



Council Agenda Report

Department Name: Administration
Cost Center: 1001
For Agenda of: May 4, 2021
Placement: Consent
Estimated Time: N/A

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SUBJECT: AUTHORIZE A CONTRACT WITH HDL COMPANIES FOR CANNABIS PROGRAM SERVICES

RECOMMENDATION

Authorize the City Manager, or their designee, to execute a contract with HdL Companies to provide support services for the operations of the City's Cannabis Business Program.

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Authorize the City Manager, or their designee, to execute a contract (Attachment A) with HdL Companies to provide support services for the operations of the City's Cannabis Business Program.

DISCUSSION

Following a year of analysis of operator license fees, on January 19, 2021, the City Council approved Resolution 11213 (Attachment B), updating the commercial cannabis business operator permit fee for all types of cannabis businesses within the City. The operator permit fee adopted by City Council captures the total costs involved to ensure the City is 100% reimbursed for the staff time, consultant fees, and other expenses, which are essential to managing the Cannabis Program.

Following the approval of Resolution 11213, City staff is recommending using HdL Companies (HdL) to assist with continuation of the City's Cannabis Program. Should Council authorize this contract, HdL will continue to provide cannabis application services and provide new services related to cannabis operator permits.

Background

Following the passage of the City's Cannabis Business Tax ballot measure in November 2018, the City Council approved the fee structure, application criteria and zoning regulations to allow for cannabis businesses to operate in the City on November 27, 2018. A year after the initial regulations were adopted, staff returned to the City Council on December 3, 2019 with a Cannabis Program update.

At this meeting, the City Council adopted recommended changes to the original cannabis application fees, which allowed all operators to pay an initial application fee and a secondary fee once the contingent operator permit was granted, thus lowering the initial application costs. Additionally, staff committed to come back to Council with an analysis of operator license fees after one full year of operations to collect information on actual time spent compared to the assumptions used in developing the original fees. Staff brought that analysis to City Council on January 19, 2021 in the form of a fee study and fee recommendation, which the City Council adopted.

As part of the fee study process, the City researched alternative service delivery approaches for regulatory compliance inspections, cannabis tax audits, and background check renewals for owners and employees. Through the research, staff determined that the City can provide the same level and quality of service for some aspects of the program for a reduced cost by utilizing a consultant for some components of regulatory compliance inspections, cannabis tax audits, and background check renewals for owners and employees. This approach is consistent with other cities that have utilized consultants similarly for some aspects of the cannabis program services such as Grover Beach, Goleta, Port Hueneme, etc.

City staff has since concluded – through a review of consultant services needed, cost, and the Cannabis Program requirements – that HdL can provide the services desired in accordance with the City's Cannabis Program regulations and the fees adopted by City Council. HdL has over 30 years of experience providing consulting services to government agencies throughout California and other states. HdL's Cannabis Management Program has been used by many agencies in the State to assist with application proctoring, compliance monitoring, auditing, background checks, and other consulting services.

Locally, HdL has worked successfully with other agencies' Cannabis Programs such as Grover Beach to provide compliance checks and audits. Likewise, HdL has experience working with the City's Cannabis Program as they have assisted with two application rounds in which they proctored the application scoring and assisted with application completeness checks. Outside of the Cannabis Program, the City's Finance Department has utilized HdL for multiple years as a sales tax consultant and has recently partnered with them for Utility User Tax services. It is therefore staff's recommendation to enter into a contract with HdL to assist with the City's Cannabis Program to provide Operator Permit and Application services.

Scope of Services (Attachment C)

Should the contract with HdL Companies be authorized, the City will utilize HdL for the following services:

Operator Permit Services:

- Conduct one annual cannabis tax audit of each licensed cannabis business to ensure proper reporting and remittance of cannabis taxes to the City.
- Conduct four on-site compliance inspections of each licensed cannabis business annually to ensure ongoing compliance with all state and local laws in conjunction with the Police Department,

Application Permit Services:

- Screen all initial cannabis business applications for completeness.
- Proctor the City's application review process.
- Provide initial background checks and renewals for all owners, managers and employees of the City's commercial cannabis businesses subject to review and approval of the Police Department.

Additional Cannabis Program Support:

- Provide technical assistance and support for process improvement and program modification.

