individuals that owned dispensaries prior to the passage of the City Code amendment may not be bound by the new regulations. Additionally, the City Council imposed a 120-day moratorium on ownership changes that expired in March 2020.

It is important to note that the Office of Cannabis Management has taken steps to strengthen financial disclosure requirements in its internal process for reviewing dispensary permit renewal, management, and ownership changes. For example, as discussed above, the Office of Cannabis Management implemented a new “Cannabis Business Information Change Form” that set more stringent reporting requirements and required the disclosure of more records by dispensaries changing corporate form or ownership interests.

New City Code Provisions Limiting Dispensary Ownership May Create Equity Issues Between Old and New Dispensary Owners

As discussed above, the City Council approved a new City Code provision limiting the number of dispensaries in which one person can hold an ownership interest. The imposition of the one dispensary per one person rule creates the potential for an inequitable regulation for different dispensaries based on when the person gained an ownership interest. In other words, this creates a two-tiered regulatory scheme. For example, dispensaries that have consolidated ownership discussed in Finding 1 can continue to own multiple dispensaries. However, an individual seeking to invest in the City’s cannabis market anew, will only be permitted an ownership stake in one business.

surrendered or revoked in accordance with the City Code (i.e. 10 years); and (ii) Any storefront dispensary permit issued to a CORE participant owned business, that business must have CORE participant ownership with at least a 51% ownership interest.

¹² Notably, in November 2019, as discussed in the Background section, the Mayor requested the Office of the City Auditor to review regulatory changes were needed to address issues transfer and ownership regulations in the City’s cannabis dispensary permitting process.

¹³ As described in the Background section City Council in August 2018 approved the establishment and operation of the CORE program. A central goal of the program is to assist in the establishment of businesses owned by persons from the communities negatively and disproportionately impacted by prior enforcement of cannabis-related crimes.

According to the Office of Cannabis Management, regulating a two-tiered system of ownership rights over dispensaries will be difficult and likely lead to claims of unfairness and inequity between the two groups of owners.¹⁴ It may also create issues tracking dispensaries with complex ownership structures. Additionally, the consolidation issue of ownership is not comprehensively addressed because dispensary owners that have consolidated ownership remain in control of several dispensaries on a going forward basis.

However, should the City decide to require all dispensary owners to comply with the City Code's one person one permit limitation, there may be significant equity issues for a dispensary owner that gained ownership of more than one dispensary prior to the one dispensary per one owner rule. For example, a dispensary owner that is currently allowed to operate several dispensaries and has consequently made substantial investments in their development and operation, may suffer investment losses should the owner be required to reduce ownership to only one dispensary.

It is worth noting, the City Code states that cannabis permits are not property and therefore do not create a property right to the permit. Rather, the permits are more similar to licenses that carry more limited rights, such as airplane or concert tickets. These licenses, or tickets, can be revoked. The City Code also requires that dispensaries must apply to renew their permits annually. These provisions may provide the City with a degree of leverage to require dispensaries to phase out the non-conforming use over a period of time.

¹⁴ The new dispensary permits are slated to be issued to graduates of the City's CORE program as discussed in the Background section, the City Council in November 2017 created the CORE program, a program designed to lower barriers of entry into the cannabis market for communities negatively and disproportionately affected by the war on drugs, that are currently not participating in the market. The program represents an effort to ensure the cannabis program is balanced, efficient, and accessible to every segment of the community.

RECOMMENDATION

We recommend the Office of Cannabis Management:

2. In conjunction with the City Attorney's Office, seek direction from City Council to determine whether both existing and new cannabis storefront dispensary owners must comply with City Code provision 5.150.355 that states: "No person who has an ownership interest in a storefront cannabis dispensary shall obtain an ownership interest in any other storefront cannabis dispensary" and clarify the City's expectation on how the code provision will be enforced.

The Continued Application of the Continuity Framework Without Changes to Ownership Rules May Allow Individuals to Transfer Dispensary Permits

The City still faces significant risk to its ability to enforce the City Code provisions on dispensary ownership limitations for dispensaries despite implementation of the one person, one dispensary rule. As described in Finding 1, we found that 18 of 30 current dispensaries experienced complete ownership changes through the application of the continuity policy. The City has not updated the City Code to more adequately define ownership and transfer. As a result, the same ambiguous City Code is in place that allowed the development of the continuity concept and allowed dispensary owners to transfer partial and complete ownership or ownership control of dispensaries.

If the City Council wants to restrict and limit the ability of an owner or a group of owners from transferring all or a portion of ownership of dispensary permits, more precise rules surrounding both transfers and ownership must be implemented or the continuity concept must be revisited, memorialized in policy, and codified in the City Code. Additionally, we believe that regulations pertaining to transfer and ownership are linked and should be discussed simultaneously.

We believe the ownership definition should specifically provide the percentage stake an individual or company holds in a dispensary that constitutes ownership. As discussed in greater detail below, many municipalities have defined ownership as holding or controlling more than 50 percent, or 50 percent plus one, ownership stake.

Without more robust regulations governing ownership and transfers, the City may continue to apply the continuity concept leading to several risks. First, ownership transfers and consolidation of dispensaries may occur thereby creating oversight and regulatory risks for the City, including economic issues associated with market manipulation and price manipulation. Second, the City may be unable to select which owners to bestow the privilege of operating a retail cannabis dispensary, thereby potentially allowing individuals that have not been vetted through the City's cannabis dispensary permit application review process to gain control of a City permit.

Opportunities Exist for the City to Update Dispensary Ownership Regulations and Disclosure Requirements

We believe that opportunities exist for the City to design and implement a more comprehensive definition of “ownership” that specifically establishes the shares of control of a dispensary that qualify as ownership. We believe these changes are imperative to enforce new restrictions on dispensary ownership and regulate the transfer of permits.

If the City is going to update the City Code to more effectively regulate for-profit cannabis dispensary ownership, the City can look to California municipalities regulating cannabis business and agencies regulating other controlled activities. Specifically, many of these municipalities and agencies have designed their regulatory framework to include definitions of ownership, require dispensaries to file financial documents illustrating beneficial ownership, and limit the number of businesses one individual or entity can own.

As described below, both the City and County of San Francisco and the City of Oakland limit the number of dispensaries that an individual can own, similar to the recent limitation enacted by the Sacramento City Council for the CORE program. Both municipalities have also memorialized in their respective code that “50 percent or more” establishes ownership control of the dispensary.

Figure 14: Examples of Ownership Rules for Agencies Overseeing Regulated Activities

Agency	Ownership Information
City and County of San Francisco	<p>The City and County of San Francisco’s cannabis regulatory framework is codified in its Police Code. The code defines ownership, requires that changes of certain percentages of ownership be reported to the City, and bars certain percentage transfers without express permission from the City. For example, an ownership change of more than 50 percent is considered a prohibited permit transfer. Any change in ownership of a cannabis business must be promptly disclosed to the City. Additionally, a change in ownership interest that results in an individual accumulating an aggregate ownership interest of 20 percent or more of a cannabis business, when that person did not previously hold an aggregate ownership interest of 20 percent or more, requires a permit amendment approved by the Director.</p> <p>The City and County of San Francisco also limits the number of dispensaries an individual or company can own. According to officials at the San Francisco Office of Cannabis, the ownership limit now stands at four businesses.</p>
City of Oakland	<p>The City of Oakland’s cannabis regulatory framework is codified in its Municipal Code. The code adopted a definition of "ownership" when it adopted the nation's first equity program to mean the individual or individuals who have an aggregate ownership interest of 50 percent or more in the entity. The code also provides that with respect to nonprofit entities, nonprofit corporation or similar entity, ownership constitutes or constitute a majority of the board of directors. Finally, in the context of a collective, ownership means have a controlling interest in the collective's governing body. In short, the City of Oakland codified ownership definitions for nonprofit, collectives and cooperatives, and for-profit business structures.</p> <p>Additionally, the City of Oakland limits the number of dispensaries any one individual or corporation can own. The Oakland Municipal Code states that no individual or entity shall have a direct or indirect interest in more than two dispensary permits.¹⁵</p>

Source: City Auditor’s Office generated.

We believe the Office of Cannabis Management in conjunction with the City Attorney’s Office can benchmark against the definitions of ownership to propose City Code amendments more carefully tailoring the definition of ownership. Specifying ownership interest is important to the City’s ability to effectively enforce City Code limitations on transfers and restrictions on the number of dispensaries one individual can own.

We also surveyed other agencies regulating other controlled activities (e.g. alcohol and gambling) to evaluate how they addressed the issue of ownership and the kinds of disclosures required by applicants to determine and monitor ownership. The inclusion of these agencies is not introduced herein as a

¹⁵ Oakland Municipal Code sec. 5.80.020(C)

blueprint as these are different industries with different risks. Rather, these agencies are introduced to provide insight into financial disclosures required to monitor ownership and more comprehensively guide the application of transfer rules.

Figure 15: Examples of Ownership Rules for Agencies Overseeing Regulated Activities

Agency	Ownership Information
<p>California Department of Alcoholic Beverage Control (ABC)</p>	<p>The ABC has established that ownership of a license is defined as more than a 50 percent controlling interest. The establishment of the “50 percent or more” threshold is critical to determining when a transfer of a license is executed. Specifically, according to the ABC, a transfer of a license occurs when 50 percent or more of a stock is transferred to someone who did not originally own 50 percent of the entity.</p> <p>The ABC also has separate application requirements for complete transfers based on the business structure seeking to execute a transfer. For example, a sole proprietorship seeking to obtain a license through a transfer is required to complete a different application packet than a corporation seeking to obtain a license through a transfer. The ABC has different application standards for corporations, limited liability companies, and limited partnerships. These standards include more stringent information including the disclosure of financial information (e.g. name for escrow company and bookkeepers), investment information including the amount invested in the license, furniture and fixtures, inventory, working capital, and the source of funds for the investments.</p> <p>Additionally, licensees are required to report to the ABC within 30 days after the change, ownership changes such as changes to corporate officers, issuance or transfers of any share of stock that results in a person owning more than 10 percent or more of the corporate stock. Transfer of the license is not required.</p>

Clark County Department of Business License Liquor and Gaming	<p>The Clark County Department of Business License has implemented a more stringent financial disclosure framework as part of its permit application process to gather information about the owners. The applicant must complete and submit a Las Vegas Metropolitan Police Department Personal Financial Questionnaire and a separate Business Supplemental Questionnaire that require disclosure of business dealings of the owners of the business seeking licensure. Information required includes:</p> <ol style="list-style-type: none"> 1. Information for all individuals or entities that have an ownership share in the business. 2. Information regarding all key personnel involved in the business, including all corporate officers, managing partners, managers in the LLC, and individuals having significant manager authority or decision-making roles. 3. A Statement of Pre-Opening Cash and Expenditures that must be completed by all companies that are three or fewer years old. 4. A summary of changes in owner’s equity in the past five years, including all capital distributions, and all capital infusions including the use of the funds received by investors. <p>As part of the Business Supplemental Questionnaire the applicant must complete a Statement of Truth attesting to the veracity of the information provided, and separately complete an Affidavit of Full Disclosure attesting to the ownership structure and financial relationships compiled in the questionnaire.</p>
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Source: City Auditor’s Office generated.

As illustrated by these examples, municipalities and agencies regulating cannabis and other controlled activities implement similar concepts for ownership. Specifically, many of the agencies equate ownership with owning more than 50 percent of the entity. In addition, some financial record disclosure requirements are far more stringent than the City’s current disclosure requirements to ensure the applicants and permitted operators provide requisite information to the municipality, such as requiring disclosure for ownership changes of 10 percent or more.

In our opinion, the City should utilize the experiences of municipalities and agencies regulating cannabis and other controlled activities to propose new definitions of ownership and ownership changes in conjunction with discussion of transfer regulations discussed in Finding 1. The City should review and consider adopting some of the disclosure requirements to assist in the thorough identification of owners. The Office of Cannabis Management should be provided the authority to conduct a review and make a determination about whether the dispensary is complying with ownership standards. Finally, the Office of Cannabis Management should be provided with the authority to revoke or not renew permits should they conclude the information provided is insufficient, contradictory, or illustrative of a significant enough ownership change to qualify as a transfer.

RECOMMENDATION

We recommend the Office of Cannabis Management:

- 3. Seek direction from City Council to determine standards and definitions of ownership of cannabis dispensaries in the City. At minimum, these discussions should include a definition of clear ownership and limits on ownership for all cannabis dispensary owners. The Office of Cannabis Management in conjunction with the City Attorney's Office should then propose a City Code update that articulates the ownership policy and goals of the City Council, that are in conformance with State law.**

Internal Control Standards Can be Used to Achieve Recreation Cannabis Program Objectives

As noted above, several municipalities have established stronger internal control systems over the cannabis dispensary permit application process. In updating the internal control structure for the cannabis program, the City would benefit from considering internal control best practices.

The U.S. Government Accountability Office's issues the *Standards for Internal Control for the Federal Government* which provides guidance on best practices for the design and implementation of internal controls at different levels of the government. Internal controls help an entity run its operations efficiently and effectively, report reliable information about its operations, and comply with applicable laws and regulations.

According to these standards, an effective internal control system should establish an organizational structure, segregate duties, and assign responsibilities for the Office of Cannabis Management, City's Manager's Office, and City Attorney's Office, to carry out the program objectives. The internal control system should also be documented and communicated to those responsible for performance.

Our review of internal controls focused primarily on cannabis dispensary permit application and renewal review and tracking. We found that the internal control design was not sufficient to ensure enforcement of the transfer prohibitions set forth in the City Code. Instead, the practices of the City reflected the strategic vision of management, which was to allow the dispensaries to execute substantial ownership and corporate changes with the understanding that ongoing dispensary operation would benefit the City.

A stronger internal control system would define the objectives for the cannabis oversight program, so they are understood by all levels of the entity. This involves clearly defining what is to be achieved, who is to achieve it, how it will be achieved and the timeframes for achievement. This must include the transfer terms as well.

Based on our research of best practices and survey of other municipalities and government agencies, we believe that opportunities exist for the City to enhance the overall internal control environment over cannabis dispensary permit ownership and transfers. These enhancements include better specifying ownership criteria, defining what constitutes a transfer, and including internal controls over permit applications and renewals, such as requiring review and approval by different City officials. We recommend the Office of Cannabis Management seek direction from City Council to determine whether dispensary transfer should be allowed in the City and work to propose a City Code amendment related to what magnitude or percentage of ownership can be transferred. The Office of Cannabis Management, in conjunction with the City Manager's Office and the City Attorney's Office, should then design and implement an internal framework over the cannabis permit application and renewal process based on best practices.

RECOMMENDATION

We recommend the Office of Cannabis Management:

- 4. In consultation with the Attorney's Office, design and implement an internal control framework over the cannabis permit application and renewal process based on best practices. This should include establishing an organizational structure, segregate duties, and assign responsibilities for the Office of Cannabis Management to carry out the program objectives. The internal control system should also be documented and communicated to those responsible for performance and training should be provided.**

Finding 3: Determining Beneficial Ownership is Critical to Enforcing Ownership Restrictions in the City's Cannabis Regulations

As the cannabis industry grows and becomes more lucrative, as more investors seek entry, and as the owners seek higher levels of corporate liability protection, the City will likely receive cannabis dispensary renewal packages and change of ownership requests from for-profit dispensaries with more sophisticated and complicated ownership structures. In order for the City to determine the true ownership of these companies to adequately assure that ownership rules are followed, it is imperative to determine the identity of beneficial owners as part of the permit application and renewal processes.

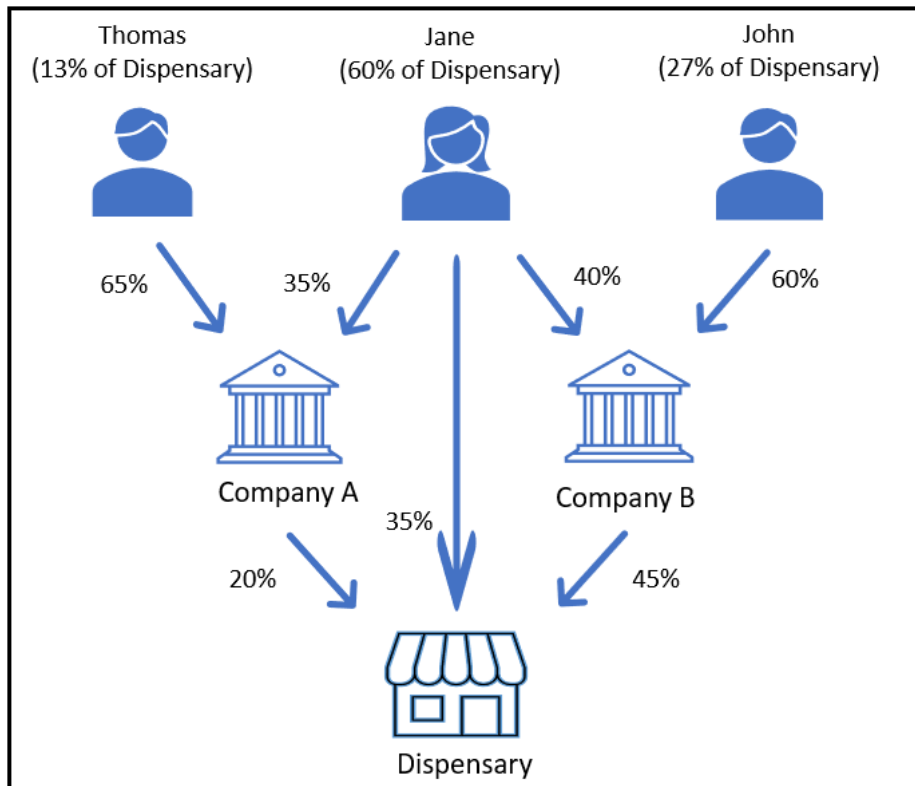
A beneficial owner is an individual who has a level of control over, or entitlement to, the funds or assets to control, manage, or direct the account. The definition of beneficial owners focuses on the natural person on whose behalf a transaction is being conducted. In contrast, a legal owner or nominal owner, is limited to merely holding legal title for the benefit of the beneficial owner.

Identifying the true beneficial owners or individuals exercising control represents a significant challenge for prosecutors, law enforcement agencies, and governments. The different types of for-profit corporate structures, such as limited liability companies (LLC), can be used to hide the true beneficial owners. One popular technique for concealing the true owner of a corporation is called layering. Layering is where levels of different corporations are reported as owners in an effort to hide the identity of the beneficial owners.

For example, an LLC could be listed as an owner on a dispensary application. In this situation, if City staff tries to locate the owners of that LLC in corporate records, the City staff may find an individual, several individuals, another LLC, or several LLCs listed as owners. In this organizational structure, City staff may have to analyze an unlimited number of corporate filings in order to identify the beneficial owners controlling the dispensary. Industry experts attest that these corporate layers can be particularly difficult and time consuming to unravel.

As an example, as seen in Figure 16, if a dispensary is registering with the City, the owners could be listed to include Company A, Company B, and Jane. A deeper investigation illustrates that Company A is owned in part by both Jane and Thomas. Meanwhile, Company B is owned in part by both Jane and John.

Figure 16: Example of Layering Companies for Ownership of Dispensary



Source: City Auditor’s Office generated.

A closer examination into the ownership of the Dispensary, and Companies A and B, illustrates that Jane is the beneficial owner of the Dispensary, holding 60 percent majority ownership. Specifically, to determine Jane’s ownership stake in the Dispensary, we must use her percentage ownership of Company A and Company A’s ownership of the Dispensary. We conclude that Jane owns 7 percent of the Dispensary ($35\% \times 20\% = 7\%$) through Company A. We must then use her percentage ownership of Company B and Company B’s ownership of the Dispensary. We conclude that Jane owns 18 percent of the Dispensary ($40\% \times 45\% = 18\%$) through Company B. Finally, we must take into account that Jane, as an individual, owns 35 percent of the dispensary. Aggregating these ownership interest (Company A at 7% + Company B at 18% + Dispensary at 35% = 60%) illustrates that Jane owns a 60 percent interest in the Dispensary and is therefore the beneficial owner of the Dispensary.

Enforcement of the City’s recent City Code amendments pertaining to CORE dispensary ownership and “one person, one permit” limitations on new dispensary ownership will require identifying the beneficial owners of new dispensaries.

First, we believe the City’s adoption of City Code sec. 5.150.355, the City’s prohibition against obtaining more than one ownership interest in a storefront dispensary, will be more difficult without thoroughly researching the ownership of the dispensary application. The City Code defines ownership interest as

any interest.¹⁶ For example, according to the City, ownership of one share of stock in one dispensary is sufficient to bar an interest in another dispensary. Therefore, it is important for the City to establish procedures to determine the ownership of the dispensary in order to enforce these code provisions.

Second, the City recently approved new ownership requirements for dispensary owners seeking storefront dispensary permits through their affiliation with the CORE program. These new provisions require a storefront dispensary permit holder own at 51 percent share of the company for a period of time. Therefore, in order to achieve the City's policy goals in issuing dispensary permits to CORE members, it is critical that the City determine the beneficial ownership of the dispensary.

It is important to stress that the City of Sacramento is not the only municipality working through increasingly complex corporate structures to identify the beneficial owners of dispensaries. For example, senior leadership at the City of Los Angeles' Office of Cannabis Management stated that since the passage of Proposition 64, they have also seen increasingly sophisticated corporate structuring and layering in cannabis related businesses. The City of Los Angeles limits each cannabis business ownership to three businesses. Office of Cannabis Officials managers lamented the increasing workload to determine the beneficial ownership and the growing workload as more dispensaries apply for permits. These difficulties are exacerbated by the lack of communication, information sharing, or centralized information repository of cannabis business owners, by municipalities overseeing cannabis markets throughout the State. For example, if a cannabis business owner is cited by the State or another City for a violation, there is no mechanism for communicating the information to other municipalities.

Currently, there are no state or federal requirements for legal entities to disclose the identity of the beneficial owners at the time the business registers the corporation with regulators. However, tools do exist to determine beneficial ownership. For example, the vast majority of legal entities are required to disclose beneficial ownership to the U.S. Internal Revenue Service for tax administration purposes.

Best practices on identifying beneficial ownership have been developed and are widely implemented through the banking industry. Financial institutions must comply with the Bank Secrecy Act/Anti-Money Laundering (AML), a federal law that prescribes regulations and conducts supervisory activities to ensure that national banks have controls in place to deter and detect money laundering, terrorist financing and other criminal acts in the misuse of our nation's financial institutions. To comply with these regulations, banking institutions establish and maintain policies and procedures to determine the beneficial ownership of their clients. The Office of Cannabis Management could leverage these regulations and standards in developing their own program.

¹⁶ Sacramento City Code sec. 5.150.020 defines "ownership interest" as "all forms of legal or beneficial ownership including the following: stock, partnership, limited liability company, joint tenancy, leasehold, proprietorship, trust, beneficiary, proxy, power-of-attorney, option, warrant, and any other interest that evidences ownership or control, whether direct or indirect."

According to best practices assembled by *Dun & Bradstreet*, conducting a risk assessment is critical to identify gaps in existing controls, policies, procedures and processes to ensure beneficial ownership is being identified.¹⁷ Success in identifying beneficial ownership relies on obtaining and using reliable, timely independently sourced documents and providing adequate staff training to identify ownership and additional risk. This recommendation also provides, as an option, outsourcing this research to qualified third parties.

Without a control framework carefully designed to determine the identity of the true beneficial owner, the City may not know who actually owns the dispensaries. It is therefore imperative for the City to establish how the City will obtain timely, independently sourced documents, in order to identify the beneficial owners.

RECOMMENDATION

We recommend the Office of Cannabis Management:

- 5. Incorporate researching beneficial ownership into existing operations and provide training to staff on how to conduct this research or hire an outside consultant to conduct this work on the City's behalf.**

¹⁷ The *Dun & Bradstreet Corporation* is a company that provides commercial data, analytics, and insights for businesses. The company offers a wide range of products and services for risk and finance, operations and supply, and sales and marketing professionals, as well as research and insights on global business issues. The *Dun & Bradstreet Corporation* is one of the world's leading suppliers of business information with a global database (The Dun & Bradstreet Data Cloud) covering some 315 million companies.

Finding 4: Measured Expansion in the Number of Dispensary Permits Would be Consistent with Municipal Best Practices

The City of Sacramento's limit on 30 cannabis dispensaries was not based on best practices, a benchmark against other cities, or public policy analysis. Rather, the 30 dispensary-limit evolved organically based on the number of medical cannabis dispensaries operating in 2009 that maintained operations and received permits through the City's initial permitting process. It is important to note that at that time, there was little guidance available on regulating the cannabis industry and only a handful of cities had started permitting dispensaries.

Meanwhile, some City leaders have expressed concerns that a key tenet of legalizing cannabis—correcting injustices inequitably inflicted on people of color and low-income communities—has neither been prioritized or effectuated in the City's cannabis regulations. These leaders assert that there is a shortage of minority-owned dispensaries permitted to operate in the City. Based on our review, we found that:

- Policy advocates and cities in California vary on dispensary caps; and
- The City could increase the number of permitted dispensaries and effectuate policy goals.

The City's limit on the number of dispensary permits has resulted in a dispensary-to-resident ratio on par with what other cities have implemented. However, industry advocate sponsored studies indicate that the City may be able to bear more dispensaries per capita than the City currently allows.

In an effort to remedy the disparate impact that cannabis laws had on lower income communities, the Office of Cannabis Management introduced a proposal to increase the number of dispensary permits in November 2018. The City Council did not take action to approve the proposal. The Office of Cannabis Management returned in January 2020 and October 2020 to introduce another proposal to increase the number of cannabis dispensary permits. In October 2020, the City Council approved increasing the limit to 40. These permits would be issued to members of the City's CORE program, made up of individuals from communities detrimentally impacted by the war on drugs. While increasing the number of permits to 40 would allow for more individuals to enter the cannabis market, the new cap is artificial and was not evaluated against market research or best practices.

We recommend the City Manager's office in consultation with the City Attorney's Office, perform an economic analysis following the addition of the 10 permits, to determine local cannabis dispensary market demand and whether the 40 dispensaries is a sufficient number of permits.

Policy Advocates and Cities in California Vary on Dispensary Caps

As discussed in the Background section, the City Council passed a moratorium on new medical cannabis dispensaries in 2009 and required all existing dispensaries to register with the City. This was the City's first effort to grapple with the unregulated growth of the local medical cannabis industry. At the close of

the registration period, the City confirmed the registration of 39 medical cannabis dispensaries operating within the City. However, by the end of the registration process, only 30 dispensaries finalized their application and were granted permits.

The 30 permitted dispensaries in the City today stem from those same 30 dispensaries that began as medical cannabis collectives and obtained permits through a ministerial permitting process that started years before commercial cannabis became legal in the State of California. There are currently 29 storefront dispensaries actively operating and one dispensary in the process of changing locations.¹⁸

Figure 17 lists the current dispensary count based on council district and the amount generated in business operating taxes:

Figure 17: Number of Cannabis Dispensaries by City Council District

Council District	Number of Dispensaries	BOT Collected 2011-2020
1	0	\$0
2	7	\$8,909,956
3	3	\$2,055,128
4	7	\$8,526,175
5	4	\$5,250,726
6	8	\$10,034,631
7	0	\$0
8	0	\$0
Total	29	\$34,776,619

Source: Created by Office of Cannabis Management and Office of City Auditor’s Office.

In holding the number of dispensary permits at 30, the City has taken a cautious approach consistent with best practices issued by public policy specialists. “‘Start early and walk a slow path,’ suggested one California city manager—a sentiment echoed by many of his peers’ actions.” The International City/County Management Association stressed that municipalities should be wary of doors that are difficult to close once opened: “consider sunset provisions or temporary caps as ways to test your local market and assure residents that you will continue to revisit regulations and make adjustments as necessary.”

Policy analysts argue that government entities might prefer to offer only a limited number of licenses, creating an artificial scarcity that makes the licenses valuable—valuable enough that firms will have a strong incentive to cooperate with regulators rather than risk revocation. This research indicates that limiting the number of licenses also makes monitoring their behavior easier.

¹⁸ According to the Office of Cannabis Management, one of these dispensaries is currently in the CUP process for a new location.

Based on research of cannabis markets conducted by industry advocacy groups, the range of what a local cannabis market can bear is a ratio of residents to dispensaries of approximately 10,000:1. These analysts believe this ratio provides a reasonable availability of access to minimize consumers being driven to purchase cannabis illegally.

The City of Sacramento has a population of approximately 500,000 residents. The 30 permitted dispensaries represent a ratio of one dispensary per 16,951 residents. In order to determine how the City’s dispensary limit compares with other cities, we performed a survey of cities in California to evaluate their approach in restricting the number of permitted dispensaries. Figure 18 summarizes the results of our survey:

Figure 18: Summary of Dispensary Density Survey Results

City	Population	Dispensary Cap	Dispensary to Resident Ratio
Los Angeles	3,990,456	438	1:9,111
San Diego	1,425,976	36	1:39,610
San Jose	1,030,119	16	1:64,382
Sacramento	508,529	30	1:16,951
Oakland	429,082	24	1:17,878
Santa Ana	332,725	30	1:11,091
Modesto	215,030	10	1:21,503

Source: City Auditor’s Office generated based on U.S. Census data and survey results.

As illustrated above, medium to large cities have enacted a series of different caps on the number of dispensaries licensed. These ratios fall between 1:64,382 in the City of San Jose and 1:9,111 in the City of Los Angeles.

According to City of Santa Ana officials, their cap was created based on studies and market reports indicating that an area’s population can handle one dispensary per 10,000 to 15,000 residents. The City of Santa Ana has about 330,000 residents and 30 dispensaries, which equates to an average of one dispensary per 11,000 residents.

In contrast, rather than setting a cap on the total number of permits issued, the Oakland City Code limits the number of permits that can be added in one year, to eight. However, the City Council passed a series of social equity components that requires half of all new permits be issued to Equity Applicants.¹⁹

¹⁹ The City of Oakland defines an “Equity Applicant” as “any Applicant whose ownership/owner: (1) Is an Oakland resident; (2) In the last year, had an annual income at or less than 80 percent of Oakland Average Medium Income (AMI) adjusted for household size; and (3) Either (i) has lived in any combination of Oakland police beats 2X, 2Y, 6X, 7X, 19X, 21X, 21Y, 23X, 27X, 29X, 30X, 30Y, 31Y, 32X, 33X, 34X, 5X, 8X and 35X for at least ten of the last twenty years or (ii) was arrested after November 5, 1996 and convicted of a cannabis crime committed in Oakland, California.

According to Oakland City officials, the City is in the process of approving eight additional permitted dispensaries. This action will bring the total number of dispensaries to 24 by the end of next year. Oakland City officials stated they have embraced an incremental, measured approach to the introduction of dispensaries in order to allow the market to develop and determine what the market can sustain.

The City of Sacramento has maintained a dispensary to resident ratio below what industry advocates recommend and may be able to bear additional dispensaries per capita. These changes would be consistent with cannabis dispensary limits recommended by industry advocates and are consistent with other cities we surveyed. As a result, opportunities exist to raise the number of dispensaries permitted in the City. It is important to note, however, that cannabis dispensaries are not evenly distributed throughout the City. The City has also not completed a nexus study that fully explores potential associations between increased cannabis activities and negative impacts, such as increased criminal activity. The City may also take this opportunity to pursue policy goals such as increasing the diversity of permit holders.

The City Could Increase the Number of Permitted Dispensaries and Effectuate Policy Goals

In 2016, the effort to legalize recreational cannabis in California gained critical momentum with the argument that legalization would help to “heal wounds from the war on drugs.” According to policy studies, many observers endorsed Proposition 64 on the basis that it would correct the social injustices from decades of disparate enforcement of cannabis laws. Opponents of Proposition 64 argued the measure did not consider the external costs of legalization and the “No on 64” campaign argued the measure wages “all-out assault on underprivileged neighborhoods.”

