

City of San Luis Obispo

Cannabis Compliance and Audit Services

March 25, 2021

HdL  Companies

SUBMITTED BY

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I. LETTER OF TRANSMITTAL

March 25, 2021

Greg Herman
Deputy City Manager
City of San Luis Obispo
990 Palm Street
San Luis Obispo, CA 93401

Re: Proposal for Cannabis Compliance and Audit Services

Dear Mr. Herman,

Thank you for the opportunity to submit this proposal for cannabis management services for the City of San Luis Obispo. The enclosed scope of services is designed to provide annual cannabis tax audits of each licensed cannabis business, quarterly compliance inspections, screening of cannabis business applications and proctoring meetings of the City's review panel, along with background check renewals and additional hours of technical assistance or subject matter expertise to be used as needed at the City's request. All services are offered at a straight per-unit cost and would be billed on a monthly basis depending on the number of each service requested and provided.

HdL was incorporated in 1983 and has over 30 years of experience providing revenue enhancement and consulting services to local governments in California. HdL is a consortium of three companies established to maximize local government revenues by providing audit, compliance, economic development, consulting services and software products. Its audit and consulting services include sales, use and transaction taxes, property taxes, transient occupancy taxes, and a Cannabis Management Program. HdL's systematic approach to revenue management and economic analysis is currently being utilized by over 500 agencies in six states. The firm currently serves 49 counties, 311 cities and 132 transactions tax districts in California.

Our knowledgeable team of professionals have more than 52 years' combined experience in the establishment and implementation of cannabis regulatory programs including establishing land-use regulations, registration processes, operation regulations for cannabis facilities, staffing plans, cost recovery, structuring cannabis business taxes and conducting compliance and financial audits.

We look forward to the opportunity to partner with the City of San Luis Obispo in developing a strategy which meets your program needs. If you have any questions or require additional information, please feel free to contact me by email at anickerson@hdlcompanies.com or David McPherson at dmcpherson@hdlcompanies.com or by phone at 714.879.5000.

Sincerely,



Andy Nickerson
President, HdL Companies

II. PROPOSED SCOPE OF SERVICES

In May of 2018, the San Luis Obispo City Council approved an ordinance allowing commercial cannabis businesses to operate in the City. That ordinance was followed in late 2018 by the development of a cannabis business operator permit process. The first permit application period opened in January 2019, followed by a second application period in July of 2019, and two other application periods in January 2020 and June 2020. There are currently 7 cannabis businesses who have been granted operator permits by the City. Currently 2 cannabis businesses are operating within the City and the remaining 5 cannabis business are at various stages in the permitting process.

In May of 2020, the City engaged the services of HdL Companies to review the City's existing fee structure to determine the total costs involved in the administration of the Cannabis Business Program. In addition, HdL was asked to review the application process and merit criteria to determine how the application process could be streamlined and be more efficient.

As the City's cannabis program has grown and expanded, so has the need for rigorous monitoring and oversight of the local industry to verify compliance with all state and local laws and to ensure that all applicable cannabis taxes are being properly reported and remitted to the City. To assist with these needs, the City of San Luis Obispo has requested that HdL develop a proposal to provide the following 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.
- Screen all cannabis business applications to ensure they are complete.
- Proctor the City's Application Review Process
- Provide background check renewals of all owners, managers and employees of the City's commercial cannabis businesses.
- Provide additional hours of technical assistance and subject matter expertise

This proposal provides a fixed unit cost for each of these services, which are described below.

Objective 1: Cannabis Tax Audits

HdL will conduct an annual financial audit to verify the accuracy of revenues reported to the City during the review period and will recommend a tax assessment should the audit reveal any unreported revenue. As part of the process, HdL will conduct a risk based analytical review of the business using the proprietary Cannabis Analytical Tracking Solution (CATS™) program to ensure there is no diversion of product or cash. Our unique audit approach allows us to identify if an operator is under-reporting its taxes or diverting product from its facility. HdL audit staff will also use information gathered as part of the onsite inspection to assist with the financial audit.

