

County of Sonoma

Cannabis Management Services

April 28, 2022

HdL  Companies

SUBMITTED BY

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I. COVER LETTER

April 28, 2022

Jennifer Calderon
Revenue Accounting Manager
County of Sonoma
585 Fiscal Drive, Suite 100
Santa Rosa, CA 95403

Re: Proposal for Cannabis Monitoring and Compliance Services

Dear Ms. Calderon,

Thank you for the opportunity to submit this proposal for cannabis management services for the County of Sonoma. The enclosed scope of services provides for HdL to conduct a revenue review of cannabis cultivators and a fiscal analysis to explore the impacts and considerations for changing the County's cultivation tax from square footage to gross receipts. The proposal also includes assistance with any necessary amendments to the County's cannabis tax ordinance to implement this change as well as additional hours of subject matter expertise to be used as needed by the County.

HdL is recognized as the industry leader in the development, implementation and enforcement of cannabis management programs for local governments in California. We have partnered with over 175 California cities and counties on cannabis-related programs, including ordinance development and review, community outreach and education, merit-based application and permitting processes, cost recovery studies, compliance inspections, financial audits, fiscal analyses and law enforcement training.

Our cannabis team has unmatched expertise, with more than 65 years' combined experience in the development, implementation and enforcement of cannabis regulatory and tax programs. Our team members have conducted over 18,000 cannabis compliance inspections and financial audits in California, Colorado and Nevada, and have reviewed, scored and processed over 3,500 cannabis business applications in the last six years in California. HdL Companies works solely with public agencies and has no private-sector clients in the cannabis industry.

We look forward to the opportunity to partner with the County of Sonoma 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

The County of Sonoma has a robust cannabis industry sector, including a large number of cannabis cultivation businesses. The County's current cannabis tax (Measure A) assesses a tax on cultivators based upon the square footage of canopy area, but allows the County to change it to gross receipts so long as the equivalent rate of the tax does not exceed the maximum allowed by the measure.

The County has recently been having discussions about ways to provide relief for cannabis growers. On March 14th the County agreed to reduce the tax rate on cultivation by 45%. The County is also considering changing its cultivation tax to be based on gross receipts, rather than the current square footage.

To inform this decision, the County is requesting that HdL conduct a revenue review of a sample set of cultivators to determine how they would be affected by the proposed change in the tax basis. HdL would work with the County to determine a representative sample set of cultivation businesses to be reviewed under a pilot program.

HdL will then use this information to prepare a fiscal analysis exploring the issues and considerations for changing the County's cultivation tax from square footage to gross receipts, including the impact to the businesses, the impacts on County revenues and any necessary administrative changes. The report will also include recommended tax rates and revenue estimates.

The revenue review and fiscal analysis would both need to be completed by December to allow the conversion to go into effect as of July 2023 for the 2023/2024 fiscal year.

This proposal also includes assistance with any necessary modifications or revisions to the County's cannabis tax ordinance to implement the change in the tax basis, along with additional hours of general consulting to be used as needed. The County desires that the total budget for this project not exceed \$150,000.

Objective 1: Cultivation Revenue Analysis

HdL will conduct a revenue analysis of licensed cultivators in Sonoma County to measure the amount of annual revenues generated by each business. The analysis will be performed on a sample set of operators, of varying size and scale, to be used as a basis for projecting total annual gross receipts for cultivation businesses in Sonoma County. The revenue analysis will be performed as described below.

20 to 25 operators will be selected to ask for voluntarily participation in the revenue analysis. HdL will work with County staff to identify a representative sample of businesses.

HdL will prepare a notification letter informing operators of the impending revenue analysis, including a list of all records and documentation the operator is requested to provide. HdL recommends that the notification letter be sent by the County to communicate HdL's authority to conduct the revenue analysis, and to encourage cooperation by the business. The list of records may include:

- Accounting sales reports
- P&L Statements
- METRC inventory system data
- Sample of six invoices
- HdL Questionnaire

Operators will be provided one month to submit the requested documents to HdL. HdL will send a follow-up email notification two weeks after the original release of the notification letter, to remind businesses of the one-month deadline to submit records.

Based upon prior experience, HdL anticipates that most businesses will fail to provide minimum documentation by the one-month deadline. Therefore, HdL will rely upon County staff to send a final follow-up notification to businesses, requesting all documentation no less than two weeks after expiration of the original deadline.

Two weeks after final notification from the County, HdL will perform a high-level review of records provided by businesses and identify the 10 to 12 operators that provided the most complete set of records.

HdL will perform a revenue analysis of these 10 to 12 operators, to estimate annual revenues generated by each business. Because the revenue analysis is not an audit, and is intended for informational purposes only, HdL may apply different methodologies to complete the revenue analysis for each business. Specifically, HdL anticipates that businesses will provide documents with varying levels of detail and completeness. Due to the inconsistency in data provided, HdL will use discretion, on a case-by-case basis, to apply whatever methodology will best approximate annual revenue for each business. This may include posing limited questions to a business to clarify data, however, HdL will move forward with an estimate even if a business chooses not to respond.