Sacramento City Council members representing neighborhoods with larger populations of people of color and low socioeconomic income have lamented that many of these dispensaries are located in their districts. They stressed that new dispensary ownership opportunities are not being provided to represent the racial or ethnic diversity of these districts. As a result, they argued that the City’s spirit of inclusiveness was not realized in the cannabis market because there was a complete lack of diversity in cannabis dispensary ownership. In fact, at a City Council meeting in May 2018, Councilmember Carr requested staff to bring back an item considering changes to the number of permitted cannabis storefront dispensaries.

Meanwhile, in an effort to support the policy goal, the City Council in August 2018 created the Cannabis Opportunity Reinvestment and Equity (CORE) program to recruit and train individuals residing in lower socioeconomic areas of the City to provide training and additional services related to opening and operating businesses in the cannabis industry.

In November 2018, the Office of Cannabis Policy and Enforcement presented to the City Council a discussion about raising the issue of lifting the 30-dispensary permit limit. The City Council voted to

direct the issue to the Law and Legislation Committee for a discussion about increasing inclusiveness in permitting for cannabis dispensaries.

In November 2019, the Mayor requested the City Manager and Office of Cannabis Management staff to propose increasing the number of storefront dispensaries. In January 2020, the City Manager's Office and Office of Cannabis Management presented a series of options for the City to increase dispensary permits. The proposal compared the City's cannabis dispensary permits with other California municipalities and offered a series of options for increasing the cap.

The Mayor proposed the addition of 10 storefront dispensary permits in January 2020. This change would result in increasing the permitted dispensary cap from 30 to 40 and lower the dispensary-to-resident ratio to approximately 1:12,700. This ratio is commensurate with cannabis industry advocates recommendation and some other cities we surveyed. Additionally, this would provide opportunities to address social equity deficiencies in the current program.

In October 2020, the Office of Cannabis Management presented to the City Council an ordinance amendment, a resolution, and procedures to increase the dispensary permit limit by 10, to a total of 40. The proposal included a Request for Proposals (RFP) process that would be used to determine how CORE participants would be awarded the opportunity to apply for a storefront dispensary business operating permit.

We recommend the City Manager's Office, in consultation with the City Attorney's Office, review best practices and experiences from other similarly sized cities in California. Additionally, the City should perform an economic analysis following the addition of the 10 dispensary permits to evaluate local cannabis dispensary market demand and whether the 40 dispensaries is a sufficient number of permits.

RECOMMENDATION

We recommend the City Manager's Office:

- 6. Perform an economic analysis following the addition of the 10 permits to determine local cannabis dispensary market demand and whether the 40 dispensaries is a sufficient number of permits.**

Other Pertinent Information (OPI)

The Changing Regulatory Framework, Evolving Continuity Concept, and Federal Enforcement Led to Different Outcomes of a Storefront Dispensary Permit Holder and a Storefront Dispensary Permit Applicant

Since the City took the initial steps to regulate the local cannabis industry in 2009, the State and the City's regulatory environment over the distribution of cannabis was in a near constant state of flux. Critically, changes in both State and City regulatory structures were conducted in the shadow of federal drug law, which considered cannabis an illegal narcotic. As a result, the City's cannabis permit process—and in particular its creation and application of the continuity concept—was also changing, endeavoring to keep up. We came across an instance where two dispensaries that had key similarities were treated differently by the City in their efforts to achieve permitted status. This different treatment was due, to some degree, to the drastically different regulatory environment when the dispensaries submitted permit and renewal applications.

As illustrated in the case study below, two different dispensaries were separately raided and their owners arrested by local police. *R&R Coffee & Collective* dispensary, while proceeding through the City's permitting process, was raided by the police in June 2011 and not provided assurance by the City that the registered owner could resign ownership of the dispensary and allow the dispensary to successfully proceed through the permit application process under a different management member. *Cloud 9* cannabis dispensary had been issued a permit in March 2015, was raided in April 2015, awarded a renewed in permit in March 2016, and later allowed to transfer ownership of the dispensary.

Case Study 3: R&R Coffee & Collective

R&R Coffee & Collective registered with the City of Sacramento in August 2009. The original owners per the registration were Richard Guitron and Robert Hilder. In June 2010, Bryan Smith was added to the registration.

R&R Coffee & Collective filed a Medical Marijuana Dispensary Application – Phase 1 to the City in February 2011. The applicant listed was Bryan Smith on behalf of *R&R Collective*. Bryan Smith and Bruce Mayer Davies were listed as dispensary management. The City confirmed the completion of *R&R Collective's* Phase-1 registration in a March 2011 letter.

In the summer of 2011, Elk Grove police and Sacramento County sheriff's deputies raided the *R&R Collective*. According to a report in *The Sacramento Bee*, "Authorities, investigating a scheme involving multiple grow houses, stolen electricity and illicit cannabis sales in Southern California, recovered \$256,000 in cash at the Elk Grove home of the operator, Bryan Smith."

The arrest potentially jeopardized Mr. Smith and *R&R Collective's* dispensary permit application with the City. Specifically, the City Code included a provision that listed events that disqualify a dispensary's registered status and compromises the ability to proceed through the City's permitting process. City Code section 5.150.040(A)(3) stated: "For purposes of this section a 'registered medical marijuana dispensary' means a dispensary . . . the owner and operator of which has not been cited or convicted of maintaining a public nuisance or of a public safety violation of State or local law relating to the operation of a medical marijuana dispensary by the city or any governmental law enforcement agency."

Following the raid, an attorney representing Bryan Smith expressed Mr. Smith's interest to resign from the *R&R Collective* board of directors and allow the dispensary to pursue the phase 2 application. The letter stated, "It is our interpretation of the City of Sacramento's medical marijuana dispensary ordinance that Mr. Smith is able to resign from the board of directors of R&R Collective without his resignation effecting R&R Collective's ability to obtain and maintain a valid City of Sacramento medical marijuana dispensary permit." Specifically, the dispensary sought to move forward through Phase 2 of the application process with one of *R&R Collective's* management members named in the Phase 1 application. The letter continued, "However, I have counseled Mr. Smith to take no action with regard to his board position with R&R Collective until the City of Sacramento has confirmed that his resignation would not adversely effect R&R Collective's ability to obtain a medical marijuana dispensary permit." Mr. Smith's attorney sought calcification on this issue by the City.

In July 2011, the City's Revenue Manager sent a response to Mr. Smith's attorney that stated: "I **can not** [sic] confirm that the resignation of Bryan Smith would not adversely affect the ability of R&R Collective to obtain a medical marijuana dispensary permit." [emphasis original]

According to Mr. Smith, he was therefore not permitted to resign in order to allow Bruce Davies, a managing member listed on the Phase 1 application, to proceed through the Phase 2 application process.

In August 2011, the City provided Mr. Smith's attorney a range of options for how to proceed with the application. Notably, the City communicated that Mr. Smith can continue through the application and potentially receive a permit, but if he is convicted of the crime associated with the raid, the dispensary must close. Additionally, the City instructed that should Mr. Smith resign and *R&R Collective* proceed through the permitting process successfully, Mr. Smith's conviction would still require *R&R Collective* to forfeit the permit. The City provided the following options:

Figure 19: City Email to Attorney Representing R&R Collective

After consulting with city staff we have come up with the following concepts for a settlement agreement:

- 1.) R&R must immediately close down at its current location;
- 2.) R&R must re-locate to a permitted zone that meets all the location requirements (e.g., not within 600 feet of school, church, etc.);
- 3.) R&R must identify a new location within 30 days from shutting down and file a phase 2 application from that new location within the ordinance's deadline and comply with all other terms and deadlines of the ordinance;
- 4.) Bryan Smith must stay away from the dispensary but may continue to be involved in the application process;
- 5.) R&R must agree that if Bryan Smith is convicted of any criminal charges arising out of the pending criminal matter the dispensary must immediately close down;
- 6.) R&R must agree to random city audits that include copying business records and engaging in audits and inspections that other dispensaries are not subjected to; and
- 7.) R&R will acknowledge that by pressing forward in light of Bryan Smith's pending criminal charges it's possible that, after it pays its title 5 phase 2 fees and title 17 special permit fees (\$20,000+), Smith is convicted and the city orders it to close down immediately thereafter. If that happens it further acknowledges that it will not be entitled to a refund and agrees to surrender any claim or right to sue the city for closing it down as a result of a later conviction of Bryan Smith.

The intent of the above is to provide Bryan Smith the benefit of the doubt and an opportunity to exonerate himself from the pending criminal charges. However, the city is unable to completely ignore the allegations against him and provides the above in an effort to find a mutually agreeable resolution.

Source: Documents provided by City of Sacramento and Bryan Smith.

According to Mr. Smith, other dispensaries during this period of time were allowed to change owners, directors, and management members and continue through the permitting process. While we found many dispensaries had changed owners, directors, and management members, we did not determine that any of these individuals were arrested, charged, and convicted with cannabis-related crimes.

In September 2011, the City was notified that Mr. Smith would close the dispensary.

According to a representative of Mr. Smith, he signed a plea deal with the federal government in October 2012.

It is important to note that in early 2011 the U.S. Attorney's Office escalated enforcement activities on medical cannabis dispensaries across the State. What's more, City Attorneys Offices throughout the State expressed uncertainty about whether the federal government could hold local government officials criminally liable for permitting the operation of cannabis distribution within their jurisdictions. Notably, we found that another dispensary was facing enforcement action by the Drug Enforcement

Administration and the Internal Revenue Service. However, based on records available, none of the individuals associated with the dispensary were charged with a crime. Additionally, the City's Revenue Division reported that, during this time, property owners of the dispensaries received enforcement letters demanding that they discontinue the distribution of cannabis from the properties or face criminal and/or civil sanctions. The Revenue Division also indicated that some dispensaries were closed due to federal enforcement. Critically, it was during this time frame of substantial uncertainty over federal cannabis enforcement that the City would not provide any certainty to Mr. Smith that the *R&R Collective* could continue through the permit application process with a different management member and remain unaffected by Mr. Smith's potential conviction.

In contrast, the owner of *Cloud 9* was treated differently than Mr. Smith when in a similar legal situation. Notably, as described in detail in Case Study 2, the owner of the *Cloud 9* dispensary, George Kadzhikyan, obtained the dispensary permit through an ownership transfer – not the established permitting process. What's more, as described below, Kadzhikyan was authorized by the City to keep the permit despite being raided and arrested by the Sacramento Police Department in April 2015.

About a year after the arrest, in March 2016, an officer from the Sacramento Police Department followed up on a conversation with the City's Revenue Division concerning the *Cloud 9* dispensary which was in the midst of applying for permit renewal. According to the police officer, a search warrant was served in April 2015 on 11 locations which included nine warehouses "that were large indoor grows that far exceeded the legal limits to cultivate marijuana." In addition, a search warrant was served on Gevorg Kadzhikyan's residence and the *Cloud 9* cannabis dispensary in which police "located approx. \$32,000 in cash, which was from 3 days worth of sales." According to the police officer, Mr. Kadzhikyan was "held to answer the charges and is currently awaiting bail."

The City's Revenue Division, the office responsible for processing dispensary permits at that time, conferred with the City Attorney's Office about the dispensary. The City Code, at that time, required that in order for the permit to be revoked a dispensary owner must be convicted of a felony. The City issued a City of Sacramento Dispensary Permit to *Cloud 9* and George Kadzhikyan in March 2016.

The Sacramento County District Attorney's Office in June 2016 proceeded with processing the criminal case against George Kadzhikyan. In fact, according to the District Attorney's Office, a California court ruled sufficient probable cause existed to move forward with a criminal trial against Kadzhikyan.

In the meantime, the California Secretary of State announced in June 2016 that Proposition 64 would be placed as a statewide initiative on the November 2016 ballot, providing California voters the opportunity to legalize the distribution and use of recreational cannabis. In November 2016, Proposition 64 was approved by California voters.

Therefore, the prosecution of Kadzhikyan was taking place when California voters were going to vote on a statewide proposition that would potentially render the Kadzhikyan's alleged criminal activity no longer illegal. The District Attorney's Office dismissed the case in August 2017.

In contrast to the timing of Mr. Kadzhikyan’s proceeding, the arrest and criminal processing of Mr. Smith was taking place at a time when the federal government was intensifying law enforcement efforts against medical cannabis dispensaries throughout the City and State.

The different and dynamic regulatory and enforcement environments that were in place when these two dispensaries were going through their respective permitting processes likely renders the City actions in both cases justifiable. It appears that the outcomes were similar as far as the City’s action is concerned: both dispensaries facing enforcement action were allowed to continue in their permit processes unless and until a conviction was handed down. The outcomes of the two individuals were different because of circumstances out of the City’s control. Mr. Smith chose to shut down, the federal government filed charges, and Mr. Smith signed a plea agreement related to the federal crimes. In contrast, Mr. Kadzhikyan chose to continue to operate and, on the heels of Californians voting on Prop 64 to legalize adult cannabis use, the Sacramento District Attorney’s Office did not proceed to trial on the charges.

MEMORANDUM

Date: November 2, 2020

To: Jorge Oseguera, City Auditor

From: Davina Smith, Cannabis Manager



CC: Howard Chan, City Manager
Leyne Milstein, Assistant City Manager

Re: Office of Cannabis Management's Response to Audit of Cannabis Storefront Dispensaries

The Office of Cannabis Management (OCM) acknowledges receipt of the Office of the City Auditor's report on cannabis storefront dispensaries and thanks the Auditor and staff for their work. Since the last audit on cannabis storefront dispensaries in October 2017, much has changed in both the State and the City's cannabis regulatory landscape. Medicinal and adult-use cannabis regulations have been created and implemented, permit types created and issued, and a social equity program created and utilized by those in Sacramento disproportionately affected by the War on Drugs. The City now has 210 permitted cannabis business. With all the policy development work necessary to reflect this changing regulatory landscape implemented in a very short period of time, OCM welcomes the recommendations of the Auditor, as well as the work of the Cannabis Compliance Officer, and join with them in working to continue to improve Sacramento's cannabis permitting program. OCM's specific responses to the audit recommendations are as follows:

1. Seek direction from City Council to determine whether dispensary transfers should be allowed. The Office of Cannabis Management in conjunction with the City Attorney's Office should then propose a City Code update that clearly articulates the policy and legal goals of the City Council, that are in conformance with state law.

3. Seek direction from City Council to determine standards and definitions of ownership of cannabis dispensaries in the City. At minimum, these discussions should include a definition of clear ownership and limits on ownership for all

cannabis dispensary owners. The Office of Cannabis Management in conjunction with the City Attorney's Office should then propose a City Code update that articulates the ownership policy and goals of the City Council, that are in conformance with state law.

5. Incorporate researching beneficial ownership into existing operations and provide training to staff on how to conduct this research or hire an outside consultant to conduct this work on the City's behalf.

Response¹: OCM concurs with the recommendations. As discussed in the Auditor's report, the concept of "continuity" was developed as a practical response to the question of what should be done if the owner of a cannabis storefront dispensary wanted to change a director, bring in a new manager or otherwise modify their ownership structure to reflect changing management/capital needs. Continuity required that an existing storefront dispensary owner remain on the permit and approve any change of an ownership interest to a new individual before the City would approve the business information change.

Despite being in effect since at least 2011, continuity and changes in ownership interests were not included in the 20 recommendations issued in the October 2017 audit of cannabis storefront dispensaries. However, OCM recognizes that in the three years since the prior audit, cannabis regulations and the industry have evolved significantly and agrees with the Auditor's recommendation that the continuity practice, definitions of ownership, including beneficial ownership, and the overall issue of transfers should be reviewed to determine what changes, if any, the Council deems appropriate.

OCM shall therefore bring a moratorium on changes of all ownership interests in storefront dispensaries in order to provide staff time to fully study the issue, including comparing Sacramento's code and practices with other jurisdictions, conferring with the City Attorney's Office, and creating options for Council consideration. Given the complexity of the potential ownership structures and the speed at which best practices for the cannabis industry are developing, coupled with existing regulatory and permitting workload, OCM will seek to utilize an external consultant to evaluate and develop proposals for Council consideration.

2. In conjunction with the City Attorney's Office, seek direction from City Council to determine whether both existing and new cannabis storefront dispensary owners must comply with City Code provision 5.150.355 that states: "No person who has an ownership interest in a storefront cannabis dispensary shall obtain an

¹ Recommendations 1,3, and 5 are inter-related. To avoid duplicate responses, OCM has responded to all three together.

ownership interest in any other storefront cannabis dispensary” and clarify the City’s expectation on how the code provision will be enforced.

Response: OCM will confer with the City Attorney’s Office as to whether additional clarification of the application of section 5.150.355, which prohibited any individual from obtaining an ownership interest in more than one storefront dispensary (one-person-one-dispensary), is necessary. At the time section 5.150.355 was adopted in November 2019, the staff report stated that the ordinance would be prospective, rather than retrospective, and therefore not apply to any consolidation of storefront dispensary ownership that may have previously occurred.

In application, OCM interprets this section to mean that a person that did not hold an ownership interest in more than one dispensary prior to the implementation of this section cannot do so going forward. Further, those individuals that did hold an ownership interest in more than one dispensary prior to implementation of this section cannot be added to any other dispensary ownership going forward.

Should Council provide direction that the one-person-one-dispensary policy of section 5.150.355 should be reconsidered, staff will return to Council with a discussion item providing options for consideration.

4. In consultation with the Attorney’s Office, design and implement an internal control framework over the cannabis permit application and renewal process based on best practices. This should include establishing an organizational structure, segregate duties, and assign responsibilities for the Office of Cannabis Management to carry out the program objectives. The internal control system should also be documented and communicated to those responsible for performance and training should be provided.

Response: OCM concurs with the recommendation. OCM has been working to implement an organizational structure that segregates duties and responsibilities in order to carry out its program objectives related to cannabis permit applications and renewals. Written policies are being drafted and once completed will be circulated to the City Attorney’s Office for comment and recommendations. Once finalized, staff will receive any necessary training on the written policies.

6. Perform an economic analysis following the addition of the 10 permits to determine local cannabis dispensary market demand and whether the 40 dispensaries are a sufficient number of permits.

Response: OCM concurs with the recommendation. An RFP/RFQ for a qualified contractor to conduct an economic analysis will be conducted once the ten additional

storefront dispensaries are operating in order to determine local demand for storefront cannabis dispensaries in the City of Sacramento and whether additional number of permits are warranted from an economic standpoint.

Appendix: Storefront Dispensary Case Studies

The City of Sacramento has issued 30 permits to storefront dispensaries authorizing the sale of medical and recreational cannabis. As part of the City’s regulatory framework governing the application, permitting, and operating of the dispensaries, the City Code prohibits the transfer of the permit. In addition, the City’s permit application and renewal process requires applicants disclose specific documentation and information. As part of our fieldwork, we compiled the information and assembled case studies for each of the 30 dispensaries to illustrate the formation, registration, application, and changes in the dispensaries’ corporate structure, owners, officials, directors and managers.

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515 Broadway

In January 2007, a new corporation called *Nor Cal Alternative Healing* (C2964212) filed Articles of Incorporation with the State of California to establish a Nonprofit Mutual Benefit Corporation. Shortly after, in February 2007, the California State Board of Equalization issued a Seller's Permit to a dispensary called *Nor Cal Alternative Healing* located at 515 Broadway.

In January 2009, the City issued a Business Operations Tax Certificate to *Nor Cal Alternative Healing* located at 515 Broadway. The owner of the business listed on the certificate is *Nor Cal Alternative Healing*.

Later that year, in July 2009, *Nor Cal Alternative Healing* (C2964212) filed Statement of Information with the Secretary of State that listed corporate officers. The company listed Daniel Johnson as chief executive officer, secretary, and chief financial officer.

Medical Marijuana Dispensary Registration

In order to comply with the City's evolving cannabis regulations, *Nor Cal Alternative Healing* filed Medical Marijuana Dispensary Registration in August 2009. The dispensary name was *Nor Cal Alternative Healing*, owner listed was Daniel Ryan Johnson, the address was 515 Broadway, Sacramento, CA.

The City awarded registration of the dispensary in a September 2009 letter from the revenue manager, to Daniel Johnson and *Nor Cal Alternative Healing*. In January 2011, the City issued a Business Operations Tax Certificate to *Nor Cal Alternative Healing* and its owner, Daniel R. Johnson.

In February 2011, *Nor Cal Alternative Healing* (C2964212) filed a Statement of Information with the California Secretary of State that listed Daniel Johnson as chief executive officer, chief financial officer, and secretary.

Medical Marijuana Dispensary Application – Phase 1

In February 2011, *Nor Cal Alternative Healing* filed Medical Marijuana Dispensary Application – Phase 1 that listed the name, *Nor Cal Alternative Healing*, and Daniel Johnson, chief financial officer.

Shortly after *Nor Cal Alternative Healing* filed its Phase 1 application, a new corporate entity named *Mama N Pops* (C3363346) filed Articles of Incorporation for a nonprofit Mutual Benefit Corporation.

Medical Marijuana Dispensary Application – Phase 2 – Original

Nor Cal Alternative Healing filed Medical Marijuana Dispensary Application – Phase 2 with the City in October 2011. The applicant was Daniel Johnson, the dispensary name was *Nor Cal Alternative Healing*, and the address was 515 Broadway, Sacramento, CA.

Meanwhile, the California State Board of Equalization issued a Sellers Permit in December 2013 to a dispensary named *Broadway Wellness*, the owner was listed as *Mama N Pops*, and the address was 515 Broadway. The next year, in January 2014, the California State Board of Equalization issued a Sellers Permit to a dispensary named *515 Broadway*, and the owner was listed as *Mama N Pops*.

In January 2014, the *Mama N Pops* Board of Directors held a meeting. The Board appointed Daniel Ryan Johnson, the original owner of *Nor Cal Alternative Healing*, to the Board of Directors. In addition to appointing Mr. Johnson as director, the board paid him \$230,000.

Figure 20: Board Meeting Minutes Showing Payment to Director

3. **Payment to Director Daniel Ryan Johnson.** The Board took recognition of a payment being made to Director Daniel Ryan Johnson in the amount of Two Hundred Thirty Thousand Dollars (\$230,000). The Board noted that Two Hundred Thousand (\$200,000) of this payment was for back pay and Thirty Thousand (\$30,000) was for equipment cost.

Source: Documents provided by the Office of Cannabis Management

The board appointed Anthony Vasquez to the positions of chairman, president, chief financial officer, secretary, vice president, and director.

Medical Marijuana Dispensary Application – Phase 2 – Update

The next application submitted for the dispensary included a new owner. In March 2014, *515 Broadway* filed Medical Marijuana Dispensary Application – Phase 2 to the City. The dispensary name on the application was *515 Broadway*, the applicant was Anthony Vasquez, the dispensary corporate name was *Mama N Pops, Inc.*, and the owner name was Richard “Anthony” Vasquez.

In March 2014, the new owner of the dispensary sent a letter to the city explaining it had changed ownership and, as a result, lost financial records.

Figure 21: 515 Broadway Change in Management

From: mamanpops Vasquez <mamanpops@yahoo.com>
Sent: Friday, March 28, 2014 2:49 PM
To: [REDACTED]
Subject: Letter of Explanation for Revenue

City of Sacramento
Revenue Division

Do to the change over of the collective and knew management I do not have access to prior revenue generated as I do not have access to any financial documents which may have existed prior to my management of the Collective. My management began January 24 2014. My first full month of management and access to financials was February. Projected income was calculated as a twelve month average based on the full month of February.

Sincerely,
Anthony Vasquez

Source: Documents provided by Office of Cannabis Management

It is unclear why Vasquez was unable to obtain the records from the previous Manager/Owner, Daniel Ryan Johnson.

Cannabis Dispensary Permit Renewal Application – 2015/2016

515 Broadway filed a Cannabis Dispensary Permit Renewal Application to the City in January 2016. The applicant listed was Anthony Vasquez. The City issued Dispensary Permits to 515 Broadway in 2015, 2016, and 2017. The permits list the organization name 515 Broadway, the permit holder was Anthony Vasquez, and the dispensary address remained 515 Broadway.

Cannabis Dispensary Permit Renewal Application – 2018

In 2018, 515 Broadway submitted another application that listed the owner Anthony Vasquez. The City issued a Dispensary Permit to 515 Broadway in January 2019. The permit listed the organization name 515 Broadway, the permit holder was Anthony Vasquez, and the address 515 Broadway.

A Therapeutic Alternative

In January 2009, the City of Sacramento issued a Business Operations Tax Certificate to a medical cannabis dispensary called *A Therapeutic Alternative* located at 3015 H Street, Sacramento. The owner of the dispensary listed on the permit is Sean C. Wiens.

In March 2009, *A Therapeutic Alternative* (C3192486) was incorporated with the California Secretary of State as a Nonprofit Mutual Benefit Corporation. The corporate bylaws were also filed in March and listed a corporate officer, Sean Wiens, secretary.

Medical Marijuana Dispensary Registration

In July 2009, *A Therapeutic Alternative* (C3192486) filed a Medical Marijuana Dispensary Registration. The address of the dispensary was 3015 H Street, Sacramento. The registration listed the owners of the dispensary: Thomas and Jeanne Larsson.

The city approved the registration on September 2009 in letter addressed to “Thomas and Jeanne Larsson, A Therapeutic Alternative”.

The City issued a Business Operations Tax certificate to *A Therapeutic Alternative* in January 2010. The owner of the dispensary listed on the certificate was Jeanne Larsson.

Medical Marijuana Application – Phase 1

To comply with the City’s regulatory framework for medical cannabis dispensary permits, *A Therapeutic Alternative* submitted a Medical Marijuana Dispensary Application – Phase 1 in January 2011. The applicants and officers listed on the registration included Jeanne Larsson, director; Thomas Larsson, president; and Anthony Zeiter, chief financial officer.

Medical Marijuana Application – Phase 2

In October 2011, *A Therapeutic Alternative* filed a Medical Marijuana Dispensary Application – Phase 2. The applicant name listed was Jeanne Larsson and the location address was 3015 H Street.

In December 2012, *A Therapeutic Alternative* filed amended their bylaws and listed Kimberly Cargile as chief executive officer and chief financial officer, and Jeanne Larsson as secretary.

In February 2014, *A Therapeutic Alternative* (3912486) filed an updated Medical Marijuana Dispensary Application – Phase 2. The applicant listed on the document was Kimberly Cargile.

The city issued a City of Sacramento Dispensary Permit to *A Therapeutic Alternative* in February 2015. The address of the dispensary on the permit was 3015 H Street and the permit holder was Kimberly Cargile.

Medical Marijuana Renewal Application – 2015/2016

In December 2015, *A Therapeutic Alternative* filed a Medical Marijuana Dispensary Renewal Application with the City. The applicant on the registration renewal was Kimberly Cargile.

The city issued City of Sacramento Dispensary Permits in February 2016 and February 2017. The permit holder was Kimberly Cargile.

Medical Marijuana Renewal Application – 2018

In January 2018, *A Therapeutic Alternative* filed a Cannabis Dispensary Permit Application – Renewal. The dispensary name listed in the application was *A Therapeutic Alternative*, the applicant name was Kimberly Cargile, chief executive officer, and the information on owner of the dispensary was Kimberly Cargile, chief executive officer.

In February 2018, the city issued City of Sacramento Dispensary Permit – Medical | Adult Use to *A Therapeutic Alternative*. However, the permit holder was a separate corporate entity, called *A.T.A.C.H.S., Inc.*

In March 2018, the month following the issuance of the permit, *A.T.A.C.H.S., Inc.* (C4134128) filed Articles of Incorporation of a General Stock Corporation. The incorporator of the company was Kimberly Cargile. In April 2018, two months after the permit was issued, *A.T.A.C.H.S., Inc.* filed fictitious Business Name Statement with County of Sacramento.

Change from Nonprofit Mutual Benefit Corporation to General Stock Corporation

Later in October 2018, eight months after the permit was filed, *A.T.A.C.H.S. Inc* filed Cannabis Permit Name, Ownership and Management Change Form. Months later, in January 2019, the newly formed corporation filed a Certificate of Amendment with the California Secretary of State changing the corporation from a Nonprofit Mutual Benefit Corporation to General Stock Corporation. According to the certificate, “This Corporation shall have two classes of stock. The total number of shares in the Corporation is authorized to issue is 30,000,000 shares of common stock, of which 15,000,000 shares of stock shall be Class A Common Stock with voting rights and 15,000,000 shares shall be Class B Common Stock with no voting rights, except provided by law.”

In February 2019, the City issued a City of Sacramento Dispensary Permit – Medical | Adult Use. The organization name on the permit was *A.T.A.C.H.S. Inc.* and the permit holder was Kimberly Cargile. Joe Devlin was the signatory authorizing the permit on behalf of the City.

More than a year after *A.T.A.C.H.S. Inc.* incorporated as a new corporate entity with the California Secretary of State, the corporation filed Cannabis Permit Name, Ownership and Management Change Form. The form listed Kim Cargile and Marian Nielsen as shareholders and board members with 50 percent ownership.

Abatin Wellness Center

The City issued a Business Operations Tax Certificate to the dispensary *Capitol Wellness Incorporated* in January 2009. The owner listed on the certificate was Aundre Speciale and the address listed was 2400 14th Street. The city issued a second tax certificate to the dispensary in February 2009 for a new address, 2100 29th St, and a new owner, *Capitol Wellness Incorporated*.

Capitol Wellness Collective, Inc. (C3195455) filed Articles of Incorporation with the California Secretary of State as a nonprofit Mutual Benefit Corporation in April 2009. The incorporator listed was Mark Williams.

Medical Marijuana Dispensary Registration

In order to comply with the City's evolving regulatory structure over medical cannabis dispensaries, *Capitol Wellness, Inc.* submitted a Medical Marijuana Dispensary Registration to the City in August 2009. The owner of the dispensary listed on the application was *Capitol Wellness, Inc.* The City approved the dispensary registration in September 2009 in a letter to *Capitol Wellness, Inc., Capitol Wellness, Inc.*

In February 2011, *Capitol Wellness Collective, Inc.* filed an Amended and Restated Articles of Incorporation with Secretary of State changing the structure to a Cooperative Corporation. They also changed the name to *Capitol Wellness Collective Inc., A Cooperative Corporation* (C3195455). The filing listed Audre Speciale as president and secretary of the corporation.

Medical Marijuana Application – Phase 1

In order to comply with the City's new regulations for medical cannabis dispensary permitting, *Capitol Wellness Collective, Inc.* filed Medical Marijuana Dispensary Application – Phase 1 in February 2011. The applicant was listed as Aundre Danna Speciale.

In May 2011, *Capitol Wellness, Inc.* filed Amended and Restated Articles of Incorporation changing name to *Abatin Wellness Center of Sacramento, a Cooperative Corporation* (C3195455).

Medical Marijuana Application – Phase 2

To comply with the second part of the City's new regulations for medical cannabis dispensary permitting, *Capitol Wellness, Inc. a Cooperative Corporation* filed Medical Marijuana Dispensary Application – Phase 2 to the City in October 2011. The applicant listed was Aundre Speciale.

In March 2014, *Abatin Wellness Center of Sacramento* filed Medical Marijuana Dispensary Application – Phase 2 to the City. The applicant was Aundre Speciale. The name of the corporation listed on the permit was *Abatin Wellness Collective, Inc.* The officers of the dispensary listed on the application included: Aundre Speciale, president; James Zaun, board member; Edward Dombroski, board member.

Medical Marijuana Renewal Application – 2015/2016

Abatin Wellness Center filed a Medical Marijuana Dispensary Renewal Application to the City in March 2016. The name of the corporation listed on the permit was *Abatin Wellness Center of Sacramento*. The owners of the dispensary listed on the application included Aundre Speciale, James Zaun, and Edward Dombroski.

The City issued a dispensary permit to *Abatin Wellness* in April 2016. The permit holders listed included Aundre Speciale, James Zaun, Edward Dombroski.

Medical Marijuana Renewal Application – 2017

Abatin Wellness Center of Sacramento filed a Medical Marijuana Dispensary Renewal Application to the City in February 2017. The applicant listed was Aundre Speciale and the corporate name was *Abatin Wellness Center of Sacramento*. The dispensary owners listed on the application included Aundre Speciale, James Zaun, Edward Dombroski.