HdL will help the City prepare a notification letter to send to the business to start the audit. The letter will contain pertinent information about the audit, including a list of the records requested and a request for access to the business' point of sale system. HdL recommends the notification letter be sent by the City to encourage cooperation from the business and communicate HdL's authority to conduct the audit. The audit shall include:

- Gross receipts verification
- Risk based CATS™ Analytic Review
- Inventory review (subject to access to the track and trace system)
- POS data entry requirements review
- Preparation and issuance of report
- Exit conference with the City

HdL will provide a draft audit report to the commercial cannabis business. The business will be given the appropriate time to respond or appeal the report in accordance with the City ordinance. HdL will review any documentation provided by the business to dispute the findings and will adjust the tax assessment as necessary prior to issuing the final report to the City.

The City will inform HdL when a cannabis business receives permission to operate (i.e., through the issuance of a development agreement, conditional use permit, certificate of occupancy or other indication the business has opened). HdL will then work with the City to schedule financial audits and will coordinate with the City as the time for each audit approaches.

Depending upon the corporate structure of each cannabis business and any subdivisions or subsidiaries, it is possible that some businesses may be subject to multiple audits. For purposes of this proposal, a business that holds multiple state cannabis licenses shall be considered a single business provided that all licenses are held and operated under the same name, ownership and a single tax ID number. Any variation may indicate separate business entities requiring separate audits. Any such determination would be made on a case-by-case basis in consultation with the City.

Objective 2: Regulatory Compliance Inspections

HdL will conduct four on-site compliance inspections annually for each licensed cannabis business to determine compliance with State and/or local laws. If HdL identifies any non-compliant activities, we will provide the City with a recommended appropriate action to address the deficiency and to ensure future compliance by the permittee. The cost for these services includes all of the following:

- Notifying permittee of pending inspection
- On-site inspection to ensure that each business complies with all State and local laws and regulatory protocols for all of the following:
 - Inventory management
 - Cash handling procedures
 - Access control
 - Video surveillance

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- Alarm system maintenance and safety
 - Lock standards
 - Packaging and labeling
 - Waste management
 - Transportation documentation
 - Surveillance equipment maintenance
 - Occupational badges
 - Business records
 - Other items as necessary to ensure compliance with laws
 - Preparation of a draft report detailing the findings of the inspection and providing recommendations for improvement where needed. If the inspection identifies any violations of law or other non-compliance issues, then HdL will prepare a notice to comply as an included part of the report.
 - All travel costs associated with the inspection
 - All phone, email and other communications involved in preparing for, scheduling and coordinating the inspections and providing the report.

As with cannabis tax audits, the number of compliance inspections necessary for each business will be determined in consultation with the City, based upon the number and type of state licenses held and operated under the same name, ownership and tax ID number. In addition, operations at separate locations, addresses, building numbers or premises may be subject to separate inspections at additional cost, even if under a single ownership.

The cost for this service does not include any follow-up re-inspection or review of any supplemental documents provided to address or contest any findings of non-compliance, nor does it include any assistance with the appeal of any enforcement action by the City. Any costs associated with such additional services would be billed at HdL's hourly rate.

Objective 3: Initial Screening of Applications for Completeness

HdL staff will conduct an initial screening of all applications for completeness based upon an objective checklist of required documentation. This initial screening shall allow for some limited discretion in determining whether submitted documents are substantively complete but shall not otherwise consider the quality of the submissions.

Applications for competitive licenses that are deemed incomplete will be disqualified and those applicants will not be allowed to submit any supplemental information. Applications for non-competitive licenses that are deemed incomplete will be provided an opportunity to submit supplemental information to complete the application. All applications which have been deemed complete will move forward for a full review by the City's review panel.

Objective 4: Proctor the City's Application Review Process

HdL shall provide a subject matter expert who will be available to attend and facilitate the City's application review process. The City's application process includes a review panel that will review all of the applications and then meet to score and rank them. HdL's subject matter expert shall attend the review panel meeting (or meetings) to proctor or facilitate the process and to serve as a resource to the review team. HdL staff will not separately review the applications, nor will HdL recommend scores or ranking for any applications. This service shall be billed at HdL's hourly rate, plus travel costs

Objective 5: Supplemental Background Checks

HdL shall provide background checks of all owners, principals, managers and employees of cannabis businesses as a part of their annual license renewal process. Our supplemental background process expands upon the State-required Live Scan information by checking the subject's social security number and up to 5 variations of their name or aliases against over 200 million databases nationwide.