HdL will prepare an internal summary of estimated annual revenues per business and any related observations made during the records review. HdL will use the summary to inform a fiscal analysis report to be provided under Objective 2.

The cost for this program shall be billed per each participating operator. Any costs that cannot be assessed on a per-operator basis, such as costs for developing the specific parameters and procedures for the revenue analysis program, shall be billed at HdL's hourly rate under Objective 4; Technical Assistance and Subject Matter Expertise.

Objective 2: Conduct a Fiscal Analysis

Consultant HdL shall use data and findings generated by the revenue analysis under Objective 1 to conduct a fiscal analysis which will examine the issues and considerations for changing the County's cultivation tax from one based on square footage to one based on gross receipts. The analysis shall explore the potential impacts on both existing and potential future cultivation businesses, the impacts on County revenues, and the need for any necessary administrative changes both to implement the new tax and to ensure accurate reporting and remittance.

The report will provide an analysis and mechanism for the County to set gross receipts tax rates that are equivalent to rates based on square footage, including adjustments to accommodate variations in cultivation methods and market price. The report will also include recommended tax rates to ensure that cannabis cultivators in Sonoma County are competitive with cultivators elsewhere in the State, along with estimates for how the changes may effect County revenues.

This objective assumes that HdL will provide one initial draft report for staff to review and critique plus one iterative draft that will incorporate any requested revisions prior to providing the final report. Any additional drafts, iterations or documentation that may be requested by the County would be in addition to the costs shown in the table below and shall be billed at HdL's hourly rate. HdL will advise the County in advance if additional requested revisions may result in potential exceedances.

This objective includes preparation of a written report and a presentation at a meeting of the Board of Supervisors. The cost for this objective assumes remote attendance and presentation. In person attendance would incur an additional travel cost.

Objective 3: Revisions to the County's Cannabis Tax Ordinance

HdL shall assist the County with revisions to the existing cannabis tax ordinance established by Measure A as necessary to implement the changes from a tax based on square footage to one based on gross receipts. HdL shall review the County's existing ordinance to identify any areas of concern and shall provide recommendations for any necessary amendments or changes.

HdL shall also advise on other amendments or updates the County may want to consider for addressing changes in State law or best practices as needed for addressing hemp, vertical integration and other emerging issues.

Objective 4: Technical Assistance and Subject Matter Expertise

HdL will provide up to 40 hours of general consulting to be utilized on an as-needed basis at the County's request. Such assistance may include working with the County to develop the specifics of the revenue analysis program as well as technical assistance, subject matter expertise, education, monitoring of changes to State laws and regulations, participation in conference calls, responding to staff inquiries via phone and email, reviewing staff reports to the Board of Supervisors, assisting with responses to inquiries from the public, or other issues yet to be determined as requested by the County.

III. COST

The proposed services are broken down into specific line items in the cost table below. This proposal does not include any additional items that are not contemplated by this scope of services. Any additional services requested by the County will be billed at HdL's hourly rate.

Prices 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 first full year, with successive years subject to an annual increase based upon the Consumer Price Index for the Los Angeles-Long Beach-Anaheim region.

Scope of Service Objectives	Estimated Cost
Objective 1: Cultivation Revenue Analysis Assumes analysis of 12 businesses at \$6,000 each	\$72,000
Objective 2: Conduct a Fiscal Analysis Assumes 80 hours at \$250/hr	\$20,000
Objective 3: Revisions to the County's Cannabis Tax Ordinance Assumes 20 hours at \$250/hr	\$5,000
Objective 4: Technical Assistance and Subject Matter Expertise Assumes 40 hours at \$250/hr	\$10,000
Travel (if and as needed for meeting attendance)	\$600 per day
TOTAL NOT TO EXCEED	\$107,000
All County costs may be fully recoverable from permittees	

Conflicts of Interest and Non-Disclosure

HdL Companies works solely with public agencies and has no private-sector clients in the cannabis industry. All cannabis business information will be kept confidential by HdL and will not be shared internally beyond those HdL employees who are required to have access for purposes of conducting the work contemplated herein, or for administrative purposes as necessary.

Drafts and Final Work Products

All work products assume one initial draft for review and comment, one iterative draft to incorporate any desired changes, and one final draft for presentation or publication. Additional drafts requested by the client may result in additional charges at HdL's hourly rate.

IV. 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 65 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 California Department of Tax and Fee Administration 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.

David Ross, Senior Compliance Inspector

David Ross is a Certified Fraud Examiner with 7 years of experience conducting gaming and non-gaming audits and investigations of tribal gaming facilities. David's experience includes conducting forensic accounting investigations into cash larceny, expense reimbursement fraud, check fraud, credit card fraud, payroll fraud, wire fraud, insider trading, construction fraud in addition to litigation support.