The City issued a dispensary permit to *Abatin Wellness* in April 2017. The permit holders listed on the document included Aundre Speciale, James Zaun, Edward Dombroski.

In December 2017, Aundre Speciale filed paperwork with the Secretary of State to create a limited liability company called *Migliore, LLC*. Speciale was listed as the organizer of the company and the address was listed as 5655 Lindero Canyon Rd., Westlake Village. The members of *Migliore* executed an Operating Agreement for the company. The members included Aundre Speciale, Ed Dombroski, and James Zaun.

Days later, on December 26, 2017, *Migliore, LLC* filed fictitious Business Name Statement with County of Sacramento as *Abatin*. The filing was signed by Don Duncan, vice president of *Migliore*. *Migliore* also executed an insurance policy for the *Abatin* dispensary in February 2018.

Medical Marijuana Renewal Application – 2018

The City received a Cannabis Dispensary Permit Application from *Abatin* in March 2018 to renew the dispensary permit. The applicant listed was Aundre Speciale and the owners included Aundre Speciale, James Zaun, and Edward Dombroski.

The City issued a Dispensary Permit Medical | Adult Use to *Abatin Wellness* on April 2018. The permit holders listed included Aundre Speciale, James Zaun, Edward Dombroski.

Medical Marijuana Renewal Application – 2019

Abatin submitted a packet for permit renewal for 2019, according to documents provided by the Office of Cannabis Management. *Abatin* included a description of the new company structure. The description stated, “As part of the rollout and implementation of the new state cannabis laws and associated regulatory framework in California, the longstanding management team responsible for the operation of *Abatin Wellness Center of Sacramento* desired to migrate away from operating as a statutory cooperative corporation under Sections 12200-12704 of the California corporations code and instead operate as a limited liability company . . .”

The City issued a new Dispensary Permit Medical | Adult Use to *Abatin Wellness* in April 2019. The permit holders listed include Aundre Speciale, James Zaun, Edward Dombroski.

Abatin Wellness Center of Sacramento, a Cooperative Corporation Shut Down

Meanwhile, *Abatin Wellness Center of Sacramento, a Cooperative Corporation* (C3915455) filed a Nonprofit Certificate of Election to Wind Up and Dissolve on December 26, 2019. According to the filing, the board of directors voted to dissolve the corporation. Additionally, *Abatin Wellness Center of Sacramento, a Cooperative Corporation* filed a Notice Certificate of Dissolution on December 26, 2019. The signatories of the document included Ed Dombroski and Aundre Speciale.

All About Wellness

The city issued a Business Operations Tax Certificate to *All About Wellness* in April 2009. According to the certificate, the owner of the dispensary was Chander Sidher Jr. and the location was 1918 28th St.

Medical Marijuana Dispensary Registration

In compliance with new City regulations for the medical cannabis dispensaries, Sidher filed a Medical Marijuana Dispensary Registration for the *All About Wellness* dispensary in July 2009. Sidher listed himself as the owner and included as owner an entity called “*Valley Vision NP&C*.”

Valley Vision Non-Profit and Collective (C3189393), or “*Valley Vision NP&C*”, was a nonprofit public benefit corporation that Sidher created in February 2009 by filing Articles of Incorporation where he was listed as the Incorporator. In fact, one month after creating the corporation, Sidher filed a Statement of Information with the California Secretary of State in March 2009 listing himself as the CEO, secretary, and CFO.

In May 2009, Sidher entered into a Monthly Rental Agreement for the dispensary property located at 1918 28th Street for the rental rate of \$1,390 per month.

Also in May 2009, Sidher filed an application for a new Business Operations Tax Application. The business name on the application was *All About Wellness*. The Primary Owner/Corporation on the application was *Valley Vision NP&C Inc.* and the Owner Name #2 was Chander Sidher Jr.

The City notified Sidher and *All About Wellness* that the registration was approved. The revenue manager for the City, wrote to Sidher and *All About Wellness* on September 9, 2009, and stated: “The City of Sacramento hereby acknowledges receipt of your application to register as an established medical cannabis dispensary. Your application package is complete and you are now registered as an ‘established operation’ pursuant to Section 3 of the emergency moratorium ordinance.” Notably, the address listed for the dispensary was 1918 28th Street.

Shortly after receiving the registration letter to the city, Sider drafted a handwritten note in December 2009 explaining that a new director, Phil Blurton, was added to *Valley Vision Nonprofit and Collective*.

Figure 22: Chander Sidher Jr.’s Handwritten Note to City

12/18/09

To whom it may concern,

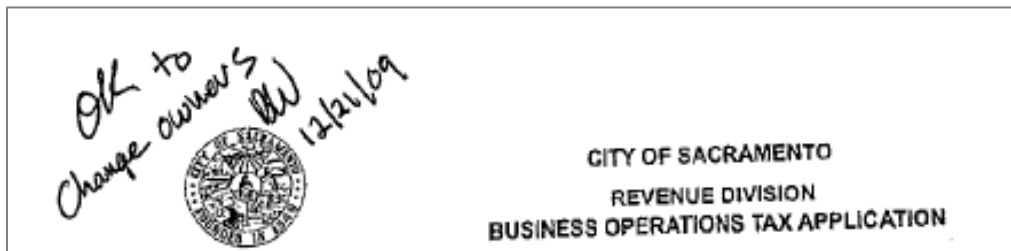
Please update registration records for
Valley Vision Non profit and Collective
new director Phil Blurton.
We are not expanding or modifying business
collective. ALL ABOUT WELLNESS Chander Sidher
1918 28th St. Sac Ca. 95816

Chander Sidher Jr.

Source: Records provided by the City of Sacramento Office of Cannabis Management.

Despite having just filed a business tax operation in May 2009, in December 2009 a new Business Operations Tax Application was filed with the City. In the new application, the primary owner remained *Valley Vision Non-profit and Collective*. However, two new owners were added. The owner name #2 was Debbie Blurton, and owner name #3 was Philip Blurton. Critically, in the top of the application was a handwritten note from “BW” that stated “OK to change owners.”

Figure 23: City approves change of ownership of *All About Wellness*



Source: Records provided by the City of Sacramento Office of Cannabis Management.

The initials “BW” indicates the City’s Revenue Manager, in overseeing the cannabis dispensary permitting process.

Shortly after taking ownership of the dispensary, Mr. and Ms. Blurton sent a letter to the City notifying of a change of location. The letter stated: “All About Wellness is moving to a new location. The reason for this move is to go from mixed use to commercial zoning. We are not expanding our [sic] modifying our business. Please update our registration: 1900 19th Street, Sacramento, CA 95811.”

The next day, on January 7, 2010, Ms. Blurton filed Articles of Incorporation with the California Secretary of State to create a new entity, called *All About Wellness, Inc.* (C3266270). The corporation was created as a general stock corporation with the authority to issue 1,000,000 shares of stock.

The same day, on January 7, 2010, *All About Wellness, Inc.* filed a Business Operations Tax Application with the City that listed the *All About Wellness, Inc.* as primary owner of the corporation, Debbie Blurton as “Owner #2”, and Philip Blurton as “Owner #3”. The city issued a Business Operations Tax Certificate to *All About Wellness, Inc.* on October 1, 2010.

Medical Marijuana Dispensary Application – Phase One

To comply with the City’s evolving regulatory scheme, *All About Wellness, Inc.* filed a Medical Marijuana Dispensary Application – Phase One in January 2011. Philip and Debbie Blurton were listed as the applicants, board of directors. Corporate officers listed in the application included Phil Blurton, president; Debbie Blurton, treasurer/chief financial officer; Eric Miramon, vice president; and Erin Miramon, secretary..

Medical Marijuana Application – Phase 2

In order to comply with the City’s new regulatory permitting requirements, *All About Wellness* filed a Medical Marijuana Dispensary Application – Phase 2. The applicant listed was Philip Blurton.

All About Wellness filed an updated Medical Marijuana Dispensary Application – Phase 2 application in September 2013. The following applicants were listed: *All About Wellness*, Philip Blurton, Debbie

Blurton, Eric Miramon, Erin Miramon. The owners listed in the application included Philip Blurton, Debbie Blurton, Eric Miramon, Erin Miramon.

Medical Marijuana Renewal Applications and Dispensary Permits

In February 2015, the city issued a City of Sacramento Dispensary Permit – Medical | Adult Use to *All About Wellness*. According to the permit, the permit holders were Phil Blurton and Debbie Blurton. The address of the operation was 1900 19th Street.

In January 2016, *All About Wellness* filed the next Medical Marijuana Dispensary Renewal Application with the City. The owners listed on the permit included Philip Blurton, Debbie Blurton, Eric Miramon, and Erin Miramon.

The City issued a City of Sacramento Dispensary Permit – Medical | Adult Use to *All About Wellness* in January 2019. The owners on the permit included Philip Blurton and Debbie Blurton.

The City issued the next permit to *All About Wellness* in January 2017. The owners listed on the permit included Philip Blurton, Debbie Blurton, Erin Miramon, and Eric Miramon.

Shortly after the permit was issued, Phil Blurton and Erin Miramon filed an Articles of Amendment changing the corporations name from *All About Wellness, Inc.* to *PEED, Inc.* The listed officials for *PEED, Inc.* included Philip Blurton, chief executive officer; Erin Miramon, secretary; Debbie Blurton, chief financial officer. The Directors listed for the corporation included Philip Blurton, Erin Miramon, and Debbie Blurton.

All About Wellness filed another amendment to the articles of incorporation changing the name of the entity to *PDEE, Inc.*

The City issued City of Sacramento Dispensary Permits – Medical | Adult Use in January 2018 and January 2019 to *All About Wellness* and listed permit holders Philip Blurton, Debbie Blurton, Erin Miramon, Eric Miramon.

Alternative Medical Center

In May 2009, *Alternative Medical Center* (C3212192) was incorporated as a nonprofit mutual benefit corporation by Joe Osvep Karapetyan.

Medical Marijuana Dispensary Registration

In order to comply with the City's new regulations for medical cannabis dispensaries, *Alternative Medical Center* (C3212192) filed a Medical Marijuana Dispensary Registration in July 2009. The owner of the dispensary was Joe Karapetyan and the address was 8665 Folsom Blvd., Sacramento, CA. The City approved the registration in September 2009.

Medical Marijuana Application – Phase 1

In February 2011, *Alternative Medical Center* filed a Marijuana Dispensary Application –Phase 1 to the City. The corporation listed Joe Karapetyan as chief executive officer and Hayk Karapetyan as secretary. The dispensary, according to the application, was located at 8665 Folsom Blvd., Sacramento, CA.

Medical Marijuana Application – Phase 2

Alternative Medical Center filed a Medical Marijuana Dispensary Registration – Phase 2 in March 2014. The dispensary applied to operate the dispensary in a different location, 1220 Blumenfeld Drive.

Medical Marijuana Renewal Applications and Dispensary Permits

Alternative Medical Center filed a Medical Marijuana Dispensary Registration – Renewal in March 2016. The dispensary listed Joe Karapetyan as the owner. The address of the dispensary was 1220 Blumenfeld Drive.

In August 2016, *Alternative Medical Center* company filed a Statement of Information with the California Secretary of State listing new management. The company listed Hayk Karapetyan as the chief executive officer, secretary, and chief financial officer.

The next year, *Alternative Medical Center* named Joe Kaparetyan as chief executive officer, secretary, and chief financial officer.

The City issued a City of Sacramento Dispensary Permit – Medical | Adult Use permit in April 2018, to *Alternative Medical Center*. The permit holders were Joe Karapetyan and Garib Karapetyan.

In October 2018, *Alternative Medical Center* (C3212192) filed a Restated Article of Incorporation turning the entity from a nonprofit mutual benefit corporation to a general stock corporation. The corporation is authorized to issue 10,000,000 shares. The next month, the corporation filed a Statement of Information and listed Joe Karapetyan, chief executive officer, and Garib Karapetyan secretary and chief financial officer. Both were named to the board of directors.

Finally, the City issued a City of Sacramento Dispensary Permit – Medical | Adult Use permit in April 2019 to *Alternative Medical Center*. The permit holders were Joe Karapetyan and Garib Karapetyan.

Alpine Alternative

In January 2009, a new entity called, *H&E Capital Management, Inc.* (C3178154) filed Articles of Incorporation with the California Secretary of State. The entity formed as a general stock corporation.

The City issued a Business Operations Tax Certificate in April 2009 to *California Naturopathic Agriculture Association*. The owner of the dispensary the listed on the certificate was Romero Huynh and the address was 2150 Bell Ave, #140.

In May 2009, *H&E Capital Management* filed a Fictitious Business Name Statement with Sacramento County to operate the cannabis dispensary under the fictitious business name *California Naturopathic [sic] Agricultural Association*. The address listed was 5958 Brooktree Dr., Citrus Heights. The owner listed on the application was Romeo Huynh, president, the same as the Business Operations Tax Certificate.

On May 26, 2009, *H&E Capital Management, Inc.* entered into lease for premises for 1,800 square foot site at 2150 Bell Ave, Suite 130, Sacramento, CA, for operation of a dispensary.

On the same day, a new company filed Articles of Incorporation for a nonprofit Mutual Benefit Corporation with the California Secretary of State. The company was called, *California Naturopathic Agricultural Association – No. 7* (C3209963).

Medical Marijuana Dispensary Registration

CNAA (California Naturopathic Agricultural Association) filed a Medical Marijuana Dispensary Registration to the City in August 2009. The listed address for *CNAA* was 2150 Bell Ave., Suite 130, Sacramento, CA. The owner information listed on the application was *H&E Capital Management, Inc.*

The revenue manager for the City, sent a letter to notify the dispensary that registration was completed in September 2009. The letter was addressed to *H&E Capital Management, CNAA California Naturopathic Agriculture Assoc.*

H&E Capital Management, Inc. (C3178154) filed a Statement of Information with the California Secretary of State in December 2009 that named Romeo L Huynh, chief executive officer and president. The filing also named James English Jr., chief financial officer and director, and Gina English, secretary.

In its next filing, a Statement of Information filed to the Secretary of State in February 2010, Gina English was removed. The filing listed Romeo Huynh, chief executive officer, chief financial officer, president, and director; and James English, Jr., secretary and director.

Meanwhile, a new corporate entity was created. *Triple C Collective* (C3304618) filed Articles of Incorporation for a nonprofit Mutual Benefit Corporation with the California Secretary of State in June 2010.

In December 2010, a separate corporation led by Romeo Huynh and James English filed a Statement of Information. *California Naturopathic Agricultural Association – No. 7* (C3209963) named Romeo L. Huynh, chief executive officer, chief financial officer, and president; and named James English, Jr., secretary.

Medical Marijuana Application – Phase 1

In order to comply with the City’s evolving cannabis regulations, *California Naturopathic Agricultural Association* filed a Medical Marijuana Dispensary Application – Phase 1 with the City in February 2011. In the application the company sought to update its operating name to *California Naturopathic Agricultural Association dba Triple C Collective*. The application listed the following managers: Angie Decoux, president, and Romeo Huynh, vice president.

Original Medical Marijuana Application – Phase 2

In October 2011, *CNAA dba Triple C Collective* filed a Medical Marijuana Dispensary Application – Phase 2 to the City. The applicant listed was Romeo Huynh.

Updated Medical Marijuana Application – Phase 2

In January 2013, an attorney representing *CNAA* sent a letter to the revenue manager, to introduce an entirely new board of directors. The letter stated, “I wanted to touch base and inform you that there has been a change in the Board of Directors (“Directors”) at *CNNA* (Non-Profit Company). The new Directors are Brad Pritchard (President), Lauren Brooks (Secretary), and Noah Maxwell (Treasurer).”

Later, in July 2013, a new corporate entity was formed that would soon attain ownership of the dispensary. The corporation *California Naturopathic Agricultural Association – No. 7, a Non Profit Mutual Benefit Corporation* (C3585281) filed articles of incorporation.

In March 2014, an updated Medical Marijuana Dispensary Application – Phase 2 was filed for a dispensary called *Alpine Alternative*. The applicants listed on the permit included the newly formed corporation and one of the board members noted in the January 13 letter, *California Naturopathic Agricultural Association No. 7*, and “*CNAA – c/o Brian Pritchard*”. The owners listed in the application included Brian Pritchard and Lauren Brooks.

In March 2015, the City issued a Dispensary Permit to *Alpine Alternative*. The organization name listed on the permit was *Alpine Alternative*, the address listed was 8112 Alpine Avenue, and the permit holder was Brian Pritchard.

In February 2016, the owners of *Alpine Alternative* filed a Medical Marijuana Dispensary Renewal Application with the City. The name of the dispensary was *Alpine Alternative*. Two applicants were listed in the filing: *California Naturopathic Agricultural Association #7*, and Brian Pritchard. The application listed the following owners: Brian Pritchard and Lauren Brooks.

The City issued a Dispensary Permit to *Alpine Alternative* in 2016, 2017, and 2018. The organization name listed on the permit was *Alpine Alternative* and the permit holder was Brian Pritchard.

Transition from Mutual Benefit to General Stock

In October 2018, *California Naturopathic Agricultural Association – No. 7, a Non-Profit Mutual Benefit Corporation* (C3585281) filed a Restated Articles of Incorporation changing from a Nonprofit Mutual Benefit Corporation to General Stock Corporation and changed name to *Alpine Alternative Naturopathic* (C3585281). The corporate authorized the issuance of 1,000,000 shares of stock. Brian Pritchard was listed as the secretary and president of the corporation.

The company filed a new Statement of Information with the Secretary of State in February 2019 that registered several new directors. The company listed Brian Pritchard as chief executive officer, and Michael Carlson as chief financial officer. The company listed the following Directors, Daniel Ammer, Brian Pritchard, Todd Richey, Terrence Mishler, and Michael Carlson.

The City issued the most recent Dispensary Permit to *Alpine Alternative* in March 2019. The dispensary name listed on the permit is *Alpine Alternative* and the permit holder is Brian Pritchard.

Canna Care

In July 2005, *Canna Care, Incorporated* (C2755154) as a General Stock Corporation with California Secretary of State. The company, according to the filing, was authorized to file 1,000,000 shares of stock.

In a Statement of Information filed with the Secretary of State, also in July 2005, the corporation listed the address at 320 Harris Avenue #G, the officers as Jeff Cowen as chief executive officer and director; Lanette Davies as secretary and director; and Bryan Davies as chief financial officer and director.

Medical Marijuana Dispensary Registration

In July 2009, *Canna Care, Inc.* filed a Medical Marijuana Dispensary Registration listing Lanette Davies, Jeff Cowen, and Bryan Davies as owners. The City sent a letter in September 2009 to notify completion of registration to Lanette Davies and *Canna Care, Inc.*

The next month, in October 2009, *Canna Care, Inc.* (C2755145) filed a Statement of Information listing Lanette Davies as chief executive officer, secretary, director; and Bryan Davies as chief financial officer and director.

In July 2010, the City issued a Business Operations Tax Certificate to *Canna Care Inc.* The owner listed on the certificate was Jeff L Cowen.

Dispensary Application – Phase 1

In January 2011, *Canna Care, Inc.* filed a Medical Marijuana Dispensary Application – Phase 1. The applicants listed included Bryan Davies and Lanette Davies. The application also listed both Bryan Lee Davies and Lanette M. Davies the sole shareholders of the corporation.

Medical Marijuana Application – Phase 2 - Original

Canna Care filed Medical Marijuana Dispensary Application – Phase 2 to the City in October 2011. The applicants listed include Bryan Davies and Lanette Davies.

Medical Marijuana Application – Phase 2 - Updated

Canna Care, Inc. later filed a Medical Marijuana Dispensary Application – Phase 2 in March 2014. In the filing, *Canna Care* listed Bryan and Lanette Davies as applicants, *Canna Care, Inc.* as the corporate name, and Bryan and Lanette Davies as owners.

The City issued a dispensary permit to *Canna Care* in May 2015. The permit listed Bryan Davies and Lanette Davies as the permit holders and the address at 320 Harris Avenue, #G.

Medical Marijuana Renewal Application – 2016

In April 2016, *Canna Care, Inc.* filed a Medical Marijuana Dispensary Renewal Application. The filing listed Bryan Lee Davies and Lanette Davies as owners and applicants, and the location listed was 320 Harris Avenue, #G.

The City issued a City of Sacramento Dispensary Permit in May 2016. The permit listed Bryan Davies and Lanette Davies as the permit holders and the address at 320 Harris Avenue, #G.

In October 2016, the City suspended *Canna Care's* permit because the City's "records reflect that no business operations tax payment has been received for July or August 2016." In November 2016, *Canna*

Care sent a letter to the City challenging the suspension. The city reinstated *Canna Care* and issued a new dispensary permit in May 2017. The permit holders listed were Bryan Davies and Lanette Davies. The address listed was 320 Harris Avenue, #G.

Canna Care filed a Statement of Information with the California Secretary of State on November 27, 2017, that listed no change in the officials and directors.

Medical Marijuana Renewal Application – 2018

Finally, *Canna Care, Inc.* filed a Cannabis Dispensary Permit Application – Renewal in March 2018 that listed the address 320 Harris Avenue, Lanette Davies as applicant, and Bryan and Lanette Davies as owners.

CC 101

The City of Sacramento issued a Business Operations Tax Certificate to a dispensary named *CC101* in July 2009. The owner listed on the certificate was Ted Smith with an address at 4129 Fruita Ct., Sacramento, CA.

Registration

In August 2009, *CC101* filed a Medical Marijuana Dispensary Registration with the City. The application listed Theodore Harold Smith as the owner and the address was 6255 Oliver Rd., Paradise, CA. The City notified Theodore Smith that *CC101* was successfully registered as a registered medical cannabis dispensary in September 2009.

The City issued a new Business Tax Certificate for the *CC101* dispensary in July 2010. The certificate was issued to Ted Smith for the address 6255 Oliver Rd., Paradise, CA.

According to notes in the City's file, the *CC101* dispensary began operating at a new location at 3257 Folsom Blvd., Sacramento, CA in October 2010. Ted Smith filed Articles of Incorporation with California Secretary of State to formally incorporate *CC101* as a Nonprofit Mutual Benefit Corporation in January 2011. The address listed on the filing was 6255 Oliver Rd., Paradise, CA.

Medical Marijuana Dispensary Permit – Phase 1

CC101 filed Medical Marijuana Dispensary Permit – Phase 1 to the City in February 2011. Theodore Smith was the applicant on the filing on behalf of *CC101* and the proposed dispensary location was 3257 Folsom Blvd., Sacramento, CA. The management information on the application included Theodore H. Smith as chief executive officer, Garib Karapetyan as chief financial officer, and Hakop Karapetyan as secretary.

Medical Marijuana Dispensary Permit – Phase 2

CC101 filed a Medical Marijuana Dispensary Application – Phase 2 with the City in October 2011. The dispensary was filed with the dba, or doing business as, *Mad Medicine*. The applicant was Ted Smith and the location was 6435 Florin Perkins Rd., Sacramento, CA.

CC101 filed its updated Medical Marijuana Dispensary Application – Phase 2 application in March 2014. The application was accompanied by a letter from an attorney representing the dispensary. The letter stated, " Mr. Theodore Smith was the founder of *CC101* and is named on the City's 2009 registration list. He continues today to serve on the board of *CC101*. He is both the Phase 2 applicant and the original registrant." In the updated Phase 2 application, Ted Smith was listed as both the applicant and the owner of the dispensary. The only manager listed in the application is Garib Karapetyan.

In October 2014, *CC101* filed a Statement of Information with the Secretary of State listing officers for the corporation. The officers listed included Theodore Smith, chief executive officer; Hakop Karapetyan, secretary; and Garib Karapetyan, chief financial officer.

The City issued a Dispensary Permit to *CC101* in April 2015. The permit listed Theodore Smith as the permit holder and the address was listed as 6435 Florin Perkins Rd., Sacramento, CA.

Medical Marijuana Dispensary Permit Application - 2016

One month later, in March 2016, a Medical Marijuana Dispensary Renewal Application was filed for *CC101* by a different applicant, Garib Karapetyan. Ted Smith was listed as an owner along with two new owners: Garib Karapetyan and Hakop Karapetyan.

The City issued a Dispensary Permit to *CC101* in April 2016. The new permit holders listed were Hakop Karapetyan, Garib Karapetyan, and Theodore Smith.

CC101 filed another Medical Marijuana Dispensary Renewal Application in March 2017. The applicant was Garib Karapetyan. The owners listed in the application included Garib Karapetyan, Hakop Karapetyan, and Theodore Smith.

The Board of *CC101* met in March 2017 to appoint officers of the entity. The board unanimously approved the following officers: Garib Karapetyan, chief executive officer and president; Hakop Karapetyan, chief financial officer; and Theodore Smith, secretary.

CC101 filed a Statement of Information to the California Secretary of State the next day that listed corporate officers which did not include Theodore Smith. The statement listed the following officers: Garib Karapetyan, chief executive officer and chief financial officer; and Hakop Karapetyan, secretary.

The next month, in April 2017, the City issued a new Dispensary Permit to *CC101*. The permit holders listed included Garib Karapetyan, Hakop Karapetyan, and Ted Smith.

Medical Marijuana Dispensary Permit Application - 2017

CC101 filed a Cannabis Dispensary Permit Application – Modification in December 2017. Garib Karapetyan, director, was listed as the applicant. The application listed the following dispensary owners: Garib Karapetyan, director; Ted Smith, director; Hakop Karapetyan, director. The application included the following managers: David Yepiskoposyan and Matthew Stohlman.

The City issued a modified Dispensary Permit in January 2018 for *CC101*. The permit listed the permit holders Garib Karapetyan, Hakob Karapetyan, and Theodore Smith.

Medical Marijuana Dispensary Permit Application - 2018

CC101 filed a Cannabis Dispensary Permit Application – Modification in March 2018. The permit applicant was Garib Karapetyan and the owners listed included Garib Karapetyan and Ted Smith.

The City issued a new Dispensary Permit to CC101 in April 2018. The permit holders listed included Joe Karapetyan and Garib Karapetyan.

Three months later, in July 2018, CC101 filed a Cannabis Business Permit Name, Ownership and Management Change Form with the City. The form indicated the Ted Smith and Hakop Karapetyan were “relinquishing their ownership” of CC101. The form indicated the new ownership included Joe Karapetyan as a 50 percent owner and Garib Karapetyan as a 50 percent owner.

Nonprofit Mutual Benefit Corporation to General Stock Corporation

In October 2018, CC101 filed a Restated Articles of Incorporation Nonprofit Mutual Benefit Corporation to General Stock Corporation with the Secretary of State, changed the name of the entity to CC101, Inc. and authorized the issuance of 10,000,000 shares of stock.

The next month CC101 filed a Statement of Information that included the new officers and directors of the corporation. The officers listed included Garib Karapetyan, chief executive officer and member of the board of directors; and Joe Karapetyan, chief financial officer, secretary, and member of the board of directors.

The City issued a new Dispensary Permit to CC101 in April 2019. The permit holders listed included Garib Karapetyan and Joe Karapetyan.

Cloud 9

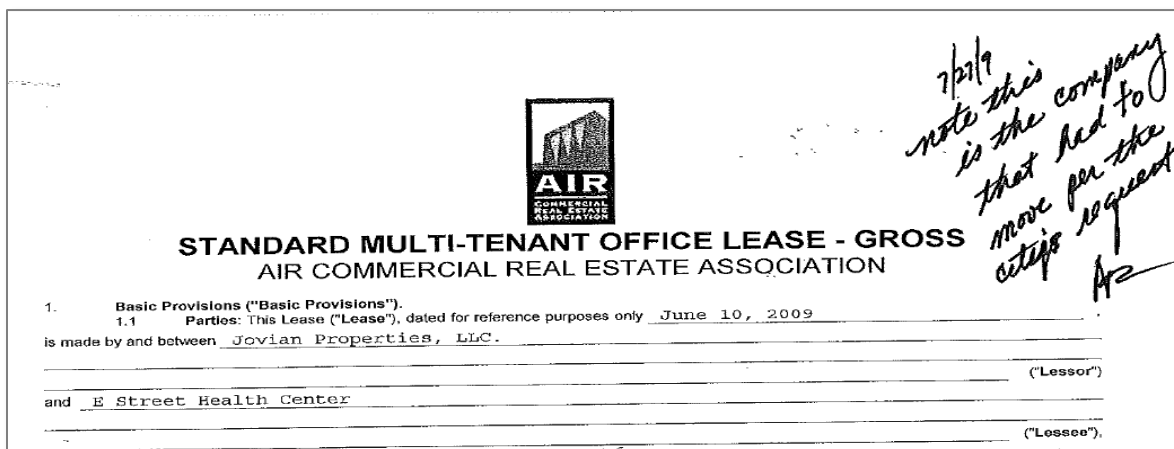
The medical cannabis dispensary *E Street Health Center* received a Seller's Permit from the California State Board of Equalization in December 2008. The owner listed on the permit was Jesse James Paquin.

Shortly after receiving the state permit, *E Street Health Center* filed a Business Operations Tax Application to the City of Sacramento in January 2009. The primary owner of the dispensary listed on the application was Jesse Paquin. The dispensary address was 2012 P Street.

E Street Health Center (C3183871) filed Articles of Incorporation with California Secretary of State also in January 2009. The incorporator of the corporation was Jesse Paquin. After filing the corporation formation documents, the first meeting of the board of directors was held. At the meeting Jesse Paquin was appointed the member of the board of directors.

E Street Health Center entered into lease for property at 2014 P Street in June 2009. As seen in the exhibit below, a handwritten note on the lease document stated, "7/29/9 - note this is the company that had moved per the City's request."

Figure 24: Handwritten Note



Source: Document provided by the City's Office of Cannabis Management

The address listed on the lease was 2014 P Street, Sacramento, CA.

Medical Marijuana Dispensary Registration

The dispensary submitted Medical Marijuana Dispensary Registration to City under the name *P Street Health Center* in July 2009. The owner listed on the application was Jesse Paquin. The City approved the registration in September 2009 in a letter to Jesse Paquin and *P Street Health Center*.

In July 2010, the City issued a Business Operations Tax Certificate to *P Street Health Center*. The owner listed on the certificate was Jesse Paquin.

Medical Marijuana Application – Phase 1

P Street Health Center filed Medical Marijuana Dispensary Application – Phase 1 in February 2011. In the application Jesse Paquin was listed as the applicant, the chief executive officer, and executive director of the dispensary.

Medical Marijuana Application – Phase 2 – Original

P Street Health Center filed for Medical Marijuana Dispensary Application – Phase 2 to the City in October 2011. The application noted a new “doing business as” designation for the name *Midtown Collective*. The address of the dispensary was listed as 2012 P Street and the applicant was Jesse Paquin.

Meanwhile, in May 2012, an individual named Gevorg “George” Kadzhikyan filed Articles of Incorporation with the Secretary of State to create a cooperative corporation called *C9 Alliance Cooperative, Inc.* (C3467127)

Medical Marijuana Application – Phase 2 – Updated

In March 2014, *Cloud 9* filed a Medical Marijuana Dispensary Application – Phase 2 with the City. The dispensary names listed in the application was *Cloud 9*. The applicant and owner listed was George Kadzhikyan. The address of the dispensary was 5711 Florin Perkins Rd., Sacramento, CA. The corporate name of the dispensary was *Cloud 9 Alliance, Inc.* The application was accompanied by a document on the letterhead of an attorney representing the applicant. The letter stated:

Figure 25: Description of change of dispensary management and ownership

During this time of increasing uncertainty and federal pressure, in early 2012, Mr. Paquin had the unfortunate and frightening experience of being visited at the dispensary by US Marshalls. This visit also disturbed the property owners. It was decided that the better part of valor was to continue the dispensary in another location and possibly in another entity. Mr. Paquin discussed this with a collective member, George Kadzhikyan, who offered to help facilitate the transition. There is no documentation of this corporate decision available today because of the haste of the decision and the chaos of immediately vacating the premises. Mr. Paquin departed Sacramento shortly after. His whereabouts today are not known.

Source: Documents provided by the Office of Cannabis Management

The City issued a City of Sacramento Dispensary Permit to *Cloud 9* in March 2015. The organization name listed on the permit was *Cloud 9*. The permit holder listed was George Kadzhikyan. The address of the dispensary listed was 5711 Florin Perkins Rd. #A, Sacramento.