Our supplemental background checks can identify other factors that local governments may wish to consider before granting discretionary business licenses or permits, including other felony offenses, misdemeanor convictions, arrest records, civil judgements, restraining orders, the terrorist screening database, the national sex offender registry, delinquent child support payments, bankruptcies, employment and credit records, and more.

HdL offers a reduced rate for annual renewals after the initial background check has been completed. Our rates include an HdL-designed employee identification badge with the city logo which meets all State requirements. HdL provides an online portal for applicants to submit their application, authorization and all necessary documentation.

Background Checks	Owner, principal or manager	Employee or line staff
Initial background check	\$300	\$100
Annual renewal	\$100	\$100
Reissue lost or stolen badge	\$10	\$10

Prices valid as of the date of this proposal and subject to change without notice.

Objective 6: Provide Subject Matter Expertise & Technical Support

HdL shall provide additional hours of general consulting in the form of subject matter expertise or technical assistance, to be utilized on an as-needed basis at the City's request. Such assistance may include monitoring of changes to State laws and regulations, community outreach, participation in conference calls, responding to staff inquiries via phone and email, reviewing staff reports to the City Council, assisting with responses to inquiries from the public, or other issues yet to be determined as requested by the City.

III. COST

The proposed services are broken down into specific line items in the cost table below. All of these services are to be provided on an as-needed basis to be billed to the City via invoice. HdL's fees are based on time, materials and travel-related expenses associated with the execution of the services. The hours and costs in the table below do not include any additional items that are not specifically contemplated by this scope of services.

Prices offered here are valid for 90 days from the date of this proposal to allow time for consideration and negotiating a service agreement. Once under contract, prices shall be honored for the initial term of that contract, up to a maximum of 3 years.

Scope of Service Objectives	Estimated Cost
Objective 1: Cannabis Tax Audits Conduct one annual audit of each cannabis business.	\$6,000 per audit
Objective 2: Regulatory Compliance Inspections Assumes 4 inspections per business/per year for an annual cost of \$5,000 per business. Includes travel.	\$1,250 per inspection
Objective 3: Initial Screening of Applications for Completeness	\$195 per application
Objective 4: Proctor the City's Application Review Process To be billed on an hourly basis.	\$250 per hour
Objective 5: Supplemental Background Checks	See below
Objective 6: Subject Matter Expertise and Technical Assistance To be billed on an hourly basis as needed.	\$250 per hour
Travel Cost If and as needed for any overnight travel.	\$600 per site visit
Estimate of Total Costs	N/A

Background Checks	Owner, principal or manager	Employee or line staff
Initial background check	\$300	\$100
Annual renewal	\$100	\$100
Reissue lost or stolen badge	\$10	\$10

IV. OPTIONAL SERVICES

Hourly Rates for HdL Staff

The prices in this proposal are based on the hourly rates for HdL staff as shown in the chart below. Any additional services requested by the client that are not specifically described in this proposal would be billed at the standard rate for the assigned staff person.

HdL Staff	Title	Hourly Rate
David McPherson	Compliance Director	\$250
Matt Eaton	Deputy Compliance Director	\$250
Ajay Kolluri	Deputy Audit Director	\$250
Mark Lovelace	Senior Policy Advisor	\$250
Kami Miller	Senior Compliance Inspector	\$195
Michelle Shaw	Compliance Inspector	\$195
Elizabeth Eumurian	Senior Auditor	\$195
Alfredo Marquez	Senior Auditor	\$195
Odette Mikhail	Auditor	\$195
Mark Brogan	Auditor	\$195
Tao Lu	Auditor	\$195
All rates current as of the date of this proposal		

V. EXPERIENCE AND RESOURCES

Company Profile

Founded in 1983, HdL is a consortium of three companies established to maximize local government revenues by providing audit, compliance, economic development, consulting services and software products. Its audit and consulting services include sales, use and transaction taxes, property taxes, transient occupancy taxes, and a Cannabis Management Program. The firm also provides a variety of enterprise software processing tools for business licensing, code enforcement, animal control, building permits and tracking/billing of false alarms. HdL's systematic and coordinated approach to revenue management and economic data analysis is currently being utilized by over 500 agencies in six states. The firm currently serves 49 counties, 311 cities and 132 transactions tax districts in California.