David previously worked as Surveillance Officer and Internal Auditor for the Shingle Springs Tribal Gaming Commission, where he was responsible for analyzing financial statements for a facility with revenues exceeding \$20 million per month. David also analyzed internal controls and established policies and procedures to ensure compliance with federal, state and local regulations. In addition, David conducted surveillance reviews and investigations into criminal activity including check and credit card fraud, skimming, money laundering, drug activity and other violations.

David holds a Bachelor's Degree in Business Administration from Vanguard University in Costa Mesa and a Master's Degree in Finance from California State University San Bernardino. He is a member of the Association of Certified Fraud Examiners.

Michelle Shaw, Compliance Inspector

Michelle conducts 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 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.

Jeff Burris, Background Investigator / Compliance Inspector

Jeff Burris has over 28 years' experience as a Law Enforcement Professional. Jeff began his career with the Orange County Sheriff's Office before moving to the Ontario Police Department, where he advanced to Corporal, Police Detective and Sergeant before retiring as a Lieutenant.

Jeff worked various investigative assignments during his career, including both criminal and non-criminal investigations. While working as a Police Detective Jeff conducted personnel background investigations for sworn, non-sworn, administrative, and confidential employees. These investigations included criminal checks, credit checks, prior employment verification, personal reference verification, driving records, pre-polygraph questioning, neighborhood canvassing, and oral interviews. His assignments also included annual State audits for regulatory compliance.

Jeff received his Bachelor of Science degree in Occupational Management from the California State University in Long Beach. Jeff has completed numerous specialized training courses in investigative techniques, including a course in background investigations by the California Commission on Peace Officer Standards and Training (CA POST), and is a former member of the California Background Investigators Association (CBIA).

Elizabeth Eumurian, Audit Supervisor

Elizabeth Eumurian is the Audit Supervisor for HdL. Her primary role is to oversee and review the audits conducted by team members to assure accuracy and consistency. She also conducts financial audits, evaluates cannabis applications and conducts 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 conducts cannabis revenue audits at HdL. 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.

Valerie Carter, Auditor

Valerie Carter works as an Auditor for HdL's Cannabis Management Team. Valerie has over 5 years of public sector work experience focusing on public policy, auditing and revenue tax implementation. She was a Tax Auditor II for the City of Oakland's Revenue Management Bureau and an Assistant Management Analyst for the City of Berkeley's Transportation division. Valerie earned a Bachelor's Degree in Business Administration from Cal Poly Pomona, with an emphasis on Finance, Real Estate, and Law.

Eric Magana, Auditor

Eric Magana works as an Auditor for HdL's Cannabis Management Team, conducting revenue audits of licensed cannabis businesses to ensure they are accurately reporting their revenues and remitting the proper amount of fees or taxes. Prior to joining HdL, Eric worked as a Loan Specialist for the U.S. Small Business Administration, where he processed over 5,000 business loans and grant applications. Eric holds a Bachelor's Degree in Economics and Administrative Studies from University of California at Riverside.

Teresa Schneider, Compliance Inspector

Teresa Schneider conducts regulatory compliance inspections for HdL. Teresa served for 28 years with the Montclair Police Department, including 12 years in the Background Investigations Unit. In this capacity, Teresa was responsible for conducting background investigations of all City business license applicants, as well as all sworn and non-sworn positions within the police and fire departments and of civilians requesting access to police department records.

Teresa previously served 4 years in the U.S. Army's nursing program at Fort Campbell, Kentucky. During this time she attended college at the University of Kentucky and Austin Peay State University. After receiving an Honorable Discharge in 1990, Teresa was hired by the Montclair Police Department. During her 28-year career, she worked numerous assignments, including patrol, K9, detective bureau, court liaison, volunteer coordinator, and red-light automated enforcement. Teresa received many awards throughout her career, including Officer of the Year.

Cheryl Lee-Steele, Business Application Reviewer

Cheryl Lee-Steele is a Business Application Reviewer at HdL whose primary role is to evaluate cannabis business applications for compliance with State law, local ordinance and industry best practices. A small business owner and bookkeeper for over 30 years, she has direct knowledge of best business practices and how to comply with regulatory requirements.

Cheryl attended Chaffee College for accounting and is a Certified Public Bookkeeper through the National Association of Certified Public Bookkeepers.

Kristi Lervold, Administrative Assistant

Kristi is the Administrative Assistant for cannabis team. In this role she supports individual team members, coordinates internal processes, and assists with client requests, contracts, billing reconciliation and invoicing. Kristi's 18-year career includes ten years as the administrative assistant to HdL's CFO, handling various operational responsibilities and supporting financial functions, as well as experience in the occupational health industry, facilitating services for federal, state, and local government clients.

Kristi holds a Bachelor's of Science degree in Business Management with a minor in Business Administration.

V. REFERENCES

County of Santa Barbara

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County of San Diego

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