Medical Marijuana Renewal Application – 2015/2016

Cloud 9 filed a Medical Marijuana Dispensary Renewal Application to the City in February 2016. The applicant and owner listed was George Kadzhikyan. The corporate name of the dispensary was *C9 Alliance Cooperative*.

In April 2015, nearly a year before the submission of the renewal application, *Cloud 9*, Kadzhikyan’s personal residence and nine cultivation sites were searched as part of local police serving a search warrant. Mr. Kadzhikyan was arrested and was awaiting trial during the time period the renewal application was submitted.

The City’s office responsible for processing dispensary permits was notified of the arrest after the *Cloud 9*’s renewal application was submitted and before the permit was approved. In March 2016, the City

issued a City of Sacramento Dispensary Permit to *Cloud 9*. The permit holder listed was George Kadzhikyan.

In February 2017, Gevorg George Kadzhikyan filed a Statement of Information with the Secretary of State to update the officers *Cloud 9*. Gevorg George Kadzhikyan was listed as the chief executive officer, secretary, and chief financial officer.

The City issued another City of Sacramento Dispensary Permit to *Cloud 9* in March 2017. The permit holder listed was George Kadzhikyan.

Medical Marijuana Renewal Application – 2018

C9 Alliance Cooperative Inc. filed a Cannabis Dispensary Permit Renewal Application in January 2018. Gevorg Kadzhikyan was listed as the applicant, owner, and director.

In March 2018, the City issued a dispensary permit to *Cloud 9* in March 2018. The permit holders listed did not include the applicant, Gevorg Kadzhikyan. Rather, the permit included Greg Serobyan, Joe Karapetyan, and Gayk Serobyan.

In May 2018, two months after the permit was issued, *C9 Alliance Cooperative, Inc.* held a meeting of the board of directors. At the meeting new members of the board of directors were appointed including Gayk Serobyan, Grach Serobyan, Joe Karapetyan, and Garib Karapetyan. These are the same individuals that appeared on the permit. Additionally, the board appointed new officers including Gevorg Kadzhikyan, chief executive officer; Joe Karapetyan, chief financial officer; Grach Serobyan, secretary; Garib Karapetyan, president; and Gayk Serobyan, vice president.

In July 2018, *C9 Alliance Cooperative, Inc.* filed the paperwork with the City to change the ownership of the company. Specifically, the form included the following new owners of the company, their respective ownership shares, and their new position with the company:

- Greg Serobyan; Ownership: 16.66%; Title: Director
- Joe Karapetyan; Ownership: 25%; Title: Director
- Gayk Serobyan; Ownership: 16.67%; Title: Director
- Garib Karapetyan; Ownership: 25%; Title: Director
- Gevorg Kadzhikyan; Ownership: 16.67%; Title: Director

This marks an ownership change in the corporation.

Nonprofit Mutual Benefit Corporation to General Stock Corporation

In October 2018, *C9 Alliance Cooperative, Inc.* filed Restated Articles of Incorporation Nonprofit Mutual Benefit Corporation to General Stock Corporation to the Secretary of State. The new name of the corporation was *C9 Alliance, Inc.* and the company was authorized to issue 10,000,000 shares of stock. The officers of the company include Gevorg G. Kadzhikyan, president, and Grach Serobyan, secretary.

The City issued a new City of Sacramento Dispensary Permit to *Cloud 9* in March 2019. The permit holders listed included Greg Serobyan, Joe Karapetyan, Gayk Serobyan, Gevorg Kadzhikyan, Garib Karapetyan.

Community Health Solutions (dba NUG)

The City of Sacramento issued Business Operations Tax Certificate to *Unity Nonprofit Collective* in March 2009. The owner of the dispensary listed on the certificate was *Unity Nonprofit Collective*. *Unity Nonprofit Collective* (C3200012) filed Articles of Incorporation for a nonprofit mutual benefit corporation in January 2009. The bylaws of the corporation were enacted by *Unity Nonprofit Collective* in early 2009 as signed by Don Johnson, secretary.

Medical Marijuana Dispensary Registration

Unity Non-Profit Collective filed Medical Marijuana Dispensary Registration with City in July 2009. The owner listed on the application was Don Johnson. In September 2009, the City sent a letter to notify that registration was complete to Don Johnson and *Unity Nonprofit Collective*.

Medical Marijuana Application – Phase 1

Unity Non-Profit Collective filed Medical Marijuana Dispensary Application – Phase 1 to the City on February 2011. The applicants listed included Don Johnson and Ke Johnson. Managers listed in the application included Don Johnson, president/ director; Stephen Squaglia, secretary; Michael John Doherty, chief financial officer; and Ke Johnson, operations manager.

In June 2011, according to a Resolution to the board of directors of *Unity Nonprofit Collective*, Don Johnson, resigned from the roles of chief executive officer and president of the board of directors. New officers and directors were appointed at the meeting including Michael Doherty, chief executive officer, chief financial officer, treasurer and president of the board of directors; and Stephen Squaglia, secretary.

Medical Marijuana Application – Phase 2

Unity Non Profit Collective filed Medical Marijuana Dispensary Application – Phase 2 in August 2011. The applicant listed was Michael Doherty.

In January 2014, an attorney representing *Unity Nonprofit Collective* sent a letter to the City. The letter stated:

Figure 26: Attorney Letter Announcing Dissolution of Unity Nonprofit Collective

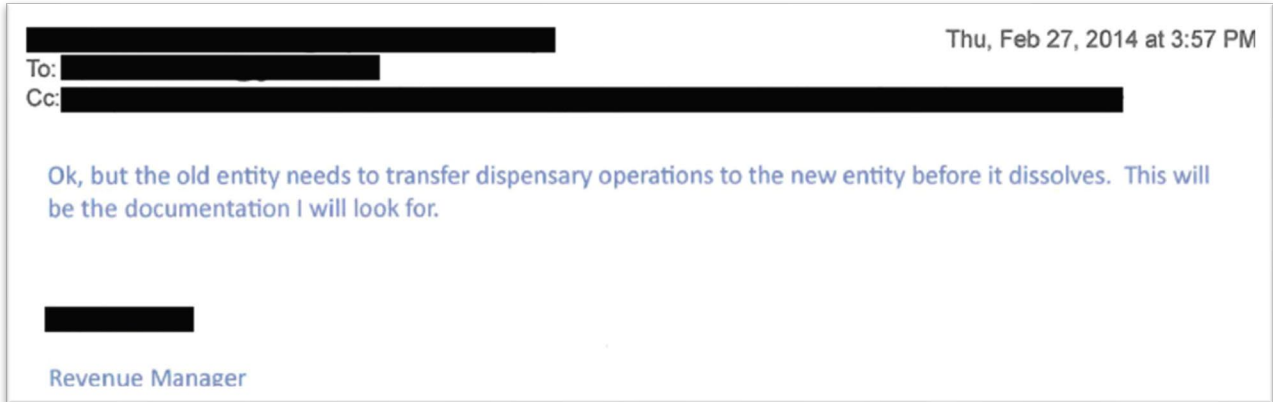
In 2012 UNPC was informed that it would be audited by the IRS. As of the date of this letter, the audit is ongoing, and the IRS has not determined that any adjustments should be made to UNPC's return. Due to the uncertainty of reopening, the lack of remaining corporate assets, and the fact that the City of Sacramento was not issuing permits at that time, it was determined that UNPC would not conduct any future business and that the entity would eventually be dissolved.

Source: Documents provided by Office of Cannabis Management

After dissolving the corporation called *Unity Nonprofit Collective*, the two individuals that took control of the dispensary after Mr. Johnson resigned his interest, wanted to create a separate corporate entity. The two individuals were Steve Squaglia and Michael Doherty.

The revenue manager for the City, responded in February 2014 and stated that dissolving the entity and creating a separate corporation to assume the dispensary's permitted operations is acceptable. Specifically, the email stated:

Figure 27: City Provides Information



Source: Documents provided by the Office of Cannabis Management

Community Health Solutions (C3651422) filed Articles of Incorporation as a nonprofit mutual benefit corporation with the Secretary of State in March 2014.

About a week later, an attorney representing the dispensaries submitted a draft contract that would effectuate the transfer of dispensary operations from the old dispensary to a new corporate entity. The contract stated:

Figure 28: Draft Dispensary Operations Transfer Agreement

DISPENSARY OPERATIONS TRANSFER AGREEMENT
by and between
UNITY NON-PROFIT COLLECTIVE and COMMUNITY HEALTH SOLUTIONS

This DISPENSARY OPERATIONS TRANSFER AGREEMENT is made and entered into this _____ day of March, 2014, by and between UNITY NON-PROFIT COLLECTIVE (“Old Operator”) and COMMUNITY HEALTH SOLUTIONS, a California nonprofit mutual benefit corporation (“New Operator”).

RECITALS

WHEREAS, Old Operator is winding down its dispensary and natural wellness operations and wishes to begin dissolution proceedings;

WHEREAS, prior to dissolution, Old Operator desires to transfer any and all of its dispensary and natural wellness operations to New Operator;

THEREFORE, Old Operator and New Operator agree as follows:

AGREEMENT

1. In exchange for Ten Dollars (\$10.00) consideration, receipt and adequacy of which is hereby acknowledged, Old Operator hereby transfers all of its dispensary operations, natural wellness operations and any other business operations to New Operator.

Source: Documents provided by the Office of Cannabis Management

The City’s Revenue Manager stated the transfer is appropriate should specific steps be taken by corporation.

Figure 29: City Provides Information

Community Health Solutions may submit a Phase II dispensary permit application so as long as (1) the applicant (i.e. the person submitting the application on the entity’s behalf) in both Phase I and Phase II is the same owner or principal named in the 2009 registration, and a management member of the dispensary (see Sacramento City Code section 5.150.040.C), and (2) the Phase I application is updated to reflect the new entity’s information and no new grounds for denial are discovered. If the owner or principal named in the 2009 registration has changed, then I will be looking for clear documentation of the transition in the non-profits records.

Source: Documents provided by the Office of Cannabis Management

Medical Marijuana Application – Phase 2 – Updated

In March 2014, *Community Health Solutions* filed an updated Medical Marijuana Dispensary Application – Phase 2 to the City. The applicant named was Michael Doherty. The owner provided on the application was also Michael Doherty.

The City issued a dispensary permit to *Community Health Solutions* in May 2015. The permit holder listed was Michael Doherty.

Medical Marijuana Renewal Application – 2015/2016

Community Health Solution filed Medical Marijuana Dispensary Renewal Application to the City in April 2016. The applicant listed was Stephen Squaglia, the corporate name was *Community Health Solutions*, and the owners listed included Stephen Squaglia, Michael Doherty, and Rachel Bardis.

The City issued a dispensary permit to *Community Health Solutions* in May 2016 and May 2017. The permit holders listed included Stephen Squaglia, Rachel Bardis, and Michael Doherty.

Medical Marijuana Renewal Application – 2018

Community Health Solution filed Medical Marijuana Dispensary Renewal Application to the City in April 2018. The applicant listed was Stephen Squaglia, the name was *Community Health Solutions*, and the owners listed included Stephen Squaglia, Michael Doherty, and Rachel Bardis.

The City issued dispensary permits to *Community Health Solutions* in May 2016 and May 2017. The permit holders listed included Stephen Squaglia, Rachel Bardis, and Michael Doherty.

In January 2019, *Community Health Solutions* filed Cannabis Business Permit Name, Ownership and Management Change Form. The company sought to do business under the name NUG.

Delta Health & Wellness

The City of Sacramento issued a Business Operations Tax Certificate to a dispensary called *Delta Health & Wellness* in April 2009. The owner listed on the tax certificate was Joel W. Marshall and the location was 4124 Strathmore Way, North Highlands, CA.

In May 2009, the company filed an application for a new Business Operations Tax Certificate. The business name on the application was *Delta Health & Wellness* and the primary owner was listed as Joel W. Marshall. The address of the dispensary was listed as 4124 Strathmore Way, North Highlands, CA.

The same day in May 2009, a Business Tax Inquiry was filed by *Cal Cann Center & Delta Health and Wellness*. The address listed on the inquiry as 2418 17th St., Sacramento, CA. The City issued another Business Operations Tax Certificate to *Delta Health and Wellness* in June 2009. The owner listed on the certificate was Joel W. Marshall. The address listed was 4124 Strathmore Way, Sacramento, CA.

Meanwhile, an entity called *Cal Cann Center, Inc.* (C3214005) filed Articles of Incorporation as a Nonprofit Mutual Benefit Corporation with the California Secretary of State in June 2009. *Cann Center, Inc.* (C3214005) filed a Restated Articles of Incorporation in July 2009 changing the entity from a nonprofit mutual benefit corporation to a general stock corporation.

Medical Marijuana Dispensary Registration

Delta Health & Wellness filed a Medical Marijuana Dispensary Registration to the City in August 2009. The owner of the dispensary listed on the application was *Cal Cann Centers, Inc.* (Daniel Senna). The address listed on the registration was 1219 C Street. The City sent a letter in September 2009 to notify the *Delta Health & Wellness* that the registration of the medical cannabis dispensary was complete. The letter was addressed to *Cal Cann Center, Inc., Delta Health & Wellness*.

Meanwhile, in February 2010, *Delta Health & Wellness, Inc.* (C3271987) filed articles of Incorporation with California Secretary of State as a general stock corporation. The incorporator of the company was J.W. Marshall.

The City issued a new Business Operations Tax Certificate in April 2010 to *Cal Cann Center Inc. & Delta Health and Wellness*. The owner listed on the certificate was Dan Senna and the address was 2418 17th Street.

In December 2010, *Cal Cann Center, Inc.* filed Statement of Information with California Secretary of State that listed officers and members of the board of directors. The officers listed included Sam Latino, chief executive officer; Dan Senna, secretary and chief financial officer.

The City's Revenue Manager sent an email to Sam Latino explaining the City's registration process:

Should the City receive a phase 1 application or applications for Cal Cann Center, Inc, Delta Health and Wellness or any combination thereof, we will tie it back to the original dispensary registration documents.

The documentation submitted will be used to determine if the applicant can process to phase 2.

My statements of requiring all three signatures for changing dispensary information (ownership location, name) were for the registration information. This does not necessarily apply to the phase one application.

The company filed its application shortly thereafter.

Medical Marijuana Application – Phase 1

In February 2011, *Delta Health & Wellness* filed Medical Marijuana Dispensary Application – Phase 1 to the City. The applicants listed on the application include Donavan Moulton on behalf of *Delta Health and Wellness, Inc.*; and Daniel Senna on behalf of *Cal Cann Centers, Inc.*

Meanwhile, one of the officers for *Cal Cann Center, Inc.*, Sam Latino, protested the Phase 1 application.

The City's Revenue Manager sent a letter to *Delta Health and Wellness* explaining the City's process for reviewing the applications. The letter stated: "City Code 5.150.030.C requires the same owner(s) or principal(s) named on the registration as of July 27, 2010. I have been processing phase one applications and tying ownership to at least one owner or principal to the registration. Daniel Senna is listed as a co-applicant on the phase 1 application. Consequently, the phase one application for Delta Health and Wellness meets the ownership requirements of section 5.150.030.C."

The City sent a letter to award approval of the Phase 1 application to *Delta Health & Wellness*, Daniel Senna, in July 2011.

Medical Marijuana Application – Phase 2 – Original

Delta Health and Wellness filed a Medical Marijuana Dispensary Application – Phase 2 to the City in October 2011. The dispensary name on the application was *Delta Health and Wellness dba Trinity Health Collective*. The applicant listed was Daniel Senna. The application included two additional owners of the dispensary, Hung Nguyen and Dang Marquez.

In September 2012, nearly a year after the application was filed, management of *Delta Health and Wellness* sent a letter to the City announcing that ownership of the dispensary changed. The letter stated: "This letter is to inform you that Delta Health and Wellness has changed owners. In doing so it is necessary that the owner name on the City of Sacramento Monthly Operations Tax Certificate is changed. Currently the owner is listed as Dan Senna. This will need to be changed to Hung Nguyen."

Delta Health & Wellness, Inc. filed Restated Articles of Incorporation with the Secretary of State to organize under Nonprofit Mutual Benefit Law. The signatories of the filing included Hung Nguyen, president; and Coty Conner, secretary.

Medical Marijuana Application – Phase 2 – Updated

Delta Health and Wellness filed Medical Marijuana Dispensary Application – Phase 2 in March 2014. The applicant listed was Hung Nguyen. The owners listed on the application included Hung Nguyen, chief executive officer and owner; Troy J Morris, chief financial officer; and Coty Conner, secretary.

The City issued a dispensary permit to *Delta Health and Wellness* in April 2015. The permit holder listed is the new owner, Hung Nguyen.

In February 2016, *Delta Health & Wellness, Inc.* (C3271987) filed Statement of Information to the Secretary of State listing updated officers and directors. These officers included Hung Tan Nguyen, chief executive officer; Coty Conner, secretary; and Diem Thi Quinlan, chief financial officer.

Medical Marijuana Application – Renewal Application - 2016

Delta Health and Wellness filed a Medical Marijuana Dispensary Renewal Application to the City in March 2016. The applicant listed was Hung Nguyen. The City issued a Dispensary Permits to *Delta Health and Wellness* in April 2016, April 2017, and April 2018. The permit holders listed included Hung Nguyen, Diem Quinlan, and Coty Connor.

Medical Marijuana Application – Renewal Application - 2018

Delta Health and Wellness filed a Medical Marijuana Dispensary Renewal Application to the City in March 2018. The applicant listed was Hung Nguyen, chief executive officer. The owners listed on the application include Diem Quinlan, chief financial officer; and Toan Chu, secretary.

The City issued a Dispensary Permit to *Delta Health and Wellness* in April 2019. permit holders listed include Hung Nguyen, Diem Quinlan, and Toan Chu.

Nonprofit Mutual Benefit Corporation to General Stock Corporation

In February 2020, *Delta Health & Wellness* filed restated articles of incorporation with the Secretary of State to organize the corporation under the General Corporation Law of California. The corporation also authorized the sale of 10,000,000 shares of stock.

Doctor's Orders

In January 2005 the California State Board of Equalization issued a Seller's Permit to the cannabis dispensary *Doctor's Orders*. The owner listed on the permit was "Nathan Jan Horak, et al."

Doctor's Orders (C2714568) filed Articles of Incorporation as a Nonprofit Public Benefit Corporation with the California Secretary of State also in January 2005. The director of the company was Nathan Horak. *Doctor Order's* filed a Statement of Information with the California Secretary of State listing officials and directors in December 2006. The officers listed include Nathan Horak, chief executive officer, secretary, and director; and Paula Horak, chief financial officer and director.

In October 2008 *Doctor's Orders* filed a Statement of Information with the California Secretary of State updating the officials and directors. The officers listed include Nathan Horak, chief executive officer, secretary, and director; and Paula Horak, chief financial officer and director.

Medical Marijuana Dispensary Registration

In July 2009, *Doctors Orders, Incorporated* submitted a Medical Marijuana Dispensary Registration to the City. The owner listed on the filing was Nathan J. Horak. The City sent a letter in September 2009 to notify Nathan Horak that *Doctor's Orders* was registered.

Meanwhile, a new business entity called *Doctor's Orders Cooperative, Incorporated* (C3230553) filed Articles of Incorporation for a Nonprofit Mutual Benefit Corporation in September 2009. Nathan Horak signed the articles as the company's president.

Days after the corporation was created, *Doctor's Orders Cooperative, Inc.* (C3230553) filed Statement of Information listing a new slate of officers and directors. The sole officer listed was Ralph T. Bailey as chief executive office, secretary, chief financial officer, and director.

In January 2011, Ralph T. Bailey sent a letter to the revenue manager listing new officers and owners. *Doctor's Orders Cooperative, Inc.* also filed a Statement of Information listing Ralph T. Bailey as chief executive office, secretary, and chief financial officer.

Medical Marijuana Dispensary Application – Phase 1

Doctor's Orders Cooperative, Inc. filed a Medical Marijuana Dispensary Application – Phase 1 to the City in January 2011. The applicant listed was *Doctor's Orders Cooperative, Inc. or D.O.C., Inc.* The co-applicant listed is Ralph Thomas Bailey Jr. The managers listed on the application include Ralph T. Bailey as chief executive officer, and Paula Horak as general manager.

In March 2011, the revenue manager sent a letter to Ralph Bailey recognizing the dispensary approved the Phase 1 application process.

Medical Marijuana Dispensary Application – Phase 2 – Original

Doctor's Orders Cooperative, Inc. filed a Medical Marijuana Dispensary Application – Phase 2 to the City in October 2011. The applicant listed was Ralph Bailey.

Medical Marijuana Dispensary Application – Phase 2 – Update

Doctor's Orders Co-Op filed a Medical Marijuana Dispensary Application – Phase 2 to the City in March 2014. The applicant and owner listed was Ralph Bailey. The application listed included Ralph Bailey as sole director. Managers listed were Ralph Bailey and Elizar Amavizca.

Doc's Cooperative, Inc. submitted several filings to the Secretary of State between March 2014 and May 2014 that listed Ralph T. Bailey as holding several different positions including president, chief executive officer, secretary, chief financial officer, and director. No other individuals were listed as holding an office.

The City issued a dispensary permit to *Doctors Orders* in May 2015. The permit holder listed was Ralph Bailey.

Medical Marijuana Dispensary Application – Renewal

Doc's Cooperative, Inc. filed a Medical Marijuana Dispensary Renewal Application to the City in March 2016. The owner listed on the renewal application was Ralph Bailey. Managers listed on the application include Elizar Amavizca and Monique Sterni.

The City issued a dispensary permit to *Doctors Orders* in May 2016. The permit holder listed was Ralph Bailey.

Meanwhile, *Doctor's Orders* provided documents to the City for 2014, 2015 and 2016 indicating that Ralph T. Bailey was the owner of the company.

In August 2016, *Doc's Cooperative* filed a Statement of Information with the Secretary of State listing new corporate officials. The August 2016 filing indicated that Joe Karapetyan was the chief executive officer, secretary, and chief financial officer of the corporation.

In April 2017, *Doc's Cooperative* filed a new Statement of Information with the Secretary of State indicating another complete turnover in corporate officials. The April 2017 filing indicated that Ralph Bailey was the chief executive officer, secretary, and chief financial officer of the corporation.

The City issued a new dispensary permit to *Doctor's Orders* in May 2017. The permit holder listed was Ralph Bailey.

The board of directors of *Doctor's Orders* held a meeting in June 2017 and made changes to the corporation's officials and board members. At the meeting, Ralph Bailey, the sole member of the board of directors voted to elect both Joe Karapetyan and Garib Karapetyan to the board of directors. Bailey also maintained the role of secretary and appointed Joe Karapetyan as chief executive officer and Garib Karapetyan as chief financial officer.

Amended Dispensary Form – 2017

In December 2017, *Doctor's Orders* submitted an Amended Dispensary Contact Information form to the City. The form listed the following owners: Ralph Bailey, Joe Karapetyan, and Garib Karapetyan.

The City issued a dispensary permit modification to *Doctor's Orders* in January 2018. The permit holder listed was Ralph Bailey.

Meanwhile, the board of directors of *Doctor's Orders* made a series of changes to corporate officials and directors. According to the meeting minutes that *Doctor's Orders* provided to the City, "Ralph Bailey, a Director of the Corporation, intends to resign from the Board, as well as any future affiliation with the Corporation." In addition, "The remaining Directors of the Board, Joe Karapetyan and Garib Karapetyan shall continue as Directors of the Corporation and no additional director shall be elected."

Cannabis Dispensary Application – 2018

Doc's Cooperative, Inc. filed a Cannabis Dispensary Application seeking a new permit for 2018. The applicant listed on the permit was Joe Karapetyan. The owners listed included Joe Karapetyan and Ralph Bailey.

The City issued a dispensary permit to *Doctor's Orders* in May 2018. The permit holders listed included Joe Karapetyan and Garib Karapetyan.

In July 2018, *Doc's Cooperative, Inc.* filed Cannabis Business Permit Name, Ownership and Management Change Form to the City. The form stated that Ralph Bailey is relinquishing his ownership in the company. The form also listed the two new owners and their ownership share. The new owners included Joe Karapetyan and Garib Karapetyan, each holding a 50 percent share.

Doc's Cooperative, Inc. filed a Statement of Information with the Secretary of State to update the corporation's officials. The following corporate officers were listed: Joe Karapetyan, chief executive officer and secretary; and Garib Karapetyan, chief financial officer.

Dispensary Changes from Nonprofit Mutual Benefit to General Stock Corporation

In October 2018, *Doc's Cooperative, Inc.* filed a Restated Articles of Incorporation – Nonprofit Mutual Benefit Corporation to General Stock Corporation and renamed the company *Doc's, Inc.* (C3230553). The corporation is authorized to issue 10,000,000 shares.

Doc's, Inc. filed a Statement of Information with the Secretary of State to update corporate officers. The corporation listed the following officers: Joe Karapetyan, chief executive officer, director; and Garib Karapetyan, secretary, chief financial officer, and director.

The City issued a dispensary permit to *Doctor's Orders* in May 2019. The permit holders listed on the permit included Joe Karapetyan and Garib Karapetyan.

Florin Wellness Center Inc.

In November 2008, a new company called *Florin Wellness Center, Inc.* (C3168625) filed Articles of Incorporation with California Secretary of State.

The City awarded *Florin Wellness Center, Inc.* a Business Operations Tax Certificate in December 2008. The owner of the dispensary listed on the tax certificate was Grach Serobyan.

Medical Marijuana Dispensary Registration

In order to comply with the City's new medical cannabis regulatory environment, *Florin Wellness Center, Inc.* filed Medical Marijuana Dispensary Registration with City in July 2009. The owner listed on the registration was Grach Greg Serobyan. The City confirmed the dispensary registration in a September 2009 letter to Grach Serbyan, Florin Wellness Center Inc. The City issued *Florin Wellness Center, Inc.* an updated tax certificate in October 2010. The owner listed on the certificate was Grach Serobyan.

Florin Wellness Center filed amended Articles of Incorporation with the Secretary of State to register the entity as a Nonprofit Mutual Benefit Corporation.

Medical Marijuana Application – Phase 1

Florin Wellness Center filed Medical Marijuana Dispensary Application – Phase 1 to the City in January 2011. The applicant listed was Grach Serobyan. The managers listed at the dispensary included Grach Serobyan, chief executive officer; Anna Badalyan, secretary; Eric Solomon, chief operating officer; and Hayk Seropyan, chief financial officer.

Medical Marijuana Application – Phase 2 – Original

Florin Wellness Center filed Medical Marijuana Dispensary Application – Phase 2 to the City in October 2011. The applicant listed was Grach “Greg” Serobyan.

In September 2013, *Florin Wellness Center, Inc.* filed a Statement of Information with the Secretary of State to provide an update on corporate officers and directors. In the filing, Grach Serobyan was listed as chief executive officer, secretary, and chief financial officer.

Medical Marijuana Application – Phase 2 – Updated

In March 2014, *Florin Wellness Center* filed Medical Marijuana Dispensary Application – Phase 2 with the City. The applicant listed was Grach Serobyan. The owner listed on the application was Grach Serobyan and the sole manager was Gayk Serobyan.

The City issued a dispensary permit to the *Florin Wellness Center* in April 2015. The permit holder listed on the document is Grach Serobyan.

Medical Marijuana Renewal Application – 2016

Florin Wellness Center filed Medical Marijuana Dispensary Renewal Application to the City in March 2016. The applicant and owner listed were Greg Serobyan. The City issued a dispensary permit to the *Florin Wellness Center* in April 2016. The permit holder listed on the document is Grach Serobyan.

In July 2016, *Florin Wellness Center, Incorporated* (C3168625), filed with the Secretary of State and changed the name of the corporation to *Sacramento Commercial Services, Inc.* Grach Serobyan was listed as president and secretary on the amended articles.

The City issued a dispensary permit to the *Florin Wellness Center* in April 2017. The permit holder listed on the document is Grach Serobyan.

Medical Marijuana Renewal Application – 2017

Sacramento Commercial Services (dba *Florin Wellness Center*) filed Cannabis Dispensary Permit Modification in December 2017. The applicant and owner listed on the application was Greg Serobyan. The managers listed on the application include Bobby Inthavongxay and Eric Thomas.

Medical Marijuana Renewal Application – 2018

Sacramento Commercial Services (dba *Florin Wellness Center*) filed Cannabis Dispensary Permit Renewal Application in March 2018. The applicant and owner listed was Greg Serobyan.

On April 15, 2018, the City issued a dispensary permit to *Florin Wellness Center*. The permit holder listed was Grach Serobyan.

The City also issued a second dispensary permit to *Florin Wellness Center* on the same day. The permit holders listed on the new document included Grach Serobyan, Gayk Serobyan, and George Kadzhikyan. This is the first document that includes the names Gayk Serobyan and George Kadzhikyan.

About four months after the permit was issued, *Sacramento Commercial Services, Inc.* submitted a Cannabis Permit Name, Ownership and Management Change Form to the City in July 2018. The form included a change in ownership for the company. The application listed the following owners and ownership percentage.

Figure 30: *New Ownership of Sacramento Commercial Services, Inc.*

Name	Ownership
Grach Serobyan	34%
Gayk Serobyan	33%
George Kadzhikyan	33%

Source: OCA created based on document provided by Office of Cannabis Management

In October 2018, *Sacramento Commercial Services, Inc.* filed Restated Articles of Incorporation to turn the company from a Nonprofit Mutual Benefit Corporation to a General Stock Corporation. The filing authorized the corporation to issued up to 10,000,000 shares. *Sacramento Commercial Services, Inc.* also updated information with the Secretary of State concerning officers and directors.

In November 2018 the company filed a Statement of Information with the Secretary of State listing the following officials and directors: Grach Serobyan, chief executive officer and director; Gevorg Kadzhikyan, secretary and director; and Gayk Serobyan, chief financial officer and director.

The City issued a dispensary permit to the *Florin Wellness Center* dispensary in April 2019. The permit holders included Grach Serobyan, Gayk Serobyan, and George Kadzhikyan.

Golden Health and Wellness Collective

The dispensary *J St. Wellness Collective* was issued a Seller's Permit from the California State Board of Equalization in June 2009. The owner of the dispensary listed on the permit was Ronald Eugene Mullins, Jr.

Shortly after receiving the permit, *J Street Wellness* (C3222255) filed Articles of Incorporation with the secretary of State as a Nonprofit Mutual Benefit Corporation in August 2009. The agent for service of process listed in the articles was Ronald Mullins.

J Street Wellness provided the City minutes of the First Board of Directors Meeting of the corporation. According to the minutes, Ron Mullins was appointed to secretary and director; Diem Quinlan was appointed chief executive officer and director, and Dang Marquez was appointed treasurer and director. Notably, we could not locate documents filed with the Secretary of State to memorialize these appointments.

Medical Marijuana Dispensary Registration

J Street Wellness Collective filed a Medical Marijuana Dispensary Registration with the City in August 2009. The owner listed on the application was Ronald E. Mullins. The City notified the registration was complete in a September 2009 letter to Ronald Mullins, *J Street Wellness Collective*.

In January 2010, the State Board of Equalization issued a new Seller's Permit to *J St. Wellness Collective*. The owner listed on the permit was Ronald Eugene Mullins, Jr.

Medical Marijuana Application – Phase 1

J St. Wellness submitted Medical Marijuana Dispensary Application – Phase 1 to the City in February 2011. There was no applicant listed on the application. The managers listed included Ronald E Mullins, Jr., secretary; Diem Thi Plan Quinlan, chief executive officer; and Dang Marquez, chief financial officer.

In January 2013, *J Street Wellness* filed a Certificate of Amendment with the Secretary of State to change the corporate name to *Golden Health & Wellness* (C3222255).

Golden Health & Wellness filed a Statement of Information with the Secretary of State in September 2013 to update the corporation officers and directors. The officers listed included Duy Thi Phan, chief executive officer; Man Troung, secretary; and Troy Morris, chief financial officer.