HdL's key staff has extensive experience serving local government and many have previously held positions in city management, finance, planning, economic development or revenue collection. HdL is a Corporate Partner of the League of California Cities and California State Association of Counties and works extensively with the County Auditor's Association of California, California Society of Municipal Finance Officers (CSMFO) and California Municipal Revenue and Tax Association (CMRTA) on anticipation and planning of programs to strengthen local government revenues.

This close understanding of local government needs coupled with extensive databases and advanced methodology provides for the most relevant, productive and responsive revenue recovery; forecasting; and economic services available.

Our team of professionals has over 52 years of direct experience establishing and implementing cannabis regulatory and taxation programs, including establishing land-use regulations, permit processes, staffing plans, and cost recovery fees; structuring cannabis business tax fees; regulatory compliance; financial audits; and law enforcement training. Our team has conducted over 18,000 cannabis compliance inspections and investigations in California, Colorado and Nevada.

Key Personnel

David McPherson, Compliance Director

David McPherson works with local agencies to prepare them to mitigate regulatory issues surrounding Proposition 64 and SB 94. Prior to joining HdL, David served 28 years in local government for the County of Orange and the cities of Newport Beach, San Jose and Oakland. David's experience as a law enforcement officer, compliance auditor, and tax administrator has provided him a wealth of experience that makes him uniquely qualified to manage HdL's Cannabis Management Program. While working for the City of Oakland, he became the first Tax Administrator in the country to successfully tax, regulate and audit medical marijuana businesses. David has over 10 years of experience working with cannabis regulatory programs.

David is one of the state's most recognized experts in cannabis regulatory policies, compliance implementation and tax policies. His unique knowledge in horticulture, processing and dispensary operations while working for the City of Oakland has made him one of the pioneers in creating a Cannabis Management Program. He uses his experience to assist local and state agencies in developing cannabis policies for regulation, compliance, auditing and economic development. He worked closely with the League of Cities on the development of the Medical Cannabis Regulation and Safety Act (MCRSA) and helped shape SB 94, the Medicinal Adult-Use Cannabis Regulation and Safety Act (MAUCRSA).

David provides technical support on cannabis-related matters to the League of Cities, the Police Chief's Association, Rural County Representatives of California and the California State Association of Counties. In addition, David is working collaboratively with the Department of Consumers Affairs, Department of Food & Agriculture, Department of Health Services and the State Board of Equalization on the implementation of best practices for regulating the cannabis industry for local agencies.

David received his Bachelor's Degree in History from California State University, Fullerton and his Master's Degree in Public Administration from California State University, Long Beach. While at Long Beach, he was named "Future Urban Administrator of the Year".

Matt Eaton, Deputy Compliance Director

Matt Eaton is the Deputy Compliance Director at HdL and plays a critical role in implementing the Cannabis Compliance Program for local agencies. Prior to joining the firm, he was a progressive law enforcement professional with 30 years' experience conducting criminal/regulatory investigations, and corporate/individual background investigations.

While working as a Supervisory Investigator at the Colorado Department of Revenue in the Marijuana Enforcement Division (MED), Matt managed criminal investigators and civilian staff in the Denver Metro and Longmont field offices. During his six-year tenure at the MED, he conducted approximately 10,000 criminal investigations and compliance reviews, including regulatory and financial investigations. He is a subject matter expert on track and trace systems and understands the complexity of reviewing data to ensure businesses are in compliance with state and local regulations. Matt was responsible for planning, developing and implementing report and field inspection protocols for the agency. He also played an instrumental role in recommending changes to current regulations and identifying essential language for new legislation in Colorado. Matt is well known for his ability to maintain working relationships with cannabis industry leaders and external stakeholders in resolving issues.

