



## **CITY OF SALINAS COUNCIL STAFF REPORT**

---

**DATE:** MAY 16, 2023

**DEPARTMENT:** COMMUNITY DEVELOPMENT

**FROM:** LISA BRINTON, DIRECTOR

**BY:** COURTNEY GROSSMAN, PLANNING MANAGER

**TITLE:** AUTHORIZATION TO EXECUTE AGREEMENT WITH SCI CONSULTING GROUP (SCI) TO PROVIDE COMMERCIAL CANNABIS TAX ASSESSMENT AND MONITORING SERVICES

### RECOMMENDED MOTION:

A motion to approve a resolution authorizing the City Manager or designee to negotiate and execute a professional services agreement with SCI Consulting Group for a not to exceed amount of \$180,000 for a term from January 1, 2023, to June 30, 2024, to conduct cannabis tax assessment and monitoring services.

### EXECUTIVE SUMMARY:

The City of Salinas regulates the establishment and the operation of a limited number of commercial cannabis businesses, including cultivation, dispensaries, manufacturing, distribution, and delivery services. To ensure that permitted cannabis businesses are operating in compliance with established regulations, including payment of required taxes, the City of Salinas engaged SCI Consulting Group (“SCI”) on April 26, 2022. SCI was also contracted to complete a taxation recommendation report, which was presented to the City Council on August 23, 2022.

To conduct the required monitoring, SCI subcontracted with Pun Group to conduct audits of the taxes remitted by the cannabis businesses. Unfortunately, the City has had difficulty in getting responses from the cannabis permit holders on the financial information requested by Pun Group. This has significantly delayed progress. As a result, the agreement expired before the compliance reports could be completed, requiring the City to enter into a new agreement. The new agreement would be for a not to exceed amount of \$180,000 and would include an 18-month term from January 1, 2023 until June 30, 2024, to enable SCI and Pun to complete tax assessment and compliance reports for 2021, 2022, and initiate work for 2023. The City collects fees to cover the costs associated with the cannabis tax assessment and compliance monitoring.

### BACKGROUND:

Prior to working with SCI Group, the City contracted with Marcias Gini and O’Connell LLP (MGO) to prepare the assessment and compliance reports for the operational cannabis businesses.

MGO did not conduct reports annually because of some of the difficulties in getting financial data from the cannabis businesses. Ultimately, in late 2021, MGO indicated they would no longer provide the service to the City of Salinas. In March 2022, the Community Development Department sent out a Request for Proposals (RFP) seeking a new consultant team to provide cannabis tax assessment and monitoring services including auditing, inspection, and cannabis tax rate analysis and recommendations.

Two proposals were received in response to the City's RFP. Staff rated and ranked the proposals. SCI received the highest ranking based upon its expert knowledge of the local California cannabis industry coupled with its broad experience providing municipalities with regulation, implementation, tax consulting, public opinion research (polling) and tax-related community outreach consulting services. SCI was timely in successfully completing the first task in the agreement – a taxation recommendation report presented to Council on August 23, 2022.

### DISCUSSION:

After the completion of the taxation recommendation report, staff held a kickoff meeting to discuss next steps including the completion of:

- 1) *Commercial Cannabis Tax Assessments:* SCI subcontracted with The Pun Group LLP, Certified Public Accountants, and Business Advisors, a full-service accounting firm, to provide a comprehensive annual auditing of cannabis businesses to ensure that the city receives full payment of all taxes.
- 2) *Compliance Inspections and Reporting:* SCI is working to schedule onsite facility inspections for each commercial cannabis business and to report the results of inspections relative to the City's local regulations and ordinances, conditions of approval, and State law.

During the kickoff meeting, it was decided that the compliance reports would follow a traditional calendar year, more typical of tax filings for private businesses. Staff worked with Rincon, which manages the cannabis permitting process, to develop a current list of active cannabis businesses. Then, the City sent out letters introducing the active cannabis businesses to the Pun Group and reminding them of the annual monitoring requirements. Many of the cannabis businesses have failed to follow up as outlined in the letter or respond to phone calls to schedule initial compliance meetings.

While staff and the consultants proceeded in working on the compliance reports, it escaped both parties notice that the agreement expired on December 31, 2022. Normally, these agreements can be mutually extended before the term is up through an administrative amendment. However, because the agreement lapsed, it must come back to Council for action on a new agreement. To make the process more seamless and to be able to complete both the 2021 and 2022 reports, staff is recommending a not to exceed amount of \$180,000 to cover two years of reports. The funding will also cover some work towards the 2023 compliance reports. Staff is aligning the agreement term with the fiscal year to better track the expiration date and to adequately budget for this expenditure.

Commercial cannabis permit holders pay the monitoring fees to cover annual tax assessment and compliance reports. Because MGO did not complete annual reports, it is unclear whether the monitoring fees actually cover the overall consultant costs. SCI/Pun Group are charging less for the reports than MGO. Thus, it is estimated that the not to exceed amount of \$180,000 will cover two years of tax assessment and compliance reports. This year, staff will evaluate whether the monitoring fees are enough to cover costs or if the fees must be increased. If it is determined that the fees are inadequate, staff will request fee modifications in April 2024 at the time the City fee schedule is considered by City Council.

#### CEQA CONSIDERATION:

The City of Salinas has determined that the proposed action is not a project as defined by the California Environmental Quality Act (CEQA) per Guidelines Section 15378. Because the matter does not cause a direct or foreseeable indirect physical change on or in the environment, this matter is not a project. Any subsequent discretionary projects resulting from this action will be assessed for CEQA applicability.

#### STRATEGIC PLAN INITIATIVE:

This staff report and recommendations align with the following City Council Goals and Strategies of Economic Development and Effective and Culturally Responsive Government. Services provided under the proposed agreement will support an efficient and well-run Cannabis Program that allows permitted cannabis businesses to operate and grow, resulting in increased revenue for the City.

#### DEPARTMENTAL COORDINATION:

Community Development Department staff consulted with Legal to develop the proposed agreement. The Community Development Department will continue to collaborate with the City Manager, City Attorney, and the Finance Department to execute the agreement.

#### FISCAL AND SUSTAINABILITY IMPACT:

It is anticipated that monitoring fees will cover the agreement cost. However, staff will continue to evaluate the adequacy of the fee and return to Council in April 2024 to increase the fees if necessary. The Current Planning Division's fiscal year 2022/2023 budget line item under 1000.30.3462-63.5220 - Cannabis Monitoring is sufficient to fund the \$180,000 agreement for preparation of the taxation assessment and compliance reports.

#### ATTACHMENTS:

1. Resolution
2. Proposed Professional Services Agreement
3. Exhibit B - SCI Scope of Work
4. Original Agreement for SCI Consulting Group – April 26, 2022