The next month, in October 2013, the board of directors of *Golden Health and Wellness* appointed new management officers. According to meeting minutes, Man Troung and Troy Morris resigned their positions. In addition, new officer Armen Daniyelyan was appointed chief executive officer.

Medical Marijuana Application – Phase 2

Golden State Health and Wellness submitted a Medical Marijuana Dispensary Application – Phase 2 in March 2014. The applicants and owners listed was Armen Daniyelyan and Dui Thi Phan.

Just five months after submitting the application *Golden Health & Wellness* filed Statement of Information with the Secretary of State in August 2014 and reported that Armen Daniyelyan was the sole corporate officer remaining at the corporation.

The City issued a dispensary permit to *Golden Health & Wellness* in April 2015. The permit holder listed was Armen Daniyelan.

In December 2015, the board of directors of *Golden Health & Wellness* held a meeting to make changes to corporate officers. The board appointed Ben Atkins as chief executive officer and chief financial officer; and appointed Hayk Serobyan as chief operating officer and secretary. The meeting minutes stated, "Armen Daniyelyan, a Member of the corporation and one of its Directors, intended to resign from the Board, as well as any future affiliation with the Corporation." The minutes further stated that Daniyelyan would stay on the board for a short period longer. The minutes stated:

Figure 31: Minutes *Golden Health and Wellness* Needed Director to Remain on Board

The remaining Directors of the Board discussed the intent of Armen Daniyelyan to resign his position as Director, but that it was necessary to stay a Director until such time as the dispensary license issued March 25, 2015 achieved one year's maturity. On motion duly made, seconded and vote taken achieving unanimous vote, it is:

RESOLVED, that upon adjournment of this special meeting, Armen Daniyelyan's resignation from the Board of Directors shall become effective on March 25, 2016 and the remaining Directors, shall serve until the next election of Directors to the Board at the annual meeting or until such time as the Directors shall determine otherwise.

Source: Documents provided by Office of Cannabis Management

The board also appointed new members to the board of directors including Ben Atkins, Jordan Atkins and Hayk Serobyan.

Medical Marijuana Renewal Application – 2016

Golden Health & Wellness filed Medical Marijuana Dispensary Renewal Application to the City on March 21, 2016. The applicant listed was Benjamin Atkins. The owners listed on the application included Benjamin Atkins, Jordan Atkins, and Hayk Serobyan.

The City issued a dispensary permit to *Golden Health & Wellness* on April 25, 2016. The permit holder listed on the permit was Hayk Serobyan.

In June 2016, the City issued a modified dispensary permit to *Golden Health & Wellness*. The permit holders listed expanded to include Hayk Serobyan, Benjamin Atkins, and Jordan Atkins.

In January 2017 two of the members *Golden Health and Wellness* decided to resign their position as member of the board of directors, according to documents submitted to the City by the dispensary. Specifically, the document stated:

Figure 32: *Golden Health and Wellness* Directors Resign Positions

Director Hayk Serobyan and Directors Ben and Jordan Atkins acknowledge and mutually agree that whilst attempting to work together in the development and expansion of Golden Health & Wellness, Inc., the management relationship has not worked as the Directors hoped and all Directors have determined that continuing to serve as directors collectively was detrimental to operations and generally not in the best interest of the Company. The Directors agreed that Director Hayk Serobyan should continue to serve as the sole Director of the Corporation until such time as new directors may be elected.

Source: Documents provided by the Office of Cannabis Management.

After the two members of the board directors decided that “the management relationship has not worked” and left the corporation, Hayk Serobyan was appointed the sole director of the corporation.

Cannabis Dispensary Permit Application – 2017

Golden Health & Wellness filed a Medical Marijuana Dispensary Renewal Application to the City in March 2017. The applicant and owner listed on the dispensary was Gayk Serobyan.

Later that month, *Golden Health & Wellness* filed a Statement of Information with the Secretary of State updating corporate officers. In the filing, Gayk Serobyan was listed as the chief executive officer, secretary, and chief financial officer.

Cannabis Dispensary Permit Application – 2018

In March 2018, *Golden Health & Wellness* filed a Cannabis Dispensary Permit Application – Renewal to the City. The applicant and owner listed in the application was Gayk Serobyan. The managers listed in the application included Trevor Mitzel and Shannon Kearns.

The City issued a dispensary permit to *Golden Health and Wellness* on April 25, 2018. The permit holders listed on the document included Greg Serobyan, Joe Karapetyan, Gayk Serobyan, and Garib Karapetyan.

According to documents provided to the City, *Golden Health and Wellness* held a special meeting of the board of directors on May 1, 2018, during which the Board made major changes to the composition of the board and corporate officials.

Figure 33: Golden Health and Wellness Appoints New Directors

Director Gayk Serobyany, being the sole Director of the Corporation following (i) the resignation of Armen Daniyelyan as a Director effective as of March 25, 2016 pursuant to the Minutes of a Special Meeting of the Board of Directors dated as of December 15, 2015 and (ii) the resignation of Ben Atkins and Jordan Atkins as Directors pursuant to a Unanimous Written Consent executed as of February 14, 2017, desires to:

- (a) fix the number of Directors of the Corporation at five in accordance with Article V, Section B of the Bylaws until such time as the number of Directors shall be revised and established pursuant to the Bylaws,
- (b) appoint Gevorg Kadzhikyan to serve as a Director of the Corporation for such time and in such a manner as provided in accordance with the Bylaws,
- (c) appoint Grach Serobyany to serve as a Director of the Corporation for such time and in such a manner as provided in accordance with the Bylaws,
- (d) appoint Joe Karapetyan to serve as a Director of the Corporation for such time and in such a manner as provided in accordance with the Bylaws, and
- (e) appoint Garib Karapetyan to serve as a Director of the Corporation for such time and in such a manner as provided in accordance with the Bylaws.

Source: City of Sacramento – Office of Cannabis Management

Meanwhile, *Golden Health & Wellness* filed a Cannabis Business Permit Name, Ownership and Management Change Form to the City in July 2018. In the filing, the new owners and ownership percentage were listed:

Figure 34: New Ownership of *Golden Health & Wellness*

Name	Ownership Percentage
Greg Serobyany	16.67%
Joe Karapetyan	25%
Gayk Serobyany	16.67%
Garib Karapetyan	25%
Gevorg Kadzhikyan	16.66%

Source: OCA created based on document provided by Office of Cannabis Management

The next month, *Golden Health & Wellness* filed Fictitious Business Statement with the County of San Diego. The company applied to operate under the name *Kolas*. The applicant on the filing was Hayk Serobyany.

Nonprofit Mutual Benefit Corporation to General Stock Corporation

Golden Health & Wellness filed Restated Articles of Incorporation Nonprofit Mutual Benefit Corporation to General Stock Corporation with the Secretary of State in October 2018. The corporation filed for authorization to issue 10,000,000 shares of stock. The corporate officials listed on the filing included Gayk Serobyan, president, and Grach Serobyan, secretary.

The City issued a dispensary permit to *Golden Health and Wellness (dba Kolas)* in April 2019. The permit holders listed on the document included Greg Serobyan, Joe Karapetyan, Gayk Serobyan, Garib Karapetyan, and Gevorg Kadzhikyan.

Green Solutions

A new called *H.A.R.T.P.* (2723303) filed Articles of Incorporation for a Nonprofit Public Benefit Corporation in March 2015. The incorporator listed on the filing was Justin Flanery.

H.A.R.T.P. filed Fictitious Business Name Statement with the County of Sacramento to operate under the name *Green Solutions* in August 2008. The business owner listed was *H.A.R.T.P.* and the address was 3318 Broadway, Sacramento, CA.

The City issued a Business Operations Tax Certificate to a medical cannabis dispensary called *Roseville Gold* in April 2009. The owner listed on the certificate was Justin S. Flanery and the address was 1404 28th St., Sacramento, CA.

Medical Marijuana Dispensary Registration

Roseville Gold submitted Medical Marijuana Dispensary Registration to the City in August 2009. The owner listed on the application was Justin Flannery and the address was 1046 28th Street, Sacramento.

The City issued a new Business Operations Tax Certificate to a medical cannabis dispensary called *Green Solution* in July 2010. The owner listed was *H.A.R.T.P.* and the address was 1404 28th Street, Sacramento. Notably, this is the same address used for the registration of *Roseville Gold*.

Meanwhile, a new corporation called *G.S.H.L.E., Inc.* (C3314501) filed Articles of Incorporation with the Secretary of State in August 2010. The incorporator listed on the filing was Justin Flanery.

Medical Marijuana Application – Phase 1

In February 2011, *Green Solutions* filed a Medical Marijuana Dispensary Application – Phase 1 to the City. The address listed on the application was 1404 28th Street, Sacramento, CA. The applicant listed was Justin Flanery.

Meanwhile, *H.A.R.T.P.* filed a Statement of Information with the Secretary of State. The corporate officers listed in the filing included Justin Flanery, chief executive officer and chief financial officer, and Carol Flanery, secretary.

Medical Marijuana Application – Phase 2 – Original

Green Solutions filed a Medical Marijuana Dispensary Application – Phase 2 application to the City in October 2011. The applicant listed was Justin Flanery and the address was 1404 28th Street, Sacramento, CA.

The corporation *G.S.H.L.E., Inc.* (C3314501) filed Statement of Information with the Secretary of State in October 2011. The corporate officers listed in the filing included Justin Flanery, chief executive officer and chief financial officer, and Carol Flanery as secretary. The street address of the corporation was 1404 ½ 28th Street, CA.

The City issued a Business Operations Tax Certificate to *Green Solutions* in December 2012. The owner listed on the certificate was *G.S.H.L.E.* and the address listed was 1404 28th Street, Sacramento, CA.

Meanwhile, the corporation *H.A.R.T.P.* (2723303) filed Statement of Information with the Secretary of State in December 2012. The officer listed on the statement included Justin Flanery, chief executive officer, secretary, and chief financial officer. The address listed was 1404 28th St., Sacramento, CA.

Medical Marijuana Application – Phase 2 – Updated

Green Solutions filed Medical Marijuana Dispensary Application – Phase 2 to the city in March 2014. The applicants listed on the filing included Justin Flanery (*G.S.H.L.E., Inc.*) and Carol Flanery. The address listed was 1404 28th Street, CA.

In March 2015, the City issued a dispensary permit to *Green Solution*. The permit holder listed was Justin Flanery and the address was 1404 28th St., Sacramento, CA.

Medical Marijuana Renewal Application – 2016

Green Solutions filed Medical Marijuana Dispensary Renewal Application to the City in April 2016. The applicants listed were *G.S.H.L.E., Inc.* and Justin Flanery. The owner listed on the application was Justin Flanery and the address was 1404 28th St., Sacramento, CA. The directors listed included Justin Flanery, chief executive officer and chief financial officer, and Carol Flanery, secretary.

G.S.H.L.E., Inc. (C3314501) filed Statement of Information with the Secretary of State in April 2016. The principal office listed was 1404 ½ 28th St., Sacramento, CA. The officials listed included Justin Flanery, chief executive officer and chief financial officer, and Carol Flanery, secretary.

The City issued dispensary permits to *Green Solutions* in May 2016 and 2017. The permit holder listed was Justin Flanery and the address listed was 1404 28th St., Sacramento, CA.

Green Solutions filed a Cannabis Dispensary Permit Application – Modification to the City in January 2018. The applicant was Justin Flanery and the owners listed included Justin Flanery, chief executive officer, and Carol Flanery, secretary. The City issued a modified permit in February 2018. The permit holder listed was Justin Flanery and the address was 1404 28th St., Sacramento, CA.

Cannabis Dispensary Permit Application – 2018

Green Solutions filed Cannabis Dispensary Permit Application to the City in April 2018. The applicant name was Forrest Heise, operations director, and the owner was Justin Flanery, chief executive officer. The address listed on the application was 1404 28th St., Sacramento, CA.

G.S.H.L.E., Inc. filed Statement of Information with the Secretary of State in June 2019. The officials listed on the filing included Justin Flanery, chief executive officer and chief financial officer, and Carol Flanery, secretary.

Greenstone Biomass

In June 2009, *River City Cooperative Corporation* (C3214947) filed Articles of Incorporation with California Secretary of State. The incorporator listed on the filing was Lino Catabran. That same month, the California State Board of Equalization issued a Seller's Permit to *River City Medical Center, River City Cooperative, Inc.*

Medical Marijuana Dispensary Registration

River City Cooperative Corporation filed a Medical Marijuana Dispensary Registration to the City in July 2009. The owner listed on the application was *River City Cooperative Corporation*. The City issued a letter in September 2009 confirming registration of a dispensary to *River City Cooperative Corp; River City Cooperative Corporation*.

The City issued a Business Operations Tax Certificate issued to *River City Cooperative Corporation* in September 2010. The business name listed on the certificate was *River City Cooperative Corporation*. The owner listed was *River City Cooperative Corporation*.

Medical Marijuana Application – Phase 1

River City Cooperative Inc. filed a Medical Marijuana Dispensary Application-Phase 1 to the City in February 2011. The dispensary name listed in the application was *River City Cooperative Inc. dba One Love Wellness Center*. Linda Catabran was listed in the applicant and the sole officer, director, and shareholder. The managers listed in the application included Linda Catabran, James Howard Wheeler II, and Ryan Pierre Chua.

River City Cooperative Inc. (C3214947) filed Statement of Information with Secretary of State in June 2011 to update corporate officials. Linda Catabran was listed as the corporation's chief executive officer, secretary, and chief financial officer.

Medical Marijuana Application – Phase 2 – Original

In October 2011, a dispensary called *One Love Wellness* filed a Medical Marijuana Dispensary Application – Phase 2 to the City. The applicant listed was Linda Catabran.

Meanwhile, *River City Cooperative Corporation's* board of directors held a meeting in September 2013 and made significant changes to the management and board. At the meeting, Linda Catabran appointed Michael Tomada as the executive director of the board of directors. Catabran also tendered her resignation as executive director, president, chief financial officer, and secretary of the corporation. Finally, the board agreed to enter a financial arrangement with Catabran. Details of the arrangement can be seen below:

Figure 35: River City Cooperative Board Meeting Minutes

The next item of business was a review, analysis, and discussion of a financial agreement to repay the prior capital contributions from Linda Catabran, and her compensation for her future limited participation on the Board of Directors as well as her future assistance and cooperation with the Corporation in the application process for the previously submitted medical cannabis dispensary operating permit from the City of Sacramento.

The Board of Directors reviewed the financial agreement. Payment to Linda Catabran for prior capital contributions and compensation for future limited participation was unanimously approved in the amount of \$50,000.00. Michael Tomada the Executive Director of the Corporation agreed to advance the Corporation \$50,000 to compensate Linda Catabran for such prior capital contributions and advance compensation. Michael Tomada received a signed promissory note evidencing the loan to the Corporation. Additionally the Board of Directors agreed to repay the outstanding taxes due to the State of California Board of Equalization in the amount of approximately ~~\$13,000.00~~ ^{\$9,000.00}. Additionally the Board of Directors agreed to repay the outstanding taxes due to the City of Sacramento in the amount of approximately \$ 5,000.00.

Source: Documentation provided by the Office of Cannabis Management

The board agreed to pay Catabran \$50,000 for her past capital contributions and her future role on the board.

Medical Marijuana Application – Phase 2 - Update

In March 2014, *One Love Wellness* filed an updated Medical Marijuana Dispensary Application – Phase 2 with the City of Sacramento. The new dispensary name was *Greenstone*. The dispensary corporate name listed on the application was *River City Cooperative Corporation*. The applicants, owners, and managers listed included Mike Tomada and Linda Catabran.

Meanwhile, a new corporate entity called *Greenstone Biomass Research P.O.D* (C3665665) filed Articles of Incorporation for Nonprofit Mutual Benefit Corporation with Secretary of State in April 2014.

In October 2014, *Greenstone (River City Cooperative Corporation)* filed updated Phase 2 application that stated the dispensary will not change location and will remain at 1841 El Camino Ave., Sacramento, CA.

In May 2015, the City issued a dispensary permit to *Greenstone*. The permit holders listed on the permit included Mike Tomada and Linda Catabran.

In November 2015, an attorney representing *Greenstone* sent a letter to the City requesting that the application be changed from *River City Cooperative Corporation* (C3214947) and that all permitted activities be transfer to new applicant *Greenstone Biomass Research P.O.D.* (C3665665)

Figure 36: Request to Transfer Former and Future Applications to New Corporation

Re: Transfer of Phase 1, Phase 2, and CUP Applications to New Not for Profit Corporation

Mr. Wasson,

The Law Offices of Hallinan & Hallinan, PC currently represents the River City Cooperative Corporation. The Board of Directors of River City Cooperative Corporation (“RCCC”) has elected to transfer the Phase 1, Phase 2 and CUP for medical cannabis dispensary permit applications at 1841 El Camino Avenue. The new, Not for Profit Corporation that the applications are being transferred to is Greenstone Biomass Research P.O.D., 1841 El Camino Avenue, Sacramento, CA.

There is a continuity of the permit applicant, Linda Catabran in the two corporations in that the Board of Directors and Officers of the new corporation are identical to that of RCCC.

Source: Document provided by the Office of Cannabis Management

Meanwhile, *Greenstone Biomass Research P.O.D.* (C3665665) filed a Statement of Information with the Secretary of State in September 2015 to update corporate officials. In the filing, Mike Tomada was listed as the chief executive officer, secretary, and chief financial officer.

Dispensary Permit Ownership Dispute

In October 2015, *Greenstone Biomass Research P.O.D.*’s lawyer sent a letter to the revenue manager seeking to remove Linda Catabran from *Greenstone Biomass Research*’s Phase 2 Medical Cannabis Dispensary Permit. The letter stated: “Michael Tomada is the Executive Director, CEO and sole managing member of Greenstone. Linda Catabran has no authority to operate or execute agreements on behalf of Greenstone.” The letter also alleged that Lino and Linda Catabran were operating a dispensary called “1841”. The dispensary was located at 1841 El Camino Avenue which is the same address on the dispensary Phase 1 application.

In November 2015, the board of directors *Greenstone Biomass Research, P.O.D.* made substantial changes to the management. In a resolution, the board of directors found that Linda Catabran “breached her fiduciary and other duties to the Corporation and has, further, failed to attend three consecutive meetings.” The one remaining member of the board then removed Catabran from the board of directors. Finally, Michael Tomada, who was the only board member, was appointed by the board as the sole director of the corporation.

The City then sent a letter to Linda Catabran in November 2015 to provide notification that the *Greenstone* “has requested that the City of Sacramento modify the dispensary to remove Linda Catabran’s name from the permit.”

Linda Catabran’s attorney sent a letter to the City in December 2015 to appeal the City’s decision. The attorney specifically called out the transfer of the permitted activity between corporations. The letter stated:

Figure 37: Letter to City Outlining Dispute

In 2009, Ms. Catalbran founded a medical marijuana dispensary located at 1841 El Camino Boulevard that operated by RCCC under the name One Love Wellness. In June of 2009, the City of Sacramento (“City”) enacted a moratorium on medical marijuana dispensaries. In connection with that moratorium, the City asked existing medical marijuana facilities to register with the City. These registered dispensaries were allowed to continue operations. RCCC’s dispensary was properly and timely registered pursuant to Ordinance 2009-033 and City Code section 5.150.40. Ms. Catabran was the principal named on the dispensary’s registration as of July 27, 2010 as per City Code section 5.150.40C.

On May 22, 2015, the City issued a medical marijuana permit to “Greenstone” and Ms. Catabran. The permit does not mention Greenstone Biomass Research P.O.D., instead only referencing Ms. Catabran and “Greenstone”, the fictitious business name registered to RCCC. Notably, in the Phase II application submitted to the City, RCCC is expressly shown to be using Greenstone as RCCC’s fictitious name, stating “River City Cooperative Corporation – dba Greenstone.”

All of these facts were explained to Mr. Wasson prior to his inspection of the 1841 El Camino location in July, 2015 and his approval of the opening of the dispensary. Mr. Wasson was fully aware that the dispensary permit was issued to RCCC, the original applicant, and that Greenstone Biomass Research P.O.D. had no legal right to issuance of a permit. Nevertheless, Mr. Wasson has now informed the appellants that his department intends to “modify” the permit and “transfer” it to a different company, Greenstone Biomass Research P.O.D.

Source: City of Sacramento

The letter concluded that the City violated the City Code by permitting the transfer of the permit from *River City Cooperative Corporation* (C3214947) to *Greenstone Biomass Research P.O.D.* (C3665665).

Meanwhile, Catabran and Tomada then submitted competing filings with the Secretary of State seeking show respective control over the corporation. In December 2015, *River City Cooperative Corporation* (C3214947) filed an Amendment of Articles of Incorporation to change corporation name to *River City Community Cooperative*. Linda Catabran was named president and secretary of the corporation. Later, in January 2016, *River City Community Cooperative* (C3214947) filed Statement of Information with Secretary of State that listed Mike Tomada as chief executive officer, secretary, and chief financial officer of the corporation.

In a series of notes in the City’s file for *Greenstone*, City management noted in February 2016 that the City code changed to “allow for Board Member changes that do not constitute a change in ownership.” According to the note, the City “requested that Greenstone update their registration and did so with both Linda Catabran and Mike Tomada listed.” Notably, only Catabran was listed on the dispensary’s Registration filed in 2009.

Cannabis Dispensary Application – 2016

Greenstone submitted a Medical Marijuana Dispensary Renewal Application to the City in April 2016. The applicant and owner listed on the application was Michael Tomada. The Managers listed on the

application included Michael Tomada, Erin Sullivan, Grant Adams, Alex Aguilera, Sharon Furfrosi, and Joaquin Velasquez.

Days later, Linda Catabran sent an email to the City detailing that she has been locked out the dispensary by an individual named Erin Sullivan. Catabran alleged that Sullivan may be working with Michael Tomada. The email details the ownership dispute over the ownership of the permit. The email stated:

Figure 38: Linda Catabran Details Ownership Dispute Over Dispensary Permit

As you also know, Mr. Tomada and I dispute who is the permit holder. I have never given Mr. Tomada permission to remove me from the board of Greenstone, nor does he have any authority to act on my behalf in connection with the permit or the filing of renewal documentation. In fact, I disagree that Greenstone is the permit holder; the holder is myself and River City Cooperative. Please allow the dispute with Mr. Tomada and Erin Sullivan to be rectified through the ongoing civil litigation process.

Linda Catabran

Source: Documents provided by the Office of Cannabis Management

Meanwhile, *Greenstone Biomass Research P.O.D.* (C3665665) filed a Statement of Information with the Secretary of State in April 2016. According to the filing, Michael Tomada was the chief executive officer, secretary, and chief financial officer for the corporation.

Media Story Alleging Violation of City Code Prohibiting Permit Transfer from Catabran to Tomada

In May 2016, a local media outlet reported that corporate filings on record with the California Secretary of State show the dispensary permit had been transferred from Linda Catabran to Mike Tomada in violation of the City Code. Specifically, the story stated:

Figure 39: Fox News Media Report Alleging Transfer of Permit

The law says a dispensary can't transfer ownership, management control or it's permit to another person. So, in 2014, the Sacramento City Council allowed this dispensary to reopen under the original owner, Linda Catabran. But in January of 2016, the CEO, CFO and secretary of the dispensary were all listed under a separate name: Mike Tomada.

Source: Fox News

In a response to the story, a City official stated the change in the corporate records reflects a change in the ownership. City management also provided an explanation of the outcome. The email stated:

Figure 40: City Description of Permitting for Dispensary

May 2016: Two applications came in for the same site on El Camino. One from Tomada and one from Catabran. Only one application was complete and was granted to Mike Tomada.

Source: Documents provided by Office of Cannabis Management

The City issued a dispensary permit to *Greenstone* in May 2016. The permit holder listed on the permit is Mike Tomada and the address of the dispensary is 1841 El Camino Avenue, Sacramento, CA. Shortly after the permit was issued, *River City Community Cooperative* (C3214947) filed Certificate of Dissolution and a Certificate of Election to Wind Up and Dissolve with Secretary of State in October 2016. The dissolution form was signed by Mike Tomada as director of the corporation.

The City issued a new dispensary permit to *Greenstone* in May 2017. The permit holder listed on the permit was Mike Tomada.

Reporter Keeps Asking Questions

The news reporter sent additional questions to the City concerning the changes. The reporter asked, “Specifically, I’d like to know why the change in ‘ownership’ of 1841 El Camino was permitted before the law regarding changes in ownership was updated.”

The City replied to the reporter in a letter in July 2016. The letter states that no ownership change occurred because the dispensary that registered with the City in July 2009 was *River City Cooperative*. The letter also explains that no ownership change occurred because “the dispensary permit at 1841 was issued to ‘Greenstone.’ Greenstone presents itself as doing business as (dba) River City Cooperative.” The entire response can be seen:

Figure 41: City Response to Reporter

Response: There was no change in ownership.
The medical marijuana dispensary permits are issued to the nonprofit collective entity that is operating the dispensary. The entities officers, board members and/or managers are listed on the permit as holders. The dispensary permit at 1841 El Camino Ave, was issued to "Greenstone." Greenstone presents itself as a doing business as (dba) for River City Cooperative. River City Cooperative registered as a dispensary with the City at 1841 El Camino Avenue on 7/31/09. Consequently, the registeree and permittee have not changed.
Membership, officers and employees of non-profit entities change over time as a natural course of business. City staff recognized this in the course of processing permits. Subsequently City Code was updated to recognize this occurrence.

Source: City of Sacramento - The revenue manager emails

Medical Marijuana Renewal Application – 2018

Greenstone filed a Cannabis Dispensary Permit Application – Renewal to the City in April 2018. The applicant and owner listed on the application was Michael Tomada. The application also proposed a new location for the dispensary at 2320 Broadway, Sacramento, CA.

According to Office of Cannabis Management staff, there were a series of problems with the application. Principally, documents submitted by *Greenstone* to the City by the corporation reported \$0 gross receipts between 2016 and 2017. Office of Cannabis Management staff indicated the dispensary was conducting business and reporting no gross sales was not possible.

In July 2018, an attorney representing *Greenstone Biomass* submitted a letter to the City explaining that accurate financial records were not included with the application due to a dispute that Mr. Tomada had with a business associate. The letter explained that *Greenstone* entered into a management agreement with a company called 4307 Consulting LLC. The letter stated:

Figure 42: Letter from Greenstone Biomass Attorney Regarding Incomplete Financial Records

Pursuant to that management agreement, 4307 was responsible for maintaining all necessary records. 4307 was also obligated to make all submissions to the City as required under the Code and the terms of Greenstone's permit, and to remit all required tax payments, both to the City and the Board of Equalization.

As Greenstone's legal counsel, I was concerned that Mr. Tomada's ability to actually monitor 4307's compliance was limited. For this reason, I spoke with 4307 personnel many times to ensure that 4307 was meeting its duties to the City under the management agreement. It was always represented to me, and to Mr. Tomada, that 4307 was complying with all the terms of the agreement. The results of the audit proved that was not entirely true.

In light of the audit, and the subsequent records requests from the City, Mr. Tomada made substantial efforts to assist the Revenue Department in obtaining records from 4307. To the extent that there are further records that were not transmitted to the City, Greenstone will need to request that 4307 provide those records.

Source: Documents provided by the Office of Cannabis Management

In conclusion, the attorney represented that *Greenstone Biomass* committed to making a request to 4307 Consulting for the records but was unable to promise whether the request would be honored.

At the time of reporting for this audit, no permit has been issued.

Horizon Non-Profit Collective

In April 2008, an entity called *Horizon Nonprofit Collective* (C3083717) filed Articles of Incorporation for a nonprofit mutual benefit corporation with the California Secretary of State. The incorporator was Nicole Amarante.

The City issued a Business Tax Certificate to *Horizon Nonprofit Collective* in July 2008. The owner of the business was *Horizon Nonprofit Collective*. The City issued another business tax certificate to *Horizon Nonprofit Collective* in July 2009. The owner name listed on the new tax certificate was Sean Eaddy.

Medical Marijuana Dispensary Registration

In August 2009, *Horizon Non Profit Collective* filed Medical Marijuana Registration with the City. The owner listed in the registration document was John Hudson Swanston. The City notified the company the registration was completed in September 2009 letter to “John Swanston and Horizon Nonprofit Collective.”

Medical Marijuana Application – Phase 1

Horizon Collective submitted Medical Marijuana Dispensary Application – Phase 1 to the City in February 2011. The managers listed in the application included John Swanston, president, and Sean Eaddy, treasurer.

Medical Marijuana Application – Phase 2 – Original

In October 2011, *Horizon Collective* submitted Medical Marijuana Application – Phase 2 to the City. The applicants listed was John Hudson Swanston.

Medical Marijuana Application – Phase 2 - Updated

Horizon Collective submitted an updated Medical Marijuana Dispensary Application – Phase 2 to the City in March 2014. The applicants listed included John Swanston and Sean Eaddy. The managers listed included Sean Eaddy, Laleh Shakib, and John Swanston.

Horizon Nonprofit Collective filed Statement of Information with the Secretary of State in November 2014. The official listed in the statement was John Hudson Swanston as chief executive officer, secretary, and chief financial officer.

Medical Marijuana Renewal Application – 2015

Horizon Collective submitted Medical Marijuana Dispensary Renewal Application to the City in March 2015. The applicant was John Swanston. The owners listed in the application included John Swanston and Sean Eaddy.

The City issued a dispensary permit to *Horizon* in May 2015. The permit holders listed on the document included John Swanston and Sean Eaddy.

Cannabis Dispensary Permit Application to Relocate – 2017

In January 2017, *Horizon Nonprofit Collective* submitted a Cannabis Dispensary Permit Application – Relocation to the City. The requested address was 1841 El Camino Avenue, Sacramento, CA.

The City issued a new dispensary permit to *Horizon Collective* in May 2017. The permit holders listed on the document included John Swanston and Sean Eaddy.

In December 2017, *Horizon Nonprofit Collective* filed Statement of Information to the Secretary of State. The officials listed in the statement included John Hudson Swanston as chief executive officer and chief financial officer; and Sean Eddy as secretary.

The City issued a dispensary permit to *Horizon Collective* in May 2018. The permit holders listed included John Swanston and Sean Eddy.

Dispensary Changes Corporation from Nonprofit Mutual Benefit to General Stock

In November 2019, *Horizon Collective* filed a Restated Articles of Incorporation Nonprofit Mutual Benefit Corporation to General Stock Corporation to the Secretary of State. The entity changed its name to Horizon Collective, Inc. and was authorized to issue 1,000,000 shares of stock.

House of Organics dba Perchta

In January 2009, the California State Board of Equalization issued a Seller's Permit to a medical cannabis dispensary called *Sarajane & Co.* The permit listed both *Sarajane & Co.* and *Sarajane & Co. Cooperative, Inc.*

Medical Marijuana Dispensary Registration

Sarajane & Co. Cooperative Inc. filed Medical Marijuana Dispensary Registration with the City in August 2009. According to the filing documents, the owner of the dispensary was Sara E. Stanley. The address of the dispensary was 908 21st Street, Sacramento, CA.

In August 2009, *Sarajane & Co. Cooperative Inc.* also filed Business Operations Tax Application with City Revenue Division to the City in August 2009. According to the application, the owners of the company included T&M Organization for the Arts, Sarah Stanley, and John Shiner. The City sent a letter confirming the registration of *Sarajane & Co. Cooperative Inc.* in a letter to Sarah Stanley.

Sarajane & Co. Cooperative Inc. (C3222551) filed Articles of Incorporation as a cooperative corporation with the California Secretary of State in August 2009. The directors listed in the filing include Sarah Stanley, Shiree Cano, Desiree Mann, and John Shiner.

Meanwhile, in January 2011, *Sarajane & Co.* filed a Statement of Information with Secretary of State that listed Sarah Stanley as CEO, Secretary, and CFO.

Medical Marijuana Application – Phase 1

Sarajane & Co. Cooperative Inc. (C3222551) filed Medical Marijuana Dispensary Application – Phase 1 with the City in February 2011. The registration stated the company would operate under the dba *Green Door Sacramento*. The applicant and chief executive officer listed in the registration was Sarah Stanley. The address of the dispensary was 908 21st Street, Sacramento, CA.