Matt received his Bachelor of Science Degree from Biola University and maintained Police Officer Service Training (POST) certification for over 30 years in California and Colorado. He has also served as an adjunct instructor teaching law enforcement principle related to criminology, correctional processes, procedural law, interviews, interrogations and criminal evidence at AIMS Community College in Greeley, Colorado.

Ajay Kolluri, Deputy Director of Policy and Audits

Ajay Kolluri is the Deputy Director of Audits and Operations for HdL's Cannabis Division. Ajay is responsible for overseeing the cannabis audit team and the daily operations of the division, which includes special projects such as community outreach, surveys, grant solicitation, revenue analysis, cost recovery fee studies, contracts, budgeting, and marketing. Ajay previously served as Program Manager for the Office of Cannabis Oversight (OCO) at City of Long Beach. Working within the City Manager's Office, Ajay was responsible for the licensing, regulation and enforcement of all commercial cannabis activity in the City, with one of the largest legal cannabis markets in the state. During his tenure with the OCO, Ajay oversaw the issuance over 200 cannabis business licenses, generating over \$10 million in annual revenue for the City. Ajay has experience in all aspects of cannabis oversight, including public health and education, planning and zoning, building inspections, enforcement, social equity, fee development, economic analysis and revenue projections.

Prior to overseeing the OCO, Ajay worked in public finance, serving as Budget Analyst for the Department of Financial Management in the City of Long Beach. Ajay holds a Bachelor's degree in business economics from the University of California, Santa Barbara, and a Master's degree in public policy from the University of Michigan.

Mark Lovelace, Senior Policy Advisor

Mark Lovelace has 16 years of broad experience in public policy, community engagement and advocacy and is recognized as a leader in advancing the statewide discussion of medical and recreational cannabis as a policy issue in California.

Mark served on the Humboldt County Board of Supervisors from 2009 through 2016 where he was instrumental in developing a comprehensive approach to regulating cannabis, including a voter-approved tax on commercial cultivation and an innovative track and trace pilot program. Mark established and co-chaired the Medical Marijuana Working Group for the California State Association of Counties (CSAC) and helped draft CSAC's legislative platform for cannabis issues. Mark pioneered the first regional summit on cannabis issues in 2015 which helped guide the development of SB 643 and AB 243, two components of the Medical Cannabis Regulation and Safety Act (MCRSA).

Mark has worked extensively with public agencies and statewide associations on cannabis issues, including CSAC, Rural County Representatives of California, the Association of California Water Agencies, the North Coast Resource Partnership, California Department of Fish and Wildlife, the State Water Board, the North Coast Regional Water Board, the Bureau of Cannabis Control, State legislators, and others. He has led numerous presentations, workshops and panel discussions on cannabis issues and has been a sought-after speaker on the topic for government agencies, community organizations and industry groups.

Mark received his Bachelor of Science degree in Industrial Design from San Jose State University. Prior to his time on the Board, he worked for many years as a respected advocate on land use, planning, development and environmental issues.

Kami Miller, Senior Compliance Inspector

Kami Miller is a Senior Compliance Inspector at HdL whose primary role is to ensure cannabis compliance and identify the risk assessment in the supply chain process of each permitted business. Prior to joining the firm, she served three years as a Marijuana Compliance Manager for the Department of Public Behavior and Health (DPBH) for the State of Nevada. During this time Kami played a key role in Nevada's implementation of its Medical Marijuana Program in which she was responsible for statewide monitoring of medical marijuana facilities that included cultivation, production, testing labs and retail stores.

During her tenure at the DPBH, Kami managed compliance auditors and support staff in the Las Vegas office. She conducted approximately 1,000 compliance and financial inspections for which she developed the inspection protocols documentation to create comprehensive reports. In addition, her experience with various cannabis track and trace systems allowed her to develop industry supply chain practices for the Department of Taxation.

