

# City of Hesperia

## STAFF REPORT



**DATE:** August 3, 2021

**TO:** Mayor and Council Members

**FROM:** Nils Bentsen, City Manager

**BY:** Melinda Sayre, Director of Government Services/City Clerk  
Tina Bulgarelli, Administrative Analyst

**SUBJECT:** Amendment to Contract with Hinderliter de Llamas & Associates (HdL)

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### RECOMMENDED ACTION

It is recommended that the City Council authorize the City Manager to approve an amendment of \$58,000 to the existing contract with Hinderliter de Llamas & Associates (HdL), for a revised not-to-exceed contract amount of \$108,000, for audit services of cannabis businesses.

### BACKGROUND

Each legal medical cannabis business is required to go through two types of audits annually. The first type of audit is a financial audit to ensure that the City is receiving the proper tax on medical cannabis. With the financial audit, HdL will recommend a tax assessment should the audit reveal any unreported revenue (under-reporting taxes or diverting product from its facility). The second type is a compliance audit to ensure that the establishment is complying with state and City regulations. If any non-compliance activities are identified, the City will be provided with a recommended appropriate action to address the deficiency and to ensure future compliance.

### ISSUES/ANALYSIS

Upon the approval of the medical cannabis program, the City entered into a contract in the not-to-exceed amount of \$50,000 with HdL in December 2019. HdL specializes in all areas of municipal taxes (property taxes, sales taxes, and cannabis sales taxes). The City currently has 19 cannabis operating business licenses (establishments) and an additional 10 establishments in the process of opening. With the number of establishments subject to the annual audit, an amendment to the contract is requested to allow for sufficient funding for both types of audits.

As mentioned, when the City entered into the contract with HdL, the City was able to utilize a purchasing exemption (piggyback), by accepting the bidding process and results from the City of West Sacramento. The Hesperia Municipal Code piggyback provision states the following:

Hesperia Municipal Code §3.08.070 – Piggyback Agreement: When the purchase of goods or services is beneficial to the interest of the City and is from a supplier who has been awarded a specific item or items in a contract resulting from a formal competitive bid process by another local governmental agency within the State of California within the previous three hundred sixty-five (365) days;

The City reviewed the process utilized by the City of West Sacramento and determined that the process followed met the conditions of the Hesperia Municipal Code exemption (piggyback).

With the increase to the cannabis contract with HdL, the City will save costs on conducting a RFP and ensure that there are no disruptions with auditing each establishment. Additionally, HdL has agreed to hold current pricing for the duration of the contract.

**FISCAL IMPACT**

The Fiscal Year (FY) 2021-22 Budget has included funds to audit cannabis businesses that are operating. Additionally, each establishment pays the City for their respective annual audit as part of the cannabis application and business license process.

**ALTERNATIVE(S)**

1. Provide alternate direction to staff.

**ATTACHMENT(S)**

None