In May 2011, *Sarajane & Co. Cooperative Inc.* filed Statement of Information. The statement listed Sarah Stanley as the chief executive officer, secretary, and chief financial officer.

Medical Marijuana Application – Phase 2 – Original

Sarajane & Co. Cooperative, Inc. DBA Green Door Sacramento filed Medical Marijuana Dispensary Application – Phase 2 in October 2011. The applicant listed was Sarah Stanley. The address of the dispensary was 908 21st Street Sacramento, CA.

In August 2012, *Sarajane & Co. Cooperative Inc.* (C3222551) filed Certificate of Election to Wind Up and Dissolve the corporation. The certificate was signed by Sarah Stanley.

Meanwhile, *Perchta, Inc.* (C3504671) filed Articles of Incorporation with the Secretary of State in September 2012. The director of the corporation listed in the filing was an individual named Sarah Sinclair at the address, 1230 Gold Express Drive #310-163, Rancho Cordova, CA. Notably, this is an address used by Joe Karapetyan, a corporate officer of the following dispensaries located in the City: *Alternative Medical Care, CC101, Cloud 9, DOC's Inc., and Golden Health & Wellness, Inc.*

In November 2013, *Sarajane & Co. Cooperative Inc.* (C3222551) filed Statement of Information with the Secretary of State listing Sarah Stanley as the corporation's chief executive officer, secretary, and chief

financial officer. Days later, *SaraJane & Co. Cooperative, Inc.* filed Certificate of Dissolution with the Secretary of State, signed by Sarah Stanley.

Meanwhile, the City's Revenue Manager received an email from an individual seeking to purchase the dispensary permit held by *SaraJane & Co.* The email stated:

Figure 43: Question Regarding a Dispensary Permit for Sale

I had a cannabis related question for you. I represent one of the dispensaries in Oakland and they thought that a permit held by Sarah Stanley (aka - Mary Jane, aka Green Door) might now be available. Who could I talk to in Sacramento government to get that information.

Source: Documents provided by Office of Cannabis Management

The City's Revenue Manager responded and stated the dispensary was operating under the name *Perchta, Inc.* by Sarah Stanley. The email stated:

Figure 44: City's Response About Management and Owners of Dispensary

This dispensary is operating under the name of Perchta Inc. at 8848 Fruitridge Road by Sarah Stanley who was the original registered dispensary operator back in July of 2009. Dispensaries cannot be sold or transferred and need to be operated by a non-profit entity. Consequently, a medical marijuana permit should never become "available" in the City of Sacramento under City Code chapter 5.150.

I hope this answers your question. For follow up questions, please contact me at the number listed below.

Source: Documents provided by Office of Cannabis Management

Perchata, Inc. (C3504671) filed Statement of Information with the Secretary of State in March 2014. The statement listed Sarah Sinclair as chief executive officer, secretary, and chief financial officer.

Medical Marijuana Application – Phase 2 – Updated

In March 2014, a dispensary called *House of Organics* submitted Medical Marijuana Dispensary – Phase 2 to the City. The corporate name of the dispensary listed on the application was *Perchta, Inc.* The applicant and director listed on the application was Sarah Elizabeth Stanley. The application was sent with a letter from an attorney representing the dispensary. The letter stated:

Figure 45: Letter from House of Organics Attorney

Ms. Sarah Stanley was the founder of SaraJane & Co. Cooperative., and is named on the City's 2009 registration list. She continues today to serve on the board of Perchta. She is both the Phase 2 applicant and the original registrant.

Source: Office of Cannabis Management

The application also included a new address for the dispensary at 8848 Fruitridge Rd., Sacramento, CA.

The next month, in April 2015, *Perchta, Inc.* (C3504671) filed Statement of Information with the Secretary of State. The sole officer listed on the statement was Sarah Sinclair as chief executive officer, secretary, and chief financial officer. The address listed for Sarah Sinclair was 1230 Gold River #310-163. As noted above, this is an address used by Joe Karapetyan, a corporate officer of the following dispensaries located in the City: *Alternative Medical Care, CC101, Cloud 9, DOC's Inc., and Golden Health & Wellness, Inc.*

The City issued a dispensary permit to *House of Organics* at their new address at 8848 Fruitridge Road, Sacramento, CA in April 2015. The permit holder listed was Sarah Elizabeth Stanley.

Meanwhile, *Perchta, Inc.* filed Statement of Information with the Secretary of State in February 2016. The officials listed on the statement included Ovannes J. Yepiskoposyan, chief executive officer, and Sarah Sinclair, secretary and chief financial officer.

Medical Marijuana Renewal Application – 2016

In March 2016, *House of Organics* filed Medical Marijuana Dispensary Renewal Application with the City. The corporate name listed on the application was *Perchta, Inc.* The owners listed on the application included Sarah Elizabeth Stanley and Ovannes J. Yesikoposyan. The managers listed on the application included Shelby Edmiston and Ovannes Yepiskoposyan. The 24-Hour Emergency contact listed on the application were Garib Karapetyan and Shelby Edmiston.

In April 2016, the City issued a dispensary permit to *House of Organics*. The permit holders listed on the permit included Sarah Elizabeth Stanley and Ovannes J. Yepiskoposyan.

Meanwhile, *Perchta, Inc.* filed an updated Statement of Information to the Secretary of State reporting the appointment of new corporate officials. The new officials listed on the statement included Garib Karapetyan, chief executive officer and chief financial officer; and Hovannes Yepiskoposyan, secretary.

The issued a dispensary permit to *House of Organics* in April 2017. The permit holders listed on the permit include Garib Karapetyan and Hovannes J. Yepiskoposyan.

Cannabis Dispensary Permit Application – 2017

Perchta filed Cannabis Dispensary Permit Application – Modification to the City in December 2017. The applicant listed in the filing was Garib Karapetyan. The owners of the dispensary included Garib Karapetyan and John Yepiskoposyan. The dispensary managers listed in the application included Ovannes Yepiskoposyan and Nicholas Sidener.

The City issued a modification to the dispensary permit for *House of Organics* in January 2018. The permit holders listed on the permit included Garib Karapetyan and Hovannes J. Yepiskoposyan.

The City issued a new dispensary permit to *House of Organics* in April 2018. The permit holders listed on the document included Joe Karapetyan and Garib Karapetyan.

Ownership Change at Perchta, Inc.

According to meeting minutes provided to the City, the board of directors of *Perchta, Inc.* held a special meeting in May 2018. According to the minutes, one of the directors decided that he would leave the business to “pursue other interests.” The minutes also stated that Garib Karapetyan and Joe Karapetyan would be appointed to the board of directors. The minutes stated:

Figure 46: Changes in Management and Directors at *Perchta, Inc.*

Further, Director Hovannes Yepiskoposyan acknowledged that he intended to pursue other interests outside of the business of the Corporation and his intention to resign as a Director. It was recognized that the nature of the business and the industry was rapidly evolving and that he was confident in the talents and abilities of both Garib Karapetyan and Joe Karapetyan to successfully navigate the Corporation through such changes.

3.) ELECTION OF NEW DIRECTORS

The Chairman acknowledged the need to elect additional directors and nominated one additional Directors to the Board, made a motion to elect the same and duly seconded said

motion to add Joe Karapetyan to the Board. After a discussion regarding the duties of a Director, a vote on the election of the aforementioned new Director was properly held wherein Joe Karapetyan was unanimously elected as a Director of the Corporation’s Board.

RESOLVED, that (i) the Board of Directors of the Corporation shall consist of two Directors, and (ii) Joe Karapetyan shall serve as a member of the Board.

Source: Office of Cannabis Management

As a result, the newly conformed executive structure included Joe Karapetyan, director and chief financial officer; and Garib Karapetyan, director, chief executive officer, and secretary.

Perchta, Inc. submitted a Cannabis Business Permit Name, Ownership and Management Change Form to the City in July 2018 in order to disclose a change in the ownership or members of the board of the cannabis business. According to the filing, John Yepiskoposyan relinquishing his ownership. The document included two new owners. The document stated:

Figure 47: Changes in Management and Directors at *Perchta, Inc.*

Business Structure:

You must list any person who has an aggregate ownership interest of 20% or more in the cannabis business. If a holding company has an ownership interest of 20% or more in the business, that holding company and its ownership percentage must be listed as well as the individuals that own the company. Please attach additional pages for the CEO and the members of the board of directors if not already listed.

Name: Joe Karapetyan Ownership: 50 %
Title: Director DOB: 12/15/1981
Mailing Address: 11230 Gold Express Dr. #310-282 City/State/Zip Gold River, CA 95670
[REDACTED] Alt. Phone No [REDACTED]
[REDACTED]

Name: Garib Karapetyan Ownership: 50 %
Title: Director DOB: 11/19/1983
Mailing Address: 2443 Fair Oaks Blvd. Unit 229 City/State/Zip Sacramento, CA 95825
[REDACTED] Alt. Phone No [REDACTED]
[REDACTED]

Source: Office of Cannabis Management

According to the records, Garib and Joe Karapetyan were equal owners of the corporation.

Cannabis Dispensary Permit Application – 2018

Perchta, Inc. filed Cannabis Dispensary Permit Application to the City in October 2018. The applicant listed on the application was Garib Karapetyan. The owners listed on the application included Garib Karapetyan and John Yepiskoposyan.

Despite the names on the application, the City issued a dispensary permit to *House of Organics* in April 2019 and the listed the following permit holders, Joe Karapetyan and Garib Karapetyan.

Meanwhile, *Perchta, Inc.* changed from a nonprofit mutual benefit corporation to a general stock corporation in October 2018. According to the filing, the corporation is authorized to issue 10,000,000 shared of stock. The officer listed was Garib Karapetyan.

Finally, *Perchta, Inc.* filed a Statement of Information with the Secretary of State in November 2018. The officers listed on the filing included Garib Karapetyan, director and chief executive officer; and Joe Karapetyan, director, chief financial officer, and secretary.

Hugs Alternative Care LLC

In August 2007, a company called *Hugs Alternative Care, LLC* (200721310408) filed Articles of Organization with the California Secretary of State.

The City issued a Business Operations Tax Certificate to *Hugs Alternative Care, LLC* in July 2008. The owner listed on the tax certificate was Clyde A. Baker.

Medical Marijuana Dispensary Registration

Hugs Alternative Care, LLC, filed Medical Marijuana Dispensary Registration with the City in July 2009. The business address listed on the registration was 2035 Stockton Blvd., Sacramento, CA. The owner listed on the application was Clyde Albert Baker. The City confirmed the registration of *Hugs Alternative Care, LLC* in a letter to Clyde Baker in September 2009.

The City issued a new Business Operations Tax Certificate to Hugs Alternative Care, LLC in July 2010. The owner listed on the business tax certificate was Clyde A. Baker.

In September 2010, *Hugs Alternative Care, LLC* filed Certificate of Dissolution with the Secretary of State. The signatories on the form included Clyde Baker, president, and Peggy Baker, controller.

Meanwhile, *Hugs Alternative Care, Inc.* filed Articles of Incorporation as a California Non-profit Mutual Benefit Corporation in January 2011.

Medical Marijuana Application – Phase 1

Hugs Alternative Care filed Medical Marijuana Application – Phase 1 with the City in January 2011. The applicants and managers listed included Peggy Baker, Cathy Roemer, and Billy Clyde Baker. The dispensary address listed in the application 2035 Stockton Blvd., Sacramento, CA.

Medical Marijuana Application – Phase 2 – Original

In October 2011, *Hugs Alternative Care* filed Medical Marijuana Dispensary Application – Phase 2 with the City. The applicants listed in the filing included Cathy Roemer and Billy Baker. The address of the dispensary was 2035 Stockton Blvd., Sacramento, CA.

Medical Marijuana Application – Phase 2 -- Updated

Hugs Alternative Care filed Medical Marijuana Dispensary Application – Phase 2 to the City in March 2014. The applicant listed was Cathy Roemer. The owners listed on the application included Peggy Baker, Cathy Roemer, and Billy Baker. The corporate name listed on the application is *Hugs Alternative Care*.

The city issued a dispensary permit to *Hugs Alternative Care* in April 2015. The permit holders listed on the document included Cathy Roemer, Peggy Baker, and Billy Baker.

Medical Marijuana Renewal Application – 2016

Hugs Alternative Care, Inc. filed a Medical Marijuana Dispensary Renewal Application to the City in March 2016. The applicant listed on the filing was Peggy M. Baker. The owner listed included Peggy M. Baker, Cathy R. Roemer, and Billy C. Baker. The managers listed on the application included Billy Baker and Cathy Roemer. The corporation name listed on the application was *Hugs Alternative Care, Inc.*

The City issued a dispensary permit to *Hugs Alternative Care* in April 2016. The permit holders listed on the document included Cathy Roemer, Peggy Baker, and Billy Baker.

In January 2017, *Hugs Alternative Care, Inc.* submitted a Statement of Information to the California Secretary of State showing a complete turnover in corporate management. The filing listed Thomas Blaine Sheridan as chief executive office, secretary, and chief financial officer.

Cannabis Dispensary Permit Application – 2017

In March 2017, *Hugs Alternative Care* filed a Cannabis Dispensary Permit Application to the City. The applicant listed on the filing was David Spradlin. The address of the dispensary included on the application was 2035 Stockton Blvd., Sacramento, CA. The owners listed included David Spradlin, Mark Pelter, and Cathy Roemer.

The City issued a dispensary permit to *Hugs Alternative Care* in April 2017. The permit holders listed included Cathy Roemer, David Spradlin, Mark Peter, and Thomas Blaine Sheridan.

Meanwhile, a new entity called *Hugs Alternative Care, LLC* (201731010259) filed Articles of Organization – Limited Liability Corporation with the California Secretary of State.

Cannabis Dispensary Permit Application – 2018

Hugs Alternative Care, Inc. filed another Cannabis Dispensary Permit Application to the City in December 2017. The dispensary name listed on the application was *Hugs Alternative Care, Inc.* The applicant listed was David Spradlin. The owners listed on the application included David Spradlin and Mark Pelter.

The City issued a dispensary permit to *Hugs Alternative* in January 2018. The permit holders listed on the document included Cathy Roemer, David Spradlin, Mark Pelter, and Thomas Blaine Sheridan.

Meanwhile, *Hugs Alternative Care, Inc.* (C3352403) filed Statement of Information with the California Secretary of State in March 2018. The officials listed in the statement included David Michael Spradlin, chief executive officer and secretary, and Mark Gabriel Pelter, chief financial officer.

The City issued another dispensary permit to *Hugs Alternative* in April 2018. The permit holders listed included Cathy Roemer, David Spradlin, and Mark Pelter.

In March 2019, *Hugs Alternative Care, Inc.* filed a Statement of Information listing David Michael Spradlin as chief executive officer and secretary, and Mark Gabriel Peter as chief financial officer.

In April 2019, the City issued a dispensary permit to *Hugs Alternative* doing business as *Perfect Union*. The permit holders listed on the document included Cathy Roemer, David Spradlin, and Mark Petler.

Metro Health Solutions

In June 2009, a new company called *Didacus Flower Company* (C3214707) filed Articles of Incorporation for a California Non-Profit Mutual Benefit Corporation. The incorporator listed on the document was Thomas Hicks.

The California State Board of Equalization issued a Seller's Permit to *Didacus Flower Company* in June 2009. That same month, in June 2009, *Didacus Flower Company* filed Business Operations Tax Application with City. The owner listed on the application was Michael Brubeck and the address was 4381 Gateway Park #560, Sacramento, CA.

In July 2009, *Didacus Flower Company* (C3214707) filed Statement of Information with the Secretary of State to update the corporation's senior management. The officials listed on the statement included Michael Brubeck, chief executive officer and chief financial officer, and Thomas Hicks, secretary.

Medical Marijuana Dispensary Registration

Didacus Flower Company filed a Medical Marijuana Dispensary Registration with the City in August 2009. The owner name listed on the application was Daniel Reid Thomas. The address of the dispensary listed on the registration was 4381 Gateway Park Blvd. #560, Sacramento, CA.

The City confirmed the registration of the dispensary in a September 2009 letter addressed to Daniel Reed Thomas and *Didacus Flower Company*.

The City issued a Business Operations Tax Certificate to *Didacus Flower Company* in April 2010. The owner listed on the tax certificate was Daniel R. Thomas.

Medical Marijuana Application – Phase 1

Didacus Flower Company filed for Medical Marijuana Dispensary Application – Phase 1 with the City in February 2011. The address of the dispensary listed on the application was 4381 Gateway Park #560, Sacramento, CA. The applicants listed included Daniel Reid Thomas and Michael Louis Klein. The managers listed on the application included Daniel Reid Stuart Thomas, Richard Clark Sellers, and Michael Louis Klein.

Meanwhile, in October 2013, a new corporation called *Northgate Alliance, Inc.* (C3611948) filed Articles of Incorporation of a Nonprofit Mutual Benefit Corporation with the Secretary of State. The agent for service of process was Michael Klien, one of the owners listed on application for *Didacus Flower Company*.

Shortly after filing the articles, *Northgate Alliance, Inc.* (C3611948) filed a Certificate of Amendment with the Secretary of State to change the name of the corporation to *Didacus Flower Company* in November 2013. The signatories of the certificate included Michael Klein, president, and Richard Sellers, secretary.

Meanwhile, a corporation called *Metro Health Systems* (C3640588) filed Articles of Incorporation of a Nonprofit Mutual Benefit Corporation. The incorporator listed on the filing was Justin Flanery.

Ownership Over Dispensary Permit and Medical Marijuana Application – Phase 2

The City received a letter from Daniel Reid Thomas, one of the *Didacus Flower Company* listed on the Registration and Phase 1 application, on March 31, 2014, indicating that a dispute was taking place over the ownership of the dispensary permit. The letter stated:

Figure 48: Letter Contesting Ownership of Dispensary Permit



Source: Documents provided Office of Cannabis Management

The letter indicates that Daniel Reid Thomas will be contesting any Phase 2 application filed by anyone else. In addition, Thomas states he will submit a Phase 2 Application for a dispensary under the name *Metro Health*.

The next day, on April 1, 2014, the City received a handwritten letter that contained information about the owners of the dispensary. The letter alleged that two of the dispensary owners listed on the Phase 1 application-- Richard Sellers and Michael Klein—resigned from the corporation Board of Directors. The letter stated:

Figure 49: Handwritten Letter Contesting Ownership of Dispensary Permit

4-1-14

DFC was incorporated June 16, 2009
to assist patients in getting safe
Access to medical Marijuana

Post registration Richard Sellers
and Michael Klein signed the
Phase I application.

Richard Sellers and Michael Klein
resigned from DFC.

Daniel Thomas, the original registrant
continues with the Phase II as
a non managing board member
at Metro Health Systems, Inc.

Source: Documents provided by the Office of Cannabis Management

According to the note, Daniel Thomas will continue as the sole owner of the dispensary applying for Phase 2.

The City received a Medical Marijuana Dispensary Application – Phase 2 on April 1, 2014, from a dispensary called *Franklin Health Center*. The applicant name listed on the application was “Justin Flanery (*Metro Health Systems, Inc.*)” The application included a new address for the dispensary at 7290 Franklin Blvd. #B, Sacramento, CA. The managers listed on the application included Justin Flanery and Corey Travis.

In November 2014, the City received a Dispensary Contact Information form submitted by *Metro Health*. The form included a section titled Owner Information. However, the individuals submitting the form crossed out the "Owner Name" and handwritten new column titles:

Figure 50: Owner Information with Handwritten Changes

OWNER INFORMATION (attach additional sheets as necessary)			
Must include any entity with 10% or more interest in the business. Include all partners, officers, directors, and stockholders if a corporation.			
<i>Managing Member</i>			
Owner Name	Brian Galletta		
Owner Mailing Address	2701 Citrus Rd. Suite A		
City, State	Rancho Cordova, Ca	Zip	95742
E-Mail Address	briana@spilcgroup.com		
Contact Telephone No.	(916) 612-1658	Alternate	
Date of Birth	12/05/1974	US Citizen	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
<i>Board Member</i>			
Owner Name	Corey Travis		
Owner Mailing Address	P.O. Box 254606		
City, State	Sacramento	Zip	95865
E-Mail Address	coreytravis@gmail.com		
Contact Telephone No.	(310) 889-4480	Alternate	
Date of Birth	03/07/1984	US Citizen	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Owner Name			
Owner Mailing Address			
City, State		Zip	
E-Mail Address			
Contact Telephone No.		Alternate	
Date of Birth		US Citizen	<input type="checkbox"/> Yes <input type="checkbox"/> No

Source: Documents provided by the Office of Cannabis Management

The new individuals included Brian Galletta and Corey Travis. The submission included the name of one manager, Brian Galletta.

In December 2014, *Metro Health Systems* (C3640588) filed a Statement of Information with the Secretary of State. The sole official listed on the statement was Brian Galletta as chief executive officer, secretary, and chief financial officer.

The California State Board of Equalization issued a Seller's Permit to *Metro Health Systems* in January 2015. The address listed on the permit was 6492 Florin Perkins Road, Sacramento, CA.

On January 13, 2015, *Metro Health Systems* (C3640588) filed Amended and Restated Articles of Incorporation to change its name to METRO HEALTH SYSTEMS. The signatory of the restated articles was Brian Galletta, president and secretary of the corporation. According to meeting minutes on the same day, the *Metro Health* Board of Directors held a meeting where Justin Flanery and Corey Travis resigned their positions with the company.

Figure 51: Metro Health Officials Resign at Board Meeting

RESIGNATION OF OFFICERS

RESOLVED, that the Corporation accepts the resignation of and hereby removes the following persons from the offices of the Corporation set forth next to their respective names below:

Justin Flanery	Chief Executive Officer
	Chief Financial Officer
Corey Travis	Secretary

Source: Documents provided by the Office of Cannabis Management

As a result, Brian Galletta remained as the sole corporate officer and member of the board of directors.

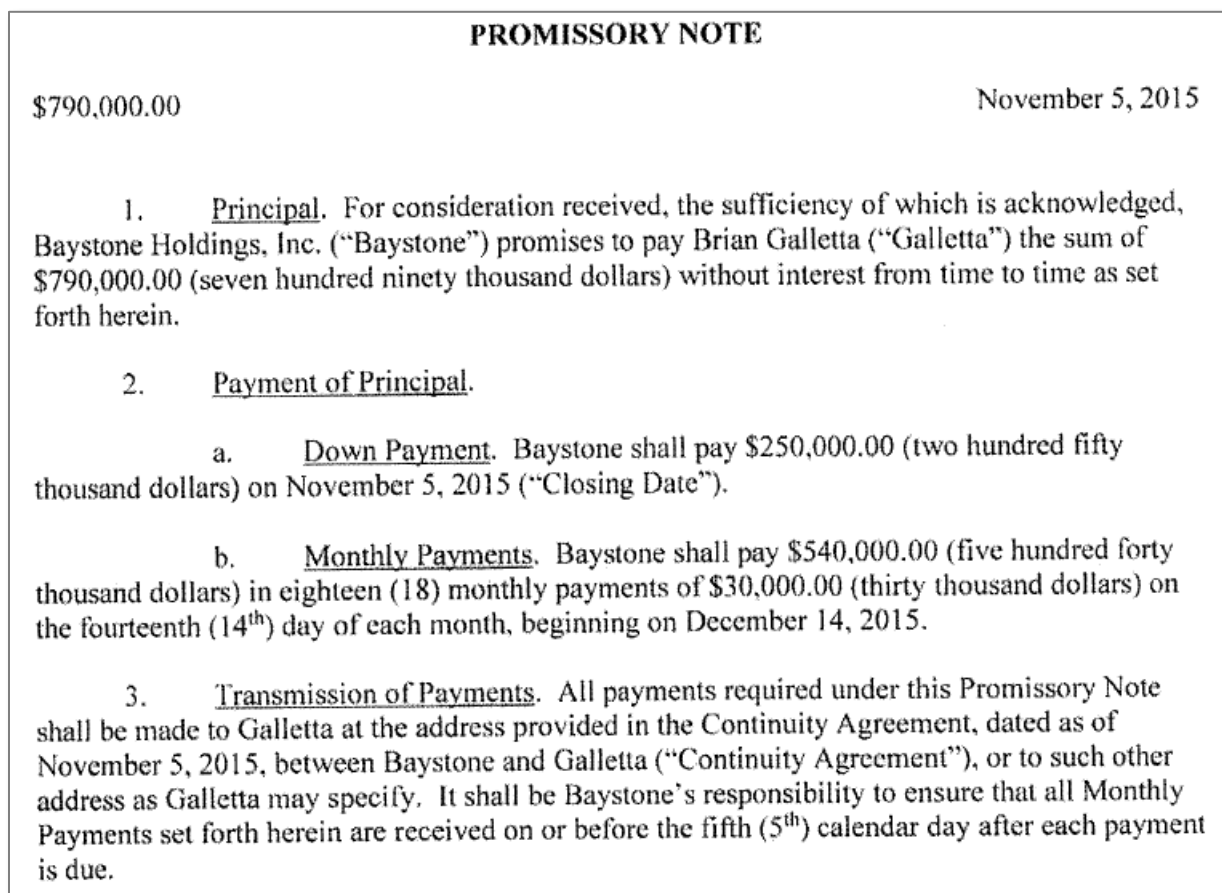
Medical Marijuana Application – Phase 2 – Updated

In February 2015, *Metro Health* filed Medical Marijuana Dispensary Application – Phase 2. The applicants listed included Brian Galletta and Corey Travis. The address listed on the application was 6492 Florin Perkins, Sacramento, CA.

The City issued a dispensary permit to *Metro Health Solutions* on May 12, 2015. The permit holders listed on the document include Brian Galletta, Corey Travis, and Justin Flanery.

According to documents provided to the City, a corporation called *Baystone Holdings, Inc.* executed a Promissory Note on May 15, 2015 and agreed to pay Brian Galletta a total of \$790,000. The terms of the payment are set forth below:

Figure 52: Promissory Note to Brian Galletta



Source: Documents provided by the Office of Cannabis Management

As the note details, *Baystone Holdings, Inc.* will pay Brian Galletta total \$790,000 to be paid in one \$250,000 payment followed by 18 monthly payments of \$30,000.

Baystone Holdings, Inc. (C3826478) was incorporated with the California Secretary of State September 2015. *Baystone Holdings, Inc.* filed a Statement of Information in January 2018 and listed Michael Christian Gard as the chief executive officer, secretary, and chief financial officer.





Medical Marijuana Dispensary Application – Renewal

Metro Health Systems filed Medical Marijuana Dispensary Renewal Application to the City in April 2016. The applicant name was Brian Galletta. The dispensary sought to change its operating name to *GreenDoor Metro*. The owners listed on the application included Brian Galletta, Corey Travis, and a new owner, Michael Christian Gard. Notably Michael Christian Gard is also the chief executive officer, secretary, and chief financial officer of *Baystone Holdings, Inc.* which promised to pay Galletta \$790,000. The managers listed on the application included Brian Galletta, Ali Moreno, and James Baker.

The City issued a dispensary permit to *Metro Health Solutions* on May 17, 2016. The permit holders listed on the document included Brian Galletta, Corey Travis, and Michael Christian Gard.

Metro Health Systems (C3640588) submitted a Statement of Information dated August 3, 2016 to the City. The statement listed Brian Galletta, chief executive officer; Michael Christian Gard, secretary, and Norman Hudson, chief financial officer. Notably, the document submitted to the City by *Metro Health Systems* did not include a stamp of receipt from the Secretary of State and did not appear on the Secretary of State website.

Figure 53: Secretary of State Web Site showing *Metro Health* filings does not include Statement of Information on August 3, 2016.

C3640588 METRO HEALTH SYSTEMS			
Registration Date:	01/27/2014		
Jurisdiction:	CALIFORNIA		
Entity Type:	DOMESTIC NONPROFIT		
Status:	ACTIVE		
Agent for Service of Process:	BRIAN J GALLETTA 6492 FLORIN PERKINS RD SACRAMENTO CA 95828		
Entity Address:	6492 FLORIN PERKINS RD SACRAMENTO CA 95828		
Entity Mailing Address:	6492 FLORIN PERKINS RD SACRAMENTO CA 95828		
A Statement of Information is due EVERY EVEN-NUMBERED year beginning five months before and through the end of January.			
Document Type	File Date	PDF	
SI-COMPLETE	09/17/2019		
SI-COMPLETE	09/12/2019		
RESTATED REGISTRATION	01/13/2015		
REGISTRATION	01/27/2014		

Source: California Secretary of State

We were unable to determine whether *Metro Health Systems* filed the Statement of Information with the Secretary of State.

The City issued a dispensary permit to *Metro Health Systems* on May 17, 2017. The permit holders listed on the document include Brian Galletta, Corey Travis, and Michael Gard.

Meanwhile, *Metro Health Systems* filed a Cannabis Dispensary Permit Modification to the City in January 2018. The owners listed on the filing included Brian Galletta and Michael Gard.

The City issued a modified dispensary permit to *Metro Health Systems* on January 3, 2018. The permit holders listed on the document included Brian Galletta, Corey Travis, and Michael Gard.

Cannabis Dispensary Application – 2018

In April 2018, *Metro Health* filed a Cannabis Dispensary Permit Application to the City. The applicant listed was Brian Galletta. The owner listed on the application was Brian Galletta.

The next month, in May 2018, *Metro Health* submitted a Cannabis Business Permit Name, Ownership and Management Change Form to the City. The corporation listed a change in the ownership and reported that Chris Guard and Corey Travis relinquish their ownership. The form also stated that Brian Galletta is the 100 percent owner.

Meanwhile, in February 2019, *Metro Health System* filed a Fictitious Business Statement Form with the County of Sacramento. The business sought to operate as *Metro Cannabis Co.* or *Perfect Union*. The dispensary then filed a Cannabis Business Permit Relocation, Ownership and Management Change Form with the City in April 2019. The dispensary applied to operate under the name *Perfect Union*.

Ownership Dispute Over Permit

In April 2019, an attorney representing Brian Galletta sent a letter to the City describing a dispute between Mr. Galletta and *Baystone Holdings, Inc.* According to the letter, Galletta and *Baystone* entered in an operating agreement where *Baystone* operated the dispensary between November 2015 and May 2018. As a result of the dispute, *Baystone* will not turn over financial records related to the dispensary to Mr. Galletta. The letter stated:

Figure 54: Letter Outlining Dispute Over Operation of Dispensary and Financial Records.

I am counsel to Brian Galletta, CEO for Metro Health Systems, Inc. ("Metro"). Metro owns a licensed dispensary at 6492 Florin Perkins Road, Sacramento, CA ("dispensary"). From November 2015 to May 14, 2018, Metro was operated by Baystone Holdings, Inc. ("Baystone"). Since May 14, 2018, the dispensary has been operated by Magnolia Wellness Group. As a result of the change in operations of the dispensary, my client is involved in litigation with Baystone.

One of the issues in the litigation is our inability to obtain from Baystone (and/or its agents) certain documents generated during the time of its operation of the dispensary including Metro's 2017 State and Federal Tax Returns. We are in the process of trying to obtain these documents through the litigation discovery process from both Baystone and its agents including its accountants.

We will advise once we are successful in obtaining the records. In the interim, if you have any questions or concerns, please do not hesitate to contact me.

Source: Document provided by Office of Cannabis Management

The City issued a dispensary permit to *Metro Health Systems* on May 17, 2019. The permit holder listed on the document was Brian Galletta.

Metro Health Systems (C3640588) filed a Statement of Information in September 2019, illustrating that Galletta and Gard still shared management responsibility for the corporation. Specifically, the statement listed Brian Galletta as chief executive officer, and Michael Christian Gard as secretary and chief financial officer of *Metro Health Systems*.

Days later, *Metro Health Systems* (C3640588) filed another Statement of Information to the Secretary of State on September 17, 2019. In the filing, Brian Galletta was listed as chief executive officer, secretary, and chief financial officer.

Northstar Holistic Collective

In May 2009, *Northstar Holistic Collective* filed Business Operations Tax Application with the City. The owner of the dispensary listed on the application was Jeremy Goodin. The address of the dispensary on the application was 1236 C Street, Sacramento, CA.