Kami received her Bachelor of Business Administration in E-Commerce and Supply Chain Management from Tennessee State University.

Michelle Shaw, Compliance Inspector

Michelle is a Cannabis Compliance Inspector at HdL and is tasked with conducting onsite inspections, examinations and other actions to monitor compliance with established standards for local licensed cannabis businesses. Prior to joining HdL, she was a Compliance Specialist Officer at a large, multinational bank where she managed, validated and oversaw the effectiveness and accuracy of numerous compliance issues within the consumer retail space. Throughout her eight years of experience at the bank, she performed onsite assessments of affiliate businesses to determine compliance/non-compliance of their processes and procedures pursuant to bank standards and state regulations.

A graduate of Cypress College, Michelle holds a Foundations of Banking Risk certificate from the Global Association of Risk Professionals and a paralegal certificate from the Southern California College of Business and Law.

Alfredo Marquez, Senior Auditor

Alfredo Marquez is a Senior Auditor at HdL. His primary role is to conduct cannabis tax audits. Alfredo previously worked for a publicly traded corporation as a Senior Internal Auditor where he performed risk assessments of new business acquisitions, financial and Sarbanes & Oxley audits. He also conducted compliance audits in the areas of commercial and government contracts, export and import activities, and general information technology controls. In these roles he worked with employees at various levels within the organization across North America, Latin America, Europe, and Asia in order to meet organizational objectives. Alfredo has recently done work for the Cities of Cotati, Cloverdale, Desert Hot Springs, Perris, Port Hueneme, and Vallejo. He earned his Bachelor's degree in Accounting from the University of La Verne.

Elizabeth Eumurian, Senior Auditor

Elizabeth Eumurian is a Senior Auditor at HdL. Her primary role is to conduct financial audits, evaluate cannabis applications and conduct background checks. As part of the audit program, she will be conducting and preparing analytical information through the CATS™ program to prepare Tax Analytical Remittance Reports (TARR) summaries to evaluate under reporting or anomalies in the remittance of tax payments to local jurisdictions.

Elizabeth previously worked as a senior auditor in the entertainment industry. In this role, she executed testing procedures for targeted audit programs, analyzed findings and prepared audit and compliance reports. She also has experience working for a large financial institution analyzing data for reporting anomalies and performing internal audits. Elizabeth has recently done work for Blythe, California City, Coachella, Cotati, Desert Hot Springs, Long Beach, Mammoth Lakes, Moreno Valley, Perris, San Bernardino, and Vallejo.

Elizabeth earned her Bachelor of Arts degree in History from California State University and holds a certificate in CannaBusiness from Oaksterdam University.

Odette Mikhail, Auditor

Odette Mikhail is an Auditor at HdL. Her primary role is to conduct financial audits. Odette previously worked as a senior auditor at public accounting firms. In this role, she executed testing procedures for audit and review engagements, identified accounting issues, reviewed internal controls, and prepared financial reports and statements. Odette earned her Bachelor of Science degree in Accounting and Business Administration from Ain Shams University in Cairo, Egypt.

Tao Lu, Auditor

Tao Lu works as an Auditor for HdL's Cannabis Management Team. Tao has two and a half years' experience as an accountant with an emphasis in information technology and food manufacturing industries. He also has public audit work experience at RSM China.

Tao was born and raised in China. He earned a Bachelor's Degree in Accounting and Finance from Syracuse University in New York before relocating to Southern California with his family.

Mark Brogan, Auditor

Mark Brogan works as an Auditor for HdL's Cannabis Management Team. Mark previously worked for the City of San Jose as a Financial Analyst and later as a Supervisor in the Revenue Management Division of the City's Department of Finance. Mark also worked in the City's Housing Department prior to his time with the Department of Finance.

Mark holds a Bachelor's Degree in Business Administration from San Jose State University, with a minor in Economics. Mark is also an accomplished triathlete and has successfully completed numerous marathons and Iron Man competitions.

VI. REFERENCES

City of Port Hueneme

Tony Stewart

Director of Community Development

Phone: 805.986.6520

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City of Maywood

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