Previous Council or Advisory Body Action

On November 27, 2018, the City Council approved both application and operating license fees for the Cannabis Business Program.

On December 3, 2019, the City Council approved a change to the cannabis application fees that allowed all operators to pay an initial application fee and a secondary fee once the contingent operator permit was granted, thus lowering the initial application fee.

On January 19, 2021, the City Council approved a change to the operator permit renewal fee, which reduced the fee for all operators and placed all operators on the same fiscal year renewal cycle.

Policy Context

The recommendation to execute a contract with HdL Companies to support cannabis services is consistent with overall goals of the Cannabis Business Program and all applicable sections of the Municipal Code. The adopted cannabis operator permit renewal fees and application fees not only provide business support and compliance monitoring for cannabis businesses, but consultant support will also streamline the process administratively for both businesses and City staff.

Public Engagement

The current application and operator permit fee ordinances and resolutions were considered and adopted by City Council on May 15, 2018, October 16, 2018, November 27, 2018, December 3, 2019 and January 19, 2021. Since that time, staff have been in regular communication with applicants, business operators and industry representatives receiving feedback on a wide range of issues related to the implementation of the Cannabis Business Program.

For this item, no public engagement was conducted as this is considered to be an administrative item. However, extensive public engagement was done prior to City Council's adoption of the operator permit renewal fees adopted January 19, 2021, in which cannabis operator permit holders supported the recommendation to reduce the cannabis operator permit fees based on the results of the fee study.

CONCURRENCE

A Steering Committee and Cannabis Team of City staff members including staff from the departments of Administration, the City Attorney's Office, Community Development, Finance and the Police Department supports the action to execute a contract with HdL Companies to support cannabis services for cannabis operator permits and cannabis application scoring as it relates to the City's Cannabis Program.

ENVIRONMENTAL REVIEW

The California Environmental Quality Act does not apply to the recommended action in this report, because the action does not constitute a "Project" under CEQA Guidelines Sec. 15378.

FISCAL IMPACT

Budgeted: Yes
Funding Identified: Yes

Budget Years: 2021-2023

Fiscal Analysis:

Funding Sources	FY 2021-2022 Cost	FY 2022-2023 Cost	Total Project Cost
General Fund			
State			
Federal			
Community Development	\$52,095	\$57,345	
Finance	\$30,000	\$48,000	
Other:			
Total	\$82,095	\$105,345	

As a part of the 2021-2023 Financial Plan which will be brought before the City Council on June 1, 2021, staff has included a request for Cannabis Consultant Services for both fiscal years. The request is for required consultant support of the Cannabis Business Program and will be funded through either operator permit or application fees.

Due to the fee-for service model and contract, the total work by HdL Companies for the Cannabis Program could exceed \$100,000 in any given fiscal year dependent on the number of operator permits and applications received. As is consistent with the City's purchasing policy, this contract is being brought to the Council for review as it may exceed \$100,000 in any given year.

ALTERNATIVES

1. ***Do not move forward with the contract with HdL Companies and instead have staff complete the proposed Scope of Services.*** This is not advised as the cost for staff to provide the same Scope of Services would be significantly higher than HdL Companies and the overall operator permit fee adopted in Resolution 11213. For staff to provide the same Scope of Services, staff would need to readjust the fees and come back to City Council with a new fee recommendation as staff cannot provide the full scope of services within the current fee adopted by City Council January 19, 2021.
2. ***Do not move forward with the contract with HdL and instead select a different consultant to complete this work.*** This is not advised as HdL Companies provides expert services with experience working within the City of San Luis Obispo's Cannabis Program at a rate within the fees adopted by City Council. Likewise, staff is not aware of any vendor, aside from HdL, that provides the full suite of services needed at the quality of HdL's work and cost that fits within the fees adopted by the City Council.
3. ***Authorize staff to move forward with modified recommendation.*** Given the nature of the contract, the City Council could authorize the contract with HdL Companies under the fee-for-service model but require staff to return to the City Council should contract exceed \$200,000 or any amount deemed appropriate by the City Council in any given fiscal year.

Attachments:

- a - Contract with HdL Companies for Cannabis Program Services**
- b - Resolution No. 11213 (2021 Series) - Master Fee Schedule**
- c - COUNCIL READING FILE - HdL Scope of Services**