Later that month, *Northstar Holistic Collective* (C3210028) filed Articles of Incorporation as a Nonprofit Mutual Benefit Corporation with the California Secretary of State.

Medical Marijuana Dispensary Registration

Northstar Holistic Collective filed Medical Marijuana Dispensary Registration with the City in July 2009. The owner listed on the registration document is Jeremy E. Goodin. The dispensary address listed on the application was 1236 C Street, Sacramento, CA.

The City confirmed the registration of the dispensary in a September 2009 letter addressed to “Jeremy Goodin, Northstar Holistic Collective.”

Medical Marijuana Application – Phase 1

Northstar Holistic Collective filed Medical Marijuana Dispensary Application – Phase 1 to the City in February 2011. The address of the dispensary listed on the application was 1236 C Street, Sacramento, CA. The owner listed on the application was Jeremy Goodin, president and executive officer.

Medical Marijuana Application – Phase 2 - Original

Northstar Holistic Collective filed Medical Marijuana Dispensary Application – Phase 2 to the City in October 2011. The applicant listed on the document was Jeremy Goodin and the address was 1286 C Street, Sacramento, CA.

Medical Marijuana Application – Phase 2 -- Updated

Northstar Holistic Collective filed Medical Marijuana Dispensary Application – Phase 2 to the City in March 2014. The owner and applicant name listed on the application was Jeremy Goodin.

The City issued a dispensary permit to *Northstar Holistic Collective* in April 2015. The permit holder listed on the document was Jeremy Goodin.

Medical Marijuana Renewal Application – 2016

Northstar Holistic Collective filed Medical Marijuana Dispensary Renewal Application to the City in February 2016. The applicant and owner listed on the application was Jeremy Goodin. The address listed was 1236 C Street, Sacramento, CA.

The City issued a dispensary permit to *Northstar Holistic Collective* in April 2016. The permit holder listed on the document was Jeremy Goodin.

In March 2017, *Northstar Holistic Collective* filed a Statement of Information with Secretary of State. The officials listed in the statement included Jeremy Goodin as chief executive officer, secretary, and chief financial officer.

The City issued a dispensary permit to *Northstar Holistic Collective* in April 2017. The permit holder listed on the document was Jeremy Goodin.

Cannabis Dispensary Permit Application – 2018

In March 2018, *Northstar Holistic Collective* filed Cannabis Dispensary Permit Application – Renewal with the City. The owner listed on the application was Jeremy Goodin.

The City issued a dispensary permit to *Northstar Holistic Collective* in April 2018. The permit holder listed on the document was Jeremy Goodin.

According to documents provided to the City, the Board of Directors of *Northstar Holistic Collective* held a meeting in December 2018. The board, according to the minutes, determined that it is in the best interest of the Corporation to amend its Articles of Incorporation and transition from a mutual benefit corporation to a general stock corporation.

In March 2019, *Northstar Holistic Collective* filed Statement of Information with the Secretary of State. In the filing, Jeremy Edward Goodin was listed as chief executive officer, secretary, and chief financial officer.

The City issued a dispensary permit to *Northstar Holistic Collective* in April 2019. The permit holder listed on the document was Jeremy Goodin.

River City Phoenix

In June 2009, a medical cannabis dispensary *River City Phoenix* submitted a Business Operations Tax Application to the City. The address of the dispensary was 1326 X Street, Sacramento, CA and the owner was Mark G. Pelter.

Medical Marijuana Dispensary Registration

River City Phoenix filed Medical Marijuana Dispensary Registration with the City in August 2009. The address listed on the registration was 1326 X Street, Sacramento, CA. The owner listed on the registration document was Mark Gabriel Pelter. The City confirmed the registration of the dispensary in a September 2009 letter addressed to Mark Pelter, *River City Phoenix*.

River City Phoenix (C3316707) filed Articles of Incorporation for California Nonprofit Mutual Benefit Corporation with the Secretary of State in August 2010. Mark Pelter was listed as the incorporator listed in the filing.

Medical Marijuana Application – Phase 1

River City Phoenix filed Medical Marijuana Dispensary Application – Phase 1 to the City in February 2011. The proposed address listed on the application was 1508 El Camino Avenue, Sacramento, CA. The applicants listed included Mark Pelter and William H. Pearce. Additionally, the management listed on the application also included Mark Pelter and William H. Pearce.

Medical Marijuana Application – Phase 2 – Original

In October 2011, *River City Phoenix* filed Medical Marijuana Dispensary Application – Phase 2 to the City. The applicant listed in the filing was Mark Pelter and the address was listed as 1508 El Camino Avenue, Sacramento, CA.

Medical Marijuana Application – Phase 2 – Updated

In March 2014, *River City Phoenix* filed Medical Marijuana Dispensary Application – Phase 2 to the City. The applicant listed in the filing was Mark Pelter. The owner listed in the application were Mark Pelter and David Spradlin.

The City issued a dispensary permit to *River City Phoenix* in December 2014. The permit holders listed on the document included Mark Pelter and David Spradlin.

Medical Marijuana Renewal Application – 2015

River City Phoenix filed Medical Marijuana Dispensary Renewal Application to the City in December 2015. The applicant on the filing was Mark Pelter. The owners listed on the application included Mark Pelter and David Spradlin.

The City issued a dispensary permit to *River City Phoenix* in December 2015. The permit holders listed on the document included Mark Pelter and David Spradlin.

Medical Marijuana Renewal Application – 2016

River City Phoenix filed a Medical Marijuana Dispensary Renewal Application to the City in November 2016. The owners listed in the application included Mark Pelter and David Spradlin.

The City issued a dispensary permit to *River City Phoenix* in December 2016. The permit holders listed on the document included Mark Pelter and David Spradlin.

In March 2017, *River City Phoenix* filed Statement of Information with the Secretary of State. The following officials were listed: Mark Pelter, chief executive officer; David Spradlin, secretary; and Vicky Dudley, chief financial officer.

Medical Cannabis Dispensary Permit Application – 2017

River City Phoenix filed a Medical Cannabis Dispensary Permit Renewal Application to the City in November 2017. The owners listed in the application include Mark Pelter and David Spradlin.

The City issued a dispensary permit to *River City Phoenix* in December 2017. The permit holders listed on the document included Mark Pelter and David Spradlin.

Cannabis Dispensary Permit Application – 2018

River City Phoenix filed a Cannabis Dispensary Permit Application – Renewal to the City in November 2018. The owner listed in the application included David Michael Spradlin and Mark Pelter.

The City issued a dispensary permit to *River City Phoenix* in December 2018. The permit holders listed on the document included Mark Pelter and David Spradlin.

River City Phoenix filed Statement of Information to the Secretary of State in May 2019. The officers listed included Mark Pelter, chief executive officer; David Spradlin, secretary; and Vicky Dudley, chief financial officer.

Sacramento Community Cannabis Collective, dba Connected Sacramento

In December 2008, a medical cannabis dispensary called *Fruitridge Health and Wellness Center* (3180987) filed Articles of Incorporation as a nonprofit Mutual Benefit Corporation with the California Secretary of State. The incorporator was Caleb Counts.

Fruitridge Health and Nutrition Center filed a Business Operations Tax Application to the City in January 2009. The business owners listed on the application was Caleb P. Counts and Fruitridge Health and Nutrition.

The City issued a Business Operations Tax Certificate to *Fruitridge Health & Nutrition* in January 2009. The owner listed on the certificate was *Fruitridge Health & Nutrition*.

Fruitridge Health and Wellness Center filed a Statement of Information with the Secretary of State in April 2009 to update the company's corporate officers. The officers listed in the statement included Caleb Counts, chief executive officer; Brian Wendell, secretary; and Chris Mattos, chief financial officer.

Medical Marijuana Dispensary Registration

Fruitridge Health and Wellness Collective filed Medical Marijuana Dispensary Registration in July 2009. The owner listed on the registration was Caleb P. Counts. The dispensary address was 2831 Fruitridge Rd., suite E, Sacramento, CA. The City confirmed the registration of the dispensary in a September 2009 letter addressed to Caleb Counts, *Fruitridge Health & Wellness Collective*.

The City issued a Business Operations Tax Certificate to *Fruitridge Health & Nutrition* in January 2010. The owner listed on the certificate was *Fruitridge Health & Nutrition*.

Medical Marijuana Application – Phase 1

Fruitridge Health and Wellness Center filed a Medical Marijuana Dispensary Application – Phase 1 to the City in January 2010. The address of the dispensary was 2831 Fruitridge Road, Ste E, Sacramento, CA. The applicants and managers listed on the filing included Caleb Counts, Stefanie Gernert, and Brian Wendell.

In February 2010, the *Fruitridge Health and Wellness Center, Inc.* Board of Directors appointed Caleb Counts as president and chief executive officer, Brian Wendell as secretary, and Stefanie Gernert as treasurer and chief financial officer.

Medical Marijuana Application – Phase 2 – Original

In October 2011, *Fruitridge Health and Wellness Collective* filed Phase 2 Application with the City. The applicant listed in the filing was Caleb Counts. The location address listed in the application was 2831 Fruitridge Rd., Ste E, Sacramento, CA.

In September 2013, a new corporation called Sacramento Community Cannabis Collective (C3607129) filed Articles of Incorporation for a Nonprofit Mutual Benefit Corporation. The incorporator listed on the filing was Luke Coleman and the address was 2831 Fruitridge Rd., Suite E, Sacramento, CA. The corporation filed a Statement of Information in March 2014 that listed Caleb Counts as chief executive officer and chief financial officer, and Luke Coleman as secretary. The company also filed a Fictitious Business Name Statement to operate under the name *Collective Efforts* in March 2014.

Meanwhile, another corporation called *Sacramento Applied Business Dynamics* (C3643461) filed Articles of Incorporation of a General Stock Corporation with the Secretary of State. The incorporator listed on the filing was Luke Coleman and the address was 2831 Fruitridge Road, Suite E, Sacramento, CA. The corporation authorized the sale of 100 shares of stock. Notably, this is the third active corporation at the 2831 Fruitridge Rd address.

Medical Marijuana Application – Phase 2 -- Updated

Sacramento Community Cannabis Collective, doing business as *Collective Efforts*, filed Medical Marijuana Application – Phase 2 in March 2014. The applicants listed on the filing included Caleb Counts and Luke Coleman.

The City issued a Dispensary Permit to *Sacramento Community Cannabis Collective* in April 2015. The permit holders listed included Luke Coleman and Caleb Counts.

Medical Marijuana Dispensary Application – Renewal – 2016

Collective Efforts filed Medical Marijuana Dispensary Renewal to the City in March 2016. The filing listed Caleb Counts as applicant, director, and owner. The City issued a Dispensary Permit to *Sacramento Community Cannabis Collective* in April 2016. The permit holders listed was Caleb Counts.

Medical Marijuana Dispensary Application – Renewal – 2017

Collective Efforts filed Medical Marijuana Dispensary Renewal to the City in March 2017. The applicant listed on the filing was Caleb Counts / *Collective Efforts*. The dispensary operating name was *Collective Efforts*. The owners listed included Caleb Counts, Luke Coleman, and Nate Coleman.

The City issued a Dispensary Permit to *Sacramento Community Cannabis Collective* in April 2017. The permit holders listed included Caleb Counts, Luke Coleman, and Nate Coleman.

San Diego Community Cannabis Collective filed a Fictitious Business Name Statement with the County of Sacramento to conduct business as *Connected San Diego*.

Sacramento Community Cannabis Collective (C3607129) filed Statement of Information with the Secretary of State in October 2017. The address listed on the filing was 2831 Fruitridge Road, Sacramento, CA. The officers listed in the filing included Caleb Counts as chief executive officer and chief financial officer, and Luke Coleman as secretary.

Meanwhile, *Sacramento Applied Business Dynamics* (C3643461) filed Statement of Information in November 2017. The address listed on the filing was 2831 Fruitridge Road, Sacramento, CA. The officers listed in the filing included Caleb Counts as chief executive officer and chief financial officer, and Luke Coleman as secretary and director.

In December 2017, *Sacramento Community Cannabis Collective* filed an application to the City to modify the Cannabis Dispensary Permit and register the name *Connected Sacramento*. The City issued a modified permit to *Sacramento Community Cannabis Collective* in December 2017. The permit holders listed included Caleb Counts, Luke Coleman, and Nate Coleman.

Marijuana Dispensary Application – Renewal – 2018

Sacramento Community Cannabis Collective dba Connected Sacramento submitted a Cannabis Dispensary Permit Application to the City in March 2018. The owners listed on the application included Caleb Counts, director, and Luke Coleman, director.

Nonprofit Mutual Benefit to General Stock

Meanwhile, *Sacramento Community Cannabis Collective* (C3607129) filed Certificate of Amendment of Articles of Incorporation. The corporation changed from a nonprofit to a general stock corporation and authorized the issuance of 200 shares of common stock. The filing listed Caleb Counts as president and Luck Coleman as secretary.

Marijuana Dispensary Application – Renewal – 2019

Sacramento Community Cannabis Collective DBA Connected Sacramento filed a dispensary permit application in April 2019. The application listed owners including Caleb Counts, Luke Coleman, and Nathan Coleman.

The City issued a Dispensary Permit – Medical | Adult Use to *Sacramento Community Cannabis Collective* in April 2019. The permit holders listed included Caleb Counts, Luck Coleman, and Nathan Coleman.

Safe Accessible Solutions

In November 2008, a new corporation called *Sacramento Nonprofit Collective* (C3168648) filed Articles of Incorporation as a California Nonprofit Mutual Benefit Corporation with the Secretary of State.

The California State Board of Equalization issued a Seller's Permit to a dispensary called *El Camino Wellness Center Collective* in January 2009. The owner listed on the permit was *Sacramento Nonprofit Collective*.

Medical Marijuana Dispensary Registration

Sacramento Nonprofit Collective, doing business under the name *El Camino Wellness Collective*, filed Medical Marijuana Registration to the City in July 2009. The owners listed in the registration filing included Suneet Kumar Agarwal, Nicholas Street, and *Sacramento Non-Profit Collective*. The City confirmed the registration of the dispensary in a September 2009 letter addressed to Suneet Agarwal, Sacramento Non-Profit Collective dba El Camino Wellness Collective.

The City issued Business Operations Tax Certificates to *Sacramento Nonprofit Collective* in January 2010. The owner listed on both certificates was *Sacramento Nonprofit Collective*.

Medical Marijuana Application – Phase 1

El Camino Wellness Center filed a Medical Marijuana Dispensary Application – Phase 1 to the City in February 2011. The applicants listed on the filing included Suneet Argawal and Nicholas Street. The address listed on the application was 2511 Connie Drive, Sacramento, CA.

Medical Marijuana Application – Phase 2

El Camino Wellness Center filed Medical Marijuana Dispensary Application – Phase 2 with the City in October 2011. The applicant listed on the filing was Suneet Agarwal. The location of the dispensary listed on the application was 2511 Connie Drive, Sacramento, CA.

In December 2011, *Sacramento Nonprofit Collective (SANSCO)*(C3168648) filed Certificate of Amendment of the Articles of Incorporation of Sacramento Nonprofit Collective. The corporate officers listed on the filing included Nicholas Street, chief executive officer, and Suneet Agarwal, secretary.

Dispensary Raided by Federal Authorities

According to the local news media, the Internal Revenue Service and Drug Enforcement Administration agents presented search warrants on the El Camino Wellness Center in June 2012. The news article sated, the IRS seizure warrant cited federal money-laundering statutes and laws against improper reporting of income. The warrant focused on the seizure of bank accounts of the El Camino Wellness Center, Nicholas Street, and Suneet Agarwal.

According to City documents, the dispensary closed in June 2012. At the time of closure, the dispensary owners owed taxes to the City.

In December 2012, *SANSCO* (C3168648) filed Statement of Information with the Secretary of State that listed a new slate of corporate officials. The new corporate officers listed included Justin Flanery as chief executive officer, secretary, and chief financial officer.

SANSCO (C3168646) filed another Statement of Information with the Secretary of State in April 2013 signifying another change in the officials. The new corporate official listed was Nicholas Street as chief executive officer, secretary, and chief financial officer.

On August 13, 2013, a new corporation called *Safe Accessible Solutions* (C3594427) filed a Statement of Information with the Secretary of State. The initial address listed on the filing was 8125 36th Avenue, Sacramento, CA. According to documents provided to the City, James Anthony, the incorporator of the *Safe Accessible Solutions*, appointed Armen Stambulyan, Suneet Argawal, and Keith Hickenbottom to the Board of Directors. The next day, according to documents provided to the City, the Board appointed Armen Stambulyan, president, secretary, and chief financial officer.

Medical Marijuana Application – Phase 2

In March 2014, *Safe Accessible Solutions* filed Medical Marijuana Dispensary Application – Phase 2 with the City. The applicant was Armen Stambulyan. The location address listed on the application was 8125 36th Ave, Sacramento, CA. The new corporate name was *Safe Accessible Solutions*. Notably, the application included a section titled “Owner Information” that the applicant crossed out and handwrote “Director.” The directors listed on the application included Armen Stambulyan, Sunseet Agarwal, and Keith Hickenbottom.

In addition, a lawyer representing the dispensary, provided an explanation why the application for *Safe Accessible Solutions* was submitted by a newly formed corporate entity.

Figure 55: Excerpt from Non-Profit Collective Structure & Continuity Trail

LAW OFFICES OF JAMES ANTHONY

3542 Fruitvale Avenue, 224

Oakland, CA 94602

510-842-3553 off

510-207-6243 cell

510-228-0411 fax

mcclawyer@gmail.com

Non-Profit Collective Structure & Continuity Trail from Original 2009

Registration Through Permit Issuance:

Safe Accessible Solutions at 8125 36th Ave.

(previously registered as El Camino Wellness at 2511 Connie Dr.)

Unfortunately, in 2012 the federal government threatened to seize the landlord's real estate. An eviction case in state court ensued. While that was still pending, on June 12, 2012, federal law enforcement executed a search warrant at El Camino Wellness and seized all the tangible assets of the dispensary: medicine inventory, equipment, records, cash, and so on, as well as the dispensary's bank accounts.

At that point, the board decided to dissolve SANSCO and continue its mission "to facilitate safe access to medical cannabis" as another entity at another location. See attached, Board Action of June 22, 2012.

On August 13, 2013, Safe Accessible Solutions (SAS) was incorporated as a California Nonprofit Mutual Benefit Corporation. Suneet Agarwal is on the board of directors. The mission of SAS is to continue the mission of El Camino Wellness. See attached, formation documents for SAS.

Source: Documents provided by the Office of Cannabis Management

The City issued a dispensary permit to *Safe Accessible Solutions* in April 2015. The permit holder listed on the document was Armen Stambulyan. The address listed on the permit was 8125 36th Avenue, Sacramento, CA.

Medical Marijuana Renewal Application –2016

Safe Accessible Solutions filed Medical Marijuana Dispensary Renewal Application to the City in March 2016. The applicant was Armen Stambulyan and the address listed was 8125 36th Avenue, Sacramento, CA. The owner name listed on the application was Armen Stambulyan and the managers listed included Christopher Rashad Thomas and Hamlet Seobyan.

The City issued a dispensary permit to *Safe Accessible Solutions* in April 2016. The permit holder listed on the document was Armen Stambulyan. The address listed on the permit was 8125 36th Avenue, Sacramento, CA.

In January 2017, *Safe Accessible Solutions* (C3594427) filed Statement of Information with the Secretary of State. The official listed on the statement was Armen Stambulyan, chief executive officer, secretary, and chief financial officer.

The City issued a dispensary permit to *Safe Accessible Solutions* in April 2017. The permit holder listed on the document was Armen Stambulyan and Keith Hickenbottom. The address listed on the permit was 8125 36th Avenue, Sacramento, CA.

Cannabis Dispensary Permit Modification – 2017

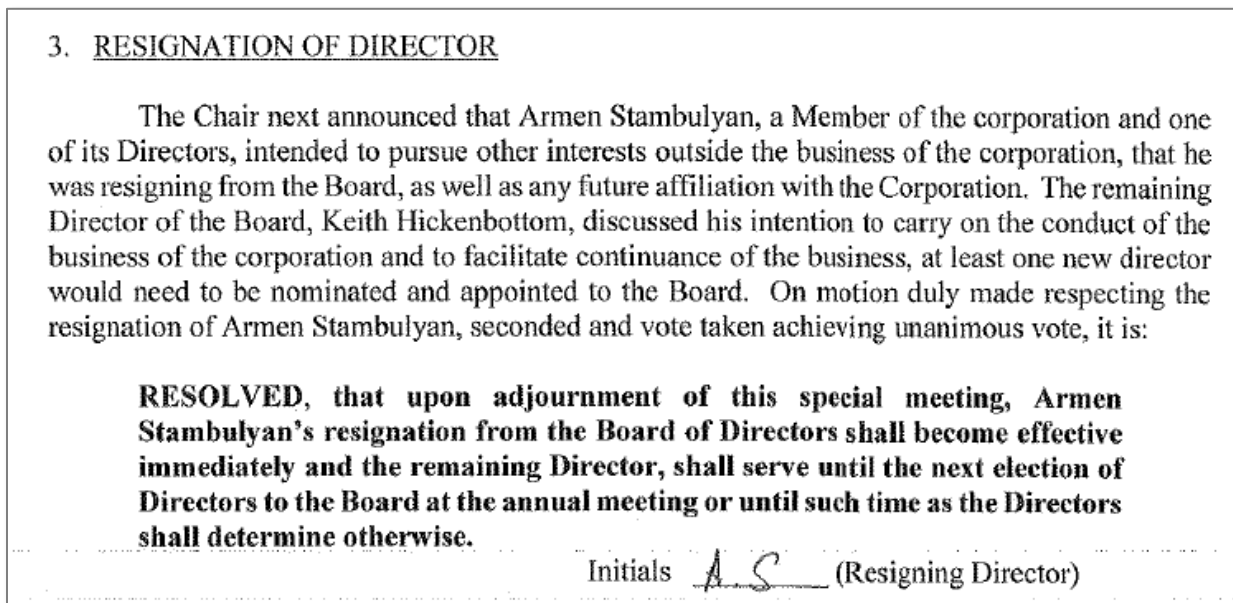
Safe Accessible Solutions filed a Cannabis Dispensary Permit Application for a modification in December 2017. The applicant for the modification was Keith Hickenbottom. The owners listed on the modification included Armen Stambulyan and Keith Hickenbottom. The modification listed a new director of the dispensary: Garib Karapetyan. The modification included a new address for the dispensary at 8131 36th Ave., Sacramento, CA. Finally, the modification listed the property owner/landlord as 8131 36th Avenue, LLC.

The limited liability company *36th Avenue, LLC* was founded in October 2015. This is notable because Garib Karapetyan, the new director for *Safe Accessible Solutions* is also one of the members of *36th Avenue, LLC*, the dispensary's landlord.

The City issued a modified dispensary permit to *Safe Accessible Solutions* in January 2018. The permit holders listed on the document were Armen Stambulyan and Keith Hickenbottom.

According to documents submitted to the City, the Board of Directors of *Safe Accessible Solutions* held a special meeting in January 2018. At the meeting, Armen Stambulyan resigned from the board.

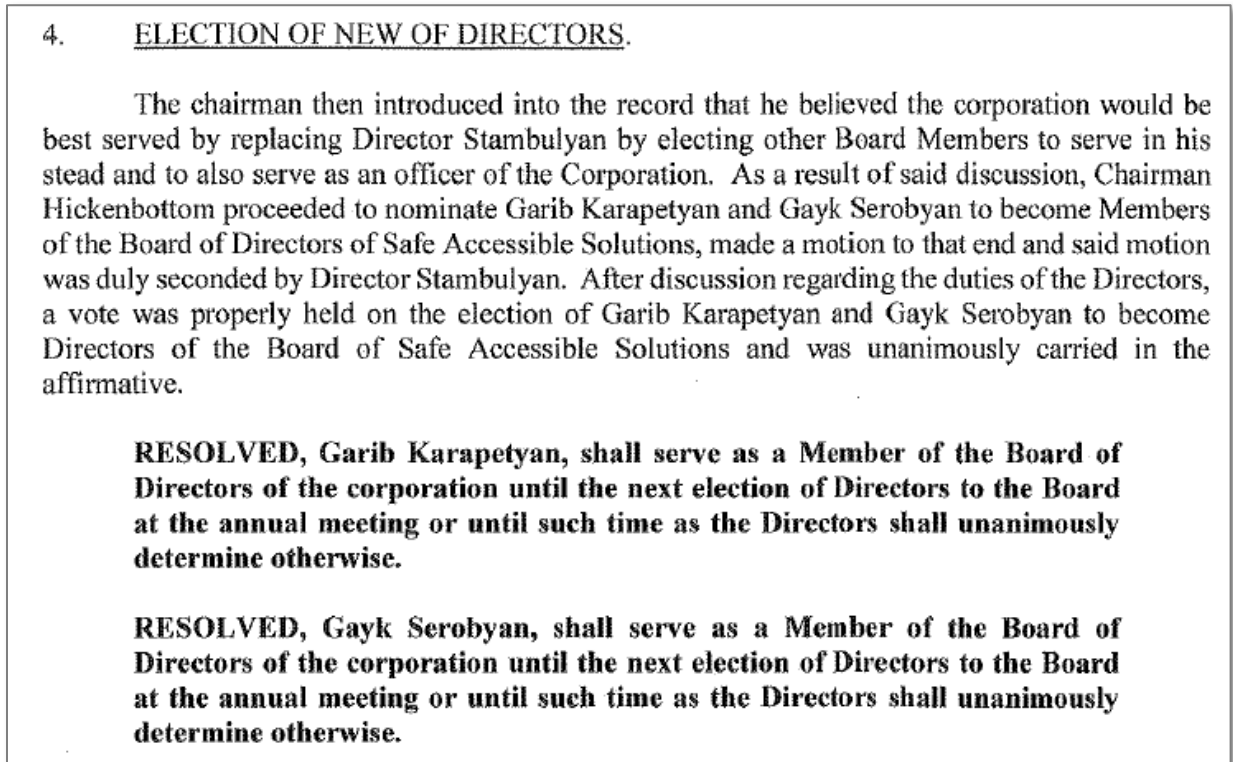
Figure 56: Armen Stambulyan Resigns from Board of Directors



Source: Documents provided by Office of Cannabis Management

Mr. Hickenbottom, according to the meeting minutes, then appointed Garib Karapetyan and Gayk Serobyan to the Board of the Directors.

Figure 57: Garib Karapetyan and Gayk Serobyan Appointed to the Board of the Directors



Source: City of Sacramento – Office of Cannabis Management

Finally, the newly composed Board of Directors appointed new corporate officers. The new officers included Garib Karapetyan, chief executive officer; Gayk Serobyan, chief financial officer; and Keith Hickenbottom, secretary.

Cannabis Dispensary Permit Application – 2018

In March 2018, *Safe Accessible Solutions* filed a Cannabis Dispensary Permit Application renewal to the City. The applicant was Keith Hickenbottom. The owners listed in the renewal application included Keith Hickenbottom and Armen Stambulyan.

According to documents provided to the City, the Board of Directors of *Safe Accessible Solutions* in May 2018 took another series of actions to recompose the Board Members. The action included Keith Hickenbottom resigning and appointing new directors.

Figure 58: Minutes from Special Meeting of *Safe Accessible Solutions* Board of Directors

Keith Hickenbottom, a Director of the Corporation, intends to resign from the Board and the Directors intend to elect Joe Karapetyan, Grach Serobyan, and Gevorg Kadzhikyan as additional Directors. Therefore Directors Garib Karapetyan, Gayk Serobyan, and Keith Hickenbottom, being all of the Directors of the Corporation desire to (a) fix the number of Directors of the Corporation at five in accordance with the Bylaws of the Corporation until such time as the number of Directors shall be revised and established pursuant to the Bylaws, (b) accept the resignation as Director of the Corporation of Keith Hickenbottom, and (c) elect Joe Karapetyan, Grach Serobyan, and Gevorg Kadzhikyan as Directors of the Corporation.

Source: Documents provided by Office of Cannabis Management

At this point, the directors of the corporation include Joe Karapetyan, Grach Serobyan, and Gevorg Kadzhikyan.

Cannabis Business Permit Name, Ownership and Management Change Form - 2018

In July 2018, *Safe Accessible Solutions* filed a Cannabis Business Permit Name, Ownership and Management Change Form with the City. According to the filing, Armen Stambulyan and Keith Hickenbottom relinquished their ownership in the dispensary. According to the filing, the new owners of *Safe Accessible Solutions* and their corresponding ownership shares include:

Figure 59: Ownership Breakdown of *Safe Accessible Solutions*

Name	Ownership Share
Greg Serobyan	16.67%
Joe Karapetyan	25%
Gayk Serobyan	16.67%
Garib Karapetyan	25%
Gevorg Kadzhikyan	16.66%

Source: OCA generated based on documents provided by the Office of Cannabis Management

The City issued an amended dispensary permit to *Safe Accessible Solutions* in July 2018. The permit holders listed on the permit include Greg Serobyan, Joe Karapetyan, and Gayk Serobyan.

Change from Nonprofit Mutual Benefit to General Stock Corporation - 2018

In October 2018, *Safe Accessible Solutions* filed Restate Articles of Incorporation – Nonprofit Mutual Benefit Corporation to General Stock Corporation. The company change its name to *Safe Accessible Solutions, Inc.* and authorized the sale of 10,000,000 shares of stock.

The next month, in November 2018, *Safe Accessible Solutions* filed Statement of Information with the Secretary of State to update corporate officials and directors. The officials listed on the statement included Garib Karapetyan, chief executive officer; Joe Karapetyan, secretary; and Gayk Karapetyan,

chief financial officer. The directors listed on the statement included Gevorg Kadzhikyan, Grach Serobyan, Joe Karapetyan, Garib Karapetyan, and Gayk Serobyan.

The City issued a new dispensary permit to *Safe Accessible Solutions* in April 2019. The permit holders listed in the document include permit holders: Greg Serobyan, Joe Karapetyan, Gayk Serobyan, Gevorg Kadzhikyan, and Garib Karapetyan.

Safe Capitol Compassion

The California State Board of Equalization issued a Seller's Permit to a medical cannabis dispensary called *River City Wellness Collective* in April 2009. The owner listed on the permit was Stefanie Carolina Vasquez.

The City issued a Business Operations Tax Certificate to *River City Wellness* in April 2009. Like the State permit, the name listed on the tax certificate was Stefanie C. Vasquez.

In April 2009, *River City Wellness Collective* (C3197158) filed Articles of Incorporation to establish a General Stock Corporation with the California Secretary of State. The next month, in May 2009, *River City Wellness Collective* filed with the Secretary of State to change the corporation's name to *Mary's Habits*. Finally, the next month, in June 2009, the corporation filed again with the Secretary of State to change the corporation name to *River City Wellness Collective*.

Medical Marijuana Dispensary Registration

In August 2009, *River City Wellness Collective* filed Medical Marijuana Dispensary Registration with the City. According to the form, the original address was 3318 Broadway, Sacramento, CA and the dispensary moved to 3830 Northgate St., Suite A, Sacramento, CA. The owner listed on the registration was Stefanie C. Vasquez. The City confirmed the registration in a September 2009 letter to Stefanie Vasquez and *River City Wellness Collective*.

The City issued a Business Tax Operations Certificate to *River City Wellness* in April 2010. The dispensary owner listed on the tax certificate was Stefanie C. Vasquez.

Medical Marijuana Application – Phase 1

In February 2011, *River City Wellness Collective* filed Medical Marijuana Dispensary Application – Phase 1 with the City. The managers listed on the application included Stefanie Vasquez, president and chief executive officer, and Anthony Vasquez, director.

In November 2011, new corporation named *True Compassion Cooperative, Inc.* (C3427022) filed Articles of Incorporation with the Secretary of State. The entity registered as a Cooperative Corporation. The incorporator was listed as Jacob Schmidt. The corporation's board then appointed Jacob Schmidt as chief executive officer, secretary, and treasurer, and Stefanie Vasquez was appointed as director of *True Compassion Cooperative*.

The next year, in May 2012, another corporation called *Safe Capitol Compassion Cooperative, Inc.* (C3475362) filed Articles of Incorporation with the Secretary of State as a cooperative corporation. The Board of Directors of *Safe Capitol Compassion Cooperative, Inc.* in June 2012 appointed Crystal Schmidt president, vice-president, secretary, and chief financial officer.

Safe Capitol Compassion Cooperative, Inc. (C3475362) filed Statement of Information with the Secretary of State in February 2014. The officers listed included Crystal Schmidt as chief executive officer, secretary, and chief financial officer.

Medical Marijuana Application – Phase 2

In March 2014, *Safe Capitol Compassion Cooperative, Inc.* (C3475362) filed Medical Marijuana Dispensary Application – Phase 2 to the City. The dispensary applied for a new address at 135 Main

Avenue, Sacramento, CA. The applicant listed was Crystal Schmidt. The owners listed on the application included Crystal Schmidt, Stephanie Vasquez, and Scott Schmidt.

The corporation changed names again in March 2015. *Safe Capitol Compassion Cooperative, Inc.* (C3475362) filed an Amendment of Articles of Incorporation to change the corporation name to *Inter-Stat Cooperative, Inc.* In the filing, Crystal Schmidt was listed as president and secretary.

The City issued a dispensary permit to *Safe Capitol Compassion* in May 2015. The permit holder listed on the document was Crystal Schmidt.

Cannabis Dispensary Permit Application – 2017

Safe Capitol Compassion Cooperative, Inc. filed Cannabis Dispensary Permit Application to the City in December 2017. The owner listed on the application was Crystal Schmidt.

Inter-Stat Cooperative Inc. (C3475362) filed Statement of Information with the Secretary of State in April 2018. The sole listed on the form was Crystal Nicole Schmidt as chief executive officer, secretary, and chief financial officer.

Cannabis Dispensary Permit Application – 2018

Safe Capitol Compassion Cooperative, Inc. filed Cannabis Dispensary Permit Application to the City in April 2018. The owner listed on the application was Crystal Schmidt.

The City issued a dispensary permit to *Safe Capitol Compassion* in May 2018. The permit holders listed on the application included Jacob Schmidt and Crystal Schmidt.

Cannabis Dispensary Permit Application – 2019

Safe Capitol Compassion filed a Cannabis Dispensary Permit Renewal Application with the City in April 2019. The owner listed on the application was Crystal Schmidt.

The City issued a dispensary permit to *Safe Capitol Compliance* in May 2019. The permit holders listed on the permit included Jacob Schmidt and Crystal Schmidt.

South Sacramento Care Center

In March 2009, a new corporation called *Septem Coma* filed Articles of Incorporation for a nonprofit Public Benefit Corporation with the California Secretary of State. The incorporator listed on the filing was Scott Candell.

The City issued a Business Operations Tax Certificate to a dispensary called *South Sacramento Care Center* in April 2009. The owner listed on the certificate was *Septem Loma, Inc.*

The Board of Directors for *Septem Loma* held a meeting in April 2009 and appointed senior management and the board of directors. The appointments included Albert Ish, director and president; Jim Scarberry, director and secretary; Matthew Allen, director and treasurer; and Gary Filzen, director and vice president.

Medical Marijuana Dispensary Registration

In July 2009, *South Sacramento Care Center* filed Medical Marijuana Registration to the City. The owners listed on the registration included Albert Darlington Ish III, Matthew David Allen, Gary Scott Flizen, and Jimmy Richard Scarberry. The City confirmed the dispensary registration a September 2009 letter to Albert Ish III and *South Sacramento Care Center*.

The City issued a new Business Operations Tax Certificate to *South Sacramento Care Center* in April 2010. The owner listed on the certificate was *Septem Coma, Inc.*

Meanwhile, in December 2010, both Gary Filzen and Jim Scarberry resigned from their positions at *Septem Coma, Inc.*

Medical Marijuana Application – Phase 1

Septem Coma, Inc. dba *South Sacramento Care Center* filed Medical Marijuana Dispensary Application – Phase 1 to the City in February 2011. The applicants listed in the application included Albert Darlington Ish III and Matthew Allen.

Medical Marijuana Application – Phase 2 – Original

South Sacramento Care Center filed Medical Marijuana Dispensary Application – Phase 2 to the City in October 2011. The applicants listed in the application included Albert Ish and Matthew Allen.

Medical Marijuana Application – Phase 2 -- Updated

South Sacramento Care Center filed Medical Marijuana Dispensary Application – Phase 2 to the City in March 2014. The corporate name listed on the application was *Septem Coma, Inc.* The owners listed on the application included Albert Ish and Matthew Allen. Ish and Allen were also listed as managers on the application.

In March 2015, the City issued a dispensary permit to *South Sacramento Care Center*. The permit holders listed on the permit included Albert Ish and Matthew Allen.

Medical Marijuana Renewal Application – 2016

South Sacramento Care Center filed Medical Marijuana Dispensary Renewal Application to the City in March 2016. The corporate name of the dispensary listed on the application was *Septem Coma*. The

applicant listed was Albert Ish. The owners listed on the application included Albert Ish and Matthew Allen.

The City issued a dispensary permit to *South Sacramento Care Center* in March 2016. The permit holder listed was Albert Ish. The city issued another dispensary permit to *South Sacramento Care Center* in March 2017. The permit holders listed included Albert Ish and Matthew Allen.

Septem Coma Inc. filed a Statement of Information with the California Secretary of State in August 2017 to update the corporation's current officers. The officers listed included Matthew Allen as chief executive officer, secretary, and chief financial officer. The statement also listed Albert Ish III as president of the corporation.

Cannabis Dispensary Permit Application – 2018

South Sacramento Care Center filed a Cannabis Dispensary Permit Renewal Application to the City in February 2018. The applicant listed was Robert Ish. The owner listed on the application was Matthew Allen.

The City issued a dispensary permit to *South Sacramento Care Center* in March 2019. The permit holders listed included Albert Ish and Matthew Allen.

In March 2019, *Septem Coma* filed a Fictitious Business Name Statement with the County of Sacramento to operate under the name *South Sacramento Care Center*.

In September 2019, *Septem Coma Incorporated* filed Restated Articles of Incorporation and changed from a nonprofit mutual benefit corporation to a corporation organized under General Corporation Law. The corporation also authorized the issuance of 1,500 shares of stock.

In October 2019, *Septem Coma* filed a Cannabis Business Information Change Form to the City. The owners and respective ownership stake in the dispensary included Albert Ish holding a 50 percent ownership interest and Matthew Allen holding the corresponding 50 percent.

THC Sacramento Sharp Source

In August 2008, a new entity called *12-Hour Care Collective* (C3159299) filed Articles of Incorporation with the Secretary of State as a nonprofit mutual benefit corporation. According to the filing, the initial directors of the corporation included Ethan B. Laver and Charles Roll.

The City issued a Business Operations Tax Certificate to *12 Hour Care Collective* in July 2009. The owner listed on the certificate was Charles J. Roll.

Medical Marijuana Dispensary Registration

In July 2009, *12 Hour Care Collective* filed Medical Marijuana Dispensary Registration to the City. The owner listed on the registration was “12 Hour Care Collective, Inc. (CA Mutual Benefit Corp)”. The address listed on the registration was 6666C Fruitridge, Sacramento, CA. The City confirmed the registration in a September 2009 letter to “Mutual Benefit Corp, 12 Hour Care Collective.”

In September 2009, *12 Hour Care Collective* (C3159299) filed Statement of Information with the Secretary of State. The officers listed included Ethan Laver, chief executive officer and secretary; and Charles Roll, as chief financial officer.

The City issued a Business Operations Tax Certificate to *Twelve Hour Care Collective* in July 2010. The owner listed on the certificate was 12-Hour Care Collective.

Medical Marijuana Dispensary Application – Phase 1

In January 2011, *12 Hour Care Collective* filed Medical Marijuana Dispensary Application – Phase 1 to the City. The applicants and managers listed in the file included Ethan B. Laver and Charles J. Roll. The address listed on the application was 6666 Fruitridge Road, Unit C, Sacramento, CA.

Medical Marijuana Dispensary Application – Phase 2 – Original

In October 2011, *12 Hour Care Collective* filed Medical Marijuana Dispensary Application – Phase 2 with the City. The applicant name on the filing was Charles Roll and the address was 6666 Fruitridge Rd., Sacramento, CA.

Meanwhile, a new corporate entity incorporated at the same address. In September 2013, a new entity called *Sharp Source* (3606632) filed Articles of Incorporation with the Secretary of State as a Nonprofit Mutual Benefit Corporation. The initial street and mailing address for the corporation is 6666C Fruitridge Rd., Sacramento, CA. The Bylaws filed by *Sharp Source* in September 2013 listed Grigor Msryan as a director.

One month later, *Sharp Source* filed a Statement of Information with the Secretary of State to list corporate officials. The statement listed Grigor Msryan as chief executive officer, secretary, and chief financial officer.

Medical Marijuana Dispensary Application – Phase 2 – Update

In March 2014, *12 Hour Care Collective (THC)* filed Medical Marijuana Dispensary Application – Phase 2 with the City. The address listed on the application was 6666C Fruitridge Rd., Sacramento, CA. The corporate name of the dispensary listed on the application was *Sharp Source*. The applicant listed was Ethan Laver. The owners listed on the application were Grigor Msryan and Ethan Laver.

According to minutes from an annual meeting of the *Sharp Source* board of directors in September 2014, the board was comprised of Ethan Laver and Grigor Msryan. At the meeting, Msryan was appointed as chief executive officer, secretary, and chief financial officer. The minutes were signed by Grigor Msryan.

Less than a month after the annual board meeting, *Sharp Source* filed a Statement of Information with the Secretary of State registering a complete overhaul of the management team. According to the filing, Ethan Laver was named chief executive officer, secretary, and chief financial officer.

The City issued a dispensary permit to *12 Hour Care Collective* in February 2015. The permit holder listed was Ethan Laver.

At the next annual meeting of the *Sharp Source* board of directors in September 2015, Ethan Laver was appointed as chief executive officer, secretary, and chief financial officer.

One month later, *Sharp Source* submitted a Statement of Information to the Secretary of State in which a new official was introduced. The officials listed included Ethan Laver as chief executive officer and secretary, and Garib Karapetyan as chief financial officer.

Medical Marijuana Dispensary Application – Renewal - 2015

Twelve Hour Care filed Medical Marijuana Dispensary Renewal Application to the City in December 2015. The applicant listed was *Sharp Source*, a California mutual benefit corporation. The owners listed in the application included Garib Karapetyan and Ethan Laver.

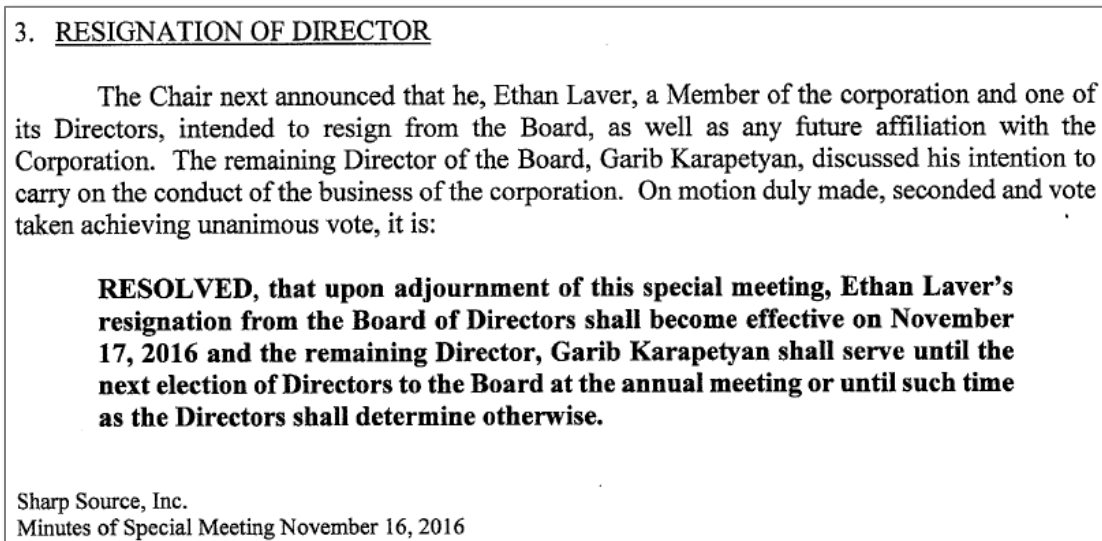
Sharp Source filed a Statement of Information with the Secretary of State in January 2016. The officials listed included Ethan Laver as chief executive officer and secretary, and Garib Karapetyan as chief financial officer.

The *Sharp Source* board of directors held another annual meeting in January 2016. According to board minutes, the board appointed Ethan Laver to chief executive officer and secretary; and Garib Karapetyan was appointed chief financial officer. Both Laver and Karapetyan were appointed as board members.

The City issued a dispensary permit to *Sharp Source dba THC Sacramento* in January 2016. The permit holder listed on the document was Ethan Laver.

In November 2016, the board of directors of *Sharp Source, Inc.* held a special meeting during which Ethan Laver resigned his position on the board of directors. According to the minutes:

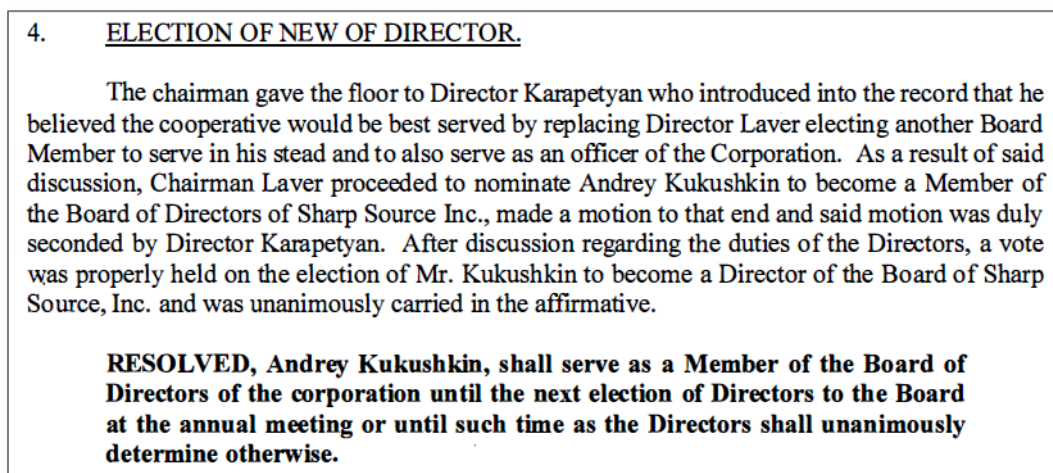
Figure 60: Laver Resigned from *Sharp Source*



Source: Document provided by the Office of Cannabis Management

At the meeting, according to the minutes, Ethan Laver nominated and the board approved Andrey Kukushkin to the board of directors.

Figure 61: Andrey Kukushkin Appointed to *Sharp Source* Board of Directors



Source: Document provided by the Office of Cannabis Management

In addition, Garib Karapetyan was chief executive officer and secretary of *Sharp Source*; and Andrey Kukushkin as chief financial officer.

Medical Marijuana Dispensary Application – Renewal – 2016

In December 2016, *THC Sacramento* filed a Medical Marijuana Dispensary Renewal Application to the City. The applicant listed on the application was “*Sharp Source*, a California mutual benefit corporation / Garib Karapetyan.” The dispensary corporate name listed on the application was *Sharp Source, Inc.* The owner listed on the application included Garib Karapetyan and Andrey Kukushkin.

Sharp Source filed a Statement of Information with the Secretary of State in January 2017. The officials listed on the statement included Garib Karapetyan as chief executive officer and secretary; and Andrey Kukushkin as chief financial officer.

In January 2017, the City issued a dispensary permit to *THC Sacramento*. The permit holders listed included “*Sharp Source*, Garib Karapetyan.”

The City issued a modified dispensary permit on February 7, 2017. The permit holders listed on the modified permit included *Sharp Source*, Garib Karapetyan, and Aundrey Kukushkin.

Cannabis Dispensary Permit Application – 2017

In December 2017, *Sharp Source* (dba *THC*) filed a Cannabis Dispensary Permit Modification Application to the City. The applicant listed on the filing was Garib Karapetyan. The owners listed on application included Garib Karapetyan, director, and Andrey Kukushkin, director.

The City issued a modified dispensary permit to *THC Sacramento* in January 2018. The permit holders listed on the permit included *Sharp Source*, Garib Karapetyan, and Aundrey Kukushkin.

Cannabis Dispensary Permit Application – 2018

In January 2018, *Sharp Source* filed Cannabis Dispensary Permit Application – Renewal to the City. The dispensary name listed on the application was *Sharp Source* (dba *THC* or *Twelve Hour Care*). The applicant listed was Garib Karapetyan. The owners listed included Garib Karapetyan and Andrey Kukushkin.

The City issued a dispensary permit to *THC Sacramento* in January 2018. The permit holders listed on the document included *Sharp Source*, Garib Karapetyan, and Aundrey Kukushkin.

In February 2019, *Sharp Source* filed a Statement of Information with the Secretary of State. The corporation listed Garib Karapetyan chief executive officer and secretary, and Andrey Kukushkin as chief financial officer. Kukushkin is no longer listed as an owner.

Two Rivers Wellness

In March 2005, a corporation called *Roseville Gold INC* (C2728116) filed Articles of Incorporation with the California Secretary of State. The incorporator of the entity was Justin Flanery.

The City issued a Business Operations Tax Certificate to *Roseville Gold* in April 2009. The owner listed on the tax certificate was Justin Flanery.

Medical Marijuana Dispensary Registration

Roseville Gold filed Medical Marijuana Dispensary Registration to the City in August 2009. The owner listed on the registration documents was Justin Flanery. The address listed was 1406 28th Street, Sacramento, CA.

In March 2011, a new corporate entity called *Roseville Gold, Inc.* (C3364037) filed Articles of Incorporation with the Secretary of State. The entity was established as a nonprofit mutual benefit corporation. The incorporators listed on the filing are Justin Flanery and Carol Flanery.

Medical Marijuana Dispensary Application – Phase 1

Roseville Gold filed Medical Marijuana Dispensary Application – Phase 1 with the City in February 2011. The proposed location listed on the application was 701 “J” Street, Sacramento, CA. Justin Flanery was listed on the filing as the Applicant and Managing Member.

Medical Marijuana Dispensary Application – Phase 2 – Original

Roseville Gold filed Medical Marijuana Dispensaries Application – Phase 2 to the City in October 2011. The dispensary address listed on the application was 315 N. 10th Street, Sacramento, CA and the listed applicant was Justin Flanery.

In April 2012, *Roseville Gold, Inc.* held a meeting of the board of directors where new officials and directors were appointed. The board appointed Justin Flanery as president, secretary, and member of the board of directors; and Carol Flanery as treasurer and member of the board of directors.

Medical Marijuana Dispensary Application – Phase 2 – Update

Roseville Gold, Inc. filed Medical Marijuana Dispensary Application – Phase 2 Update to the City in March 2014. The application sought to operate as a dba called *Two Rivers Wellness*. The address was listed as 315 N. 10th Street, Sacramento, CA. The applicants listed on the filing were Justin Flanery and Carol Flanery.

The City issued a dispensary permit to *Two Rivers Wellness* in March 2015. The permit holder listed was Justin Flanery.

Medical Marijuana Dispensary Application – Renewal – 2016

Two Rivers Wellness filed Medical Marijuana Dispensary Renewal Application in February 2016. The corporate name of the dispensary listed on the application was *Roseville Gold, Inc.* The applicants listed on the renewal included Justin Flanery and Corey Travis. The owners listed on the application included Justin Flanery and Corey Travis.

The City issued a dispensary permit to *Two Rivers Wellness* in March 2016. The permit holders listed include Justin Flanery and Carol Flanery.

In December 2016, *Roseville Gold Inc.* (C3364037) filed Statement of Information with the Secretary of State to register corporate officers. The individuals listed as officers include Justin Flanery as chief executive officer and secretary; and Carol Flanery, chief financial officer.

Roseville Gold, Inc. submitted documents to the City stating that Justin Flanery was the owner of the corporation in 2016.

In March 2017, the City issued a dispensary permit to *Two Rivers Wellness*. The permit holders listed included Justin Flanery, Carol Flanery and Corey Travis.

Cannabis Dispensary Application – 2018

Two Rivers Wellness filed Cannabis Dispensary Permit Application – Renewal to the City in February 2018. The applicant listed was Forrest Heise. The owners listed were Justin Flanery, chief executive officer, and Carol Flanery, chief financial officer.

In February 2018, the City issued a modified dispensary permit to *Two Rivers Wellness*. The permit holder listed Justin Flanery and Carol Flanery. The next month, in March 2018, the City issued a dispensary permit to *Two Rivers Wellness*. The permit holders listed were Justin Flanery and Carol Flanery.

In April 2019, *Roseville Gold Inc.* (C3364037) filed Statement of Information with the Secretary of State listing corporate officials. The officials listed included Justin Flanery, chief executive officer and secretary; and Carol Flanery, as chief financial officer.

Valley Health Options

Valley Health Options received a Seller's Permit from the California State Board of Equalization in December 2008. The owner of the dispensary was Tina Childs, "et al", according to the permit.

Medical Marijuana Dispensary Registration

In order to comply with the City's changing regulatory environment over medical cannabis, *Valley Health Options* submitted a Medical Marijuana Dispensary Registration with the City. Buddy Bergstrom was listed as the owner of the dispensary located at 1421 Auburn Blvd., Sacramento, CA. The City notified Bergstrom that the dispensary was officially registered in a September 2009 letter.

Medical Marijuana Application – Phase 1

In order to meet new permitting requirements in the City, *Valley Vision Options* filed Medical Marijuana Dispensary Application – Phase 1 on February 2011. The application did not list an applicant or owners. However, the application listed Justin Childs as a manager.

Shortly after filing the application, *Valley Vision Collective, Inc.* filed Articles of Incorporation for a Nonprofit Mutual Benefit Corporation.

Medical Marijuana Application – Phase 2

Tina Childs and Buddy Bergstrom filed a Medical Marijuana Application – Phase 2 in October 2011. They were listed as the applicants.

Tina Childs and Buddy Bergstrom later filed an updated Medical Marijuana Application – Phase 2 for *Valley Health Options* in March 2014. Childs and Bergstrom were listed as the owners of the dispensary.

In October 2015, the City issued a Dispensary Permit to *Valley Health Options* and listed Tina Childs as the permit holder. The address listed on the permit was 1421 Auburn Blvd.

Medical Marijuana Renewal Application – 2015/2016

Tina Childs filed a Medical Marijuana Renewal Application on behalf of *Valley Health Options Collective Inc.* in January 2016. The application listed Tina Childs and Buddy Bergstrom as owners. The corporate name listed on the application was *Valley Health Options Collective, Inc.* and the address was 1421 Auburn Blvd., Sacramento, CA.

The City issued a permit to *Valley Health Options* in February 2017. The permit holders listed were Tina Childs and Buddy Bergstrom. The address listed was 1421 Auburn Blvd., Sacramento, CA.

In December 2017, the City issued a modified dispensary permit to *Valley Health Options*. The permit holders listed were Tina Childs and Buddy Bergstrom, and the address was listed as 1421 Auburn Blvd., Sacramento, CA.

In January 2018, Tina Childs filed a Cannabis Dispensary Permit Application Renewal on behalf of *Valley Health Options Collective, Inc.* Tina Childs and Buddy Bergstrom were listed as the owners of the dispensary.

The City issued a dispensary permit for *Valley Health Options* in February 2018. The permit holders listed included Tina Childs and Buddy Bergstrom. The address listed on the permit was 1421 Auburn Blvd., Sacramento, CA.

In July 2018, a Statement of Information was filed with the California Secretary of State on behalf of *Valley Health Collective*. The statement listed Tina Childs as chief executive officer and chief financial officer, and Buddy Bergstrom as secretary.

The City issued a permit to *Valley Health Options* in February 2019. The permit holders listed included Tina Childs and Buddy Bergstrom. The address listed on the permit was 1421 Auburn Blvd., Sacramento, CA.

Nonprofit Mutual Benefit to General Stock

Finally, *Valley Health Collective, Inc.* filed with the Secretary of State to restate the corporation from a nonprofit mutual corporation to a general stock corporation. The number of shares the corporation was authorized to issue was 10,000. Tina Childs was listed as the president of the entity and Buddy Bergstrom was listed as secretary.

Zen Gardens Wellness

In early 2008, *Cherry Orchard, LLC* filed for incorporation with the California Secretary of State. The limited liability corporation was incorporated by Vincent Villareal. Also in 2008, *Cherry Orchard, LLC* received a Seller's Permit from the California State Board of Equalization. The name of the dispensary registered with the state was *East Bay Health Solutions*.

In April 2009, the City issued a Business Operations Tax Certificate to the dispensary. The name of the dispensary listed on the certificate was *East Bay Health Solutions*. The business address was 2201 Northgate Blvd. H, Sacramento, CA, and the owner was Peter V. Villareal.

In July 2009, *Cherry Orchard LLC* (200902110336) filed a Statement of Information. The document listed Vincent Villareal as its sole manager and the address was 2201 Northgate Blvd., Sacramento, CA.

Medical Marijuana Dispensary Registration

In order to comply with the City's changing medical cannabis regulatory environment, *East Bay Health Solutions Collective of Sac* filed Medical Marijuana Dispensary Registration with the City. The name of the business listed on the application was *East Bay Health Solutions Collective of Sacramento*. The address was 2201 Northgate Blvd, Sacramento, CA, and the owner was listed as Peter Villareal.

The City notified the dispensary in September 2009 that registration was completed. The letter, signed by the revenue manager, was sent to Peter Villareal and *East Bay Health Solutions (EBHS)*.

In January 2011, the members of *Cherry Orchard LLC* executed an Amended and Restated Operating Agreement that listed the initial owners' capital contributions. The members that signed the contract and their capital contributions included Matthew Davies: \$59,400.00, Mary Smith: \$59,400.00, and Vincent Villareal: \$1,200.

Medical Marijuana Application – Phase 1

In order to meet new permitting requirements set by the City, *Cherry Orchard LLC dba East Bay Health Solutions* filed Medical Marijuana Application – Phase 1 in February 2011. The name of the dispensary listed on the application was *Cherry Orchard LLC dba East Bay Health Solutions*; the address was 2201 Northgate Blvd. H, Sacramento; and the applicant was Matthew Davies on behalf of *Cherry Orchard LLC dba East Bay Health Solutions*.

Also in February 2011, *Cherry Orchard, LLC* filed Fictitious Business Name Statement to register the use of the dispensary name *East Bay Health Solutions*. The owner of the dispensary was listed as *Cherry Orchard, LLC* and the statement was signed by Matthew Davies.

Meanwhile, in December 2012, a new corporation called *PSAC, Inc.* (C3531714) was created through filing articles of incorporation with the California Secretary of State. The incorporator of the new corporate entity was Justin Flanery.

In January 2014, Vincent Villareal sent an email to the Revenue Manager for the City tasked with overseeing medical cannabis permitting, seeking information about how to reopen a dispensary. The email stated:

Figure 62: Request to Reopen Dispensary

Brad Wasson at the city of Sacramento.
what do i need to have in order to reopen the
location.at 2201 northgate blvd
a new non profit entity will need to be formed
with myself as a director. Reason being, I
dont want any affiliation with Matt Davies or any
LLC he was a part of. Peter Villarreal

Source: Documents provided by Office of Cannabis Management

The City's Revenue Manager scheduled a time to meet with Villarreal to discuss the reopening of the dispensary.

In March 2014, Vincent Villarreal, one of the three owners of *Cherry Hill LLC dba East Bay Health Solutions* sent a letter to the City notifying that the an entirely new corporate entity would assume ownership of the dispensary and the new corporation would submit the next application phase. The letter stated:


Figure 63: Letter from Vincent Villarreal to City of Sacramento – Change of Ownership

To Whom It May Concern,

I am advising the City of Sacramento I will be continuing to pursue the Phase II Application for East Bay Health Solutions with a different corporate entity. As the applicant and an authorized representative of Cherry Orchard, LLC, I wish to advise the City I will be submitting and updated Phase II under P.S.A.C, Inc. I have NOT authorized any other person or entity to continue with my application.

As a board member of P.S.A.C, Inc. as well as being the original applicant, I make this change while preserving the continuity of my registration.

Sincerely,



Peter Villarreal

Source: Documents provided by Office of Cannabis Management

In March 2014, the California Department of Tax and Fee administration issued a Seller's Permit to *Zen Garden Wellness*. The department also named *P.S.A.C., Inc.* on the permit.

Medical Marijuana Application – Phase 2

In April 2015, a new corporate entity filed a Medical Marijuana Dispensary Application – Phase 2 for a dispensary called *Zen Gardens Wellness*. One of the applicants and managers named was the original

owner of the dispensary and *Cherry Orchard, LLC*, Vincent Villarreal. However, Villarreal listed that his interest was affiliated with *P.S.A.C., Inc.*, the newly formed entity. The application also named several new owners and managers including Corey Travis, applicant, owner and chief financial officer/ director; Justin Flanery, owner and vice president; and Shane Smith, director. The address of the dispensary was the same, 2201 Northgate Blvd., Sacramento, CA.

The City issued a Dispensary Permit in May 2015 to *Zen Gardens Wellness*. The organization name on the permit was *Zen Garden Wellness (P.S.A.C.)*, the permit holders included Peter Vincent Villarreal, Corey Travis, and Justin Flanery. The address was listed as 2201 Northgate Blvd.

Medical Marijuana Renewal Application – 2016

Zen Gardens Wellness (P.S.A.C., Inc.) filed Medical Marijuana Dispensary Renewal Application in April 2016. The applicants listed included *P.S.A.C., Inc.* (C3531714) and Corey Travis. The owners listed included Corey Travis, Peter Vincent Villarreal, and Shane Smith. The officers and directors included Corey Travis, president and director; and Shane Smith, vice president and director.

In May 2016, the city issued a Dispensary Permit to *Zen Gardens*. The organization name on the permit was *Zen Gardens Wellness (P.S.A.C., Inc.)*. The permit holders listed were Corey Travis, Peter Vincent Villarreal, and Shane Smith.

In the May 2017, the city issued a Dispensary Permit to *Zen Gardens*. The organization name on the permit was *Zen Gardens Wellness (P.S.A.C., Inc.)*. The permit holders listed were Corey Travis and Shane Smith.

Based on information provided to the city, the dispensary owners and directors engaged in litigation related to dispensary control. In a September ruling from the Sacramento Superior Court, the ruling stated: “WHEREAS, the operation of PSAC shall be vested with Shane Smith and Corey Travis as PSAC officers and pursuant to the current City of Sacramento Dispensary Permit . . . “WHEREAS, Justin Flanery is confirmed as the sole member of the Board of Directors of PSAC.”

Meanwhile, *P.S.A.C., Inc.* (C3531714) filed a Statement of Information with the Secretary of State in March 2018 that listed two officers for the entity: Corey Travis, chief executive officer and secretary, and Shane Smith, chief financial officer.

In May 2018, the city issued a Dispensary Permit – Medical | Adult Use to *Zen Garden Wellness (P.S.A.C.)*. The permit holders named on the permit were Corey Travis and Shane Smith.

In May 2019, the city received a Cannabis Business Permit Relocation, Ownership and Management Change Form for *Zen Garden Wellness*. The dispensary owner name was listed as *P.S.A.C., Inc.* (C3531714). The form noted a change in the ownership structure of the corporation. While, the former ownership was not provided, the new owners were listed, including: Corey Travis, president and 50 percent owner; Shane Smith, vice president and 50 percent owner; and Justin Flanery, director and 0 percent ownership.

The city issued a Dispensary to for the *Zen Gardens Wellness* dispensary in May 2019. The organization name on the permit was *Zen Garden Wellness (P.S.A.C.)* and the permit holders were Corey Travis and Shane Smith.