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Title: CONSIDER APPROVAL OF AGREEMENT FOR CONTRACT SERVICES TO HINDERLITER, DE LLAMAS AND ASSOCIATES FOR PROFESSIONAL AUDIT AND ANALYSIS OF CITY SALES AND USE TAX (CITY COUNCIL)

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Attachments: 1. Exhibit (1): Contract Services Agreement (HDL Sales and Use Taxes), 2. Exhibit (2): Resolution 21-062 Sales and Use Tax_HdL

Date	Ver.	Action By	Action	Result
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Report to Mayor and City Council

Tuesday, May 18, 2021

Consent

SUBJECT:

CONSIDER APPROVAL OF AGREEMENT FOR CONTRACT SERVICES TO HINDERLITER, DE LLAMAS AND ASSOCIATES FOR PROFESSIONAL AUDIT AND ANALYSIS OF CITY SALES AND USE TAX (CITY COUNCIL)

I. SUMMARY

The City issued a Request for Proposal (“RFP”) on July 30, 2020 seeking qualified firms to provide Sales Tax revenue auditing and analysis services. The auditing and analysis of the City’s sales tax is currently contracted with Hinderliter, de Llamas and Associates (“HdL”). The present contract was approved and issued in June 20, 2017, and a one-year contract amendment approved in June 2020, which is set to expire in June 2021.

Two proposals were received by the RFP deadline of September 17, 2020. A selection committee reviewed the proposals and evaluated each firm on the criteria set forth in the RFP. Based on the committee’s recommendation of HdL, staff is requesting a contract service agreement for three years with two one-year extensions, for a base amount of \$9,600 annually, not to exceed \$28,800 over three years with the option to extend the term for two additional one-year periods; plus 15% of new sales and use tax revenue as a result of the audit and recovery work performed by the firm (Exhibit 1). If the City exercises the

two one-year optional extensions, the additional cost will be \$19,200, for a five-year total amount of \$48,000.

To ensure the correct allocation of sales and use taxes to the City of Carson, access to sales and use tax collection data and analytics, insight into revenue trends and projections and provide leads for business license discovery, contracting with Hinderliter, de Llamas and Associates (HdL) is requested. The costs include the following services:

- Collect City, county and state sales and use tax data from the appropriate governmental agencies and provide comparison information relating to the City.
- Audit and analyze City sales and use tax revenue sources.
- Provide written audited data and written findings to the City relating to sales and use tax trends and economic statistics.
- Contact appropriate entity(s) and governmental agency(s) to confirm protocol on filing all necessary documentation and recover misallocated tax monies.
- Provide both quarterly and annual reports illustrating computation and compilations of both audits and findings.
- Provide technological capabilities, as well as accessing data and analytic solutions to City staff with insights pertaining to revenues (actuals, budget, and forecast).
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II. RECOMMENDATION

TAKE the following actions:

1. AWARD and APPROVE the Contract Services Agreement to Hinderliter, de Llamas and Associates for the analysis and audit of the City's sales and use tax revenue for three years with two one-year options, for a base amount of \$9,600 annually, not to exceed \$28,800 over three years; plus 15% of new sales and use tax revenue as a result of the audit and recovery work performed by the firm.
2. AUTHORIZE the Mayor to execute the agreement, following approval as to form by the City Attorney.
3. ADOPT Resolution 21-062 authorizing examination of transactions and use tax records.

III. ALTERNATIVES

TAKE another action the City Council deems appropriate.

IV. BACKGROUND

Over the last three years, sales and use tax averaged \$27 million per year, approximately 28% of the City’s General Fund. On August 4, 2020, the City Council approved a ballot measure (Measure K) amending the City of Carson Municipal Code and providing for a local transactions and use tax of three quarter-cent (0.75%). This measure was submitted to the County of Los Angeles and included on the November 3, 2020 ballot designated as Measure K. Measure K was approved by over 53% of the voters. The initial revenue forecast (before the COVID-19 pandemic) showed that Measure K would generate approximately \$12 million using a number of regional and state economic variables (metrics) including per capita auto sector spending in Los Angeles County. The revised forecast for Fiscal Year 2021-2022 shows a new estimate of about \$13.9 million. This projection depends on economic recovery of about 9.9% in Fiscal Year 2021-2022 compared to the COVID-19 recessionary lows. To forecast revenues for financial planning and budget purposes and to ensure the accurate remittance of sales and use taxes, the City contracts with a third-party consultant.

On July 30, 2020, the City issued a Request for Proposal (“RFP”) seeking qualified firms to provide Sales Tax revenue auditing and analysis services. The auditing and analysis of the City’s sales tax is currently contracted with Hinderliter, de Llamas and Associates (“HdL”). The existing contract was approved and issued in June 20, 2017, and a one-year contract amendment was approved in June 2020, which is set to expire in June 2021.

Two proposals were received by the RFP deadline of September 17, 2020, HdL and Avenu Insights. A selection committee reviewed the proposals and evaluated each firm on the criteria set forth in the RFP. HdL’s strong performance from the RFP process and the results of reference checks convinced the selection committee of HdL’s strength in sales tax auditing and financial analysis services. The total average final scores from the RFP evaluations are 4.6 for HdL and 4.4 for Avenu Insight as shown in the following tables:

Interviews	HdL Score	Avenu Insights Score
Experience	1.0	0.7
Scheduling	1.0	0.9
Approach	0.9	0.9
Cost	0.7	1.0
Overall Proposal	1.0	0.9
Total Score	4.6	4.4

HdL scored equal to or higher than Avenu Insight in four out of the five following areas:

Experience:

The Consultant has been in this industry for decades. The staff is comprised of retired government employees, who understand the complexities and intricacies that cities face evaluating tax revenues.

Scheduling:

The Consultant’s reputation in accomplishing similar work within the required time, and

within established budget has remained consistent. They have demonstrated the ability/commitment to make the team available to complete initial phase and future phases of reporting and auditing.

Approach:

The Consultant clearly identified processes/tasks which are used to achieve the desired results and the Consultant's proposal meets the goals and necessary projects of the RFP.

Overall Proposal:

Overall proposal demonstrates an understanding of the stated objectives and required deliverables.

HdL is a well-respected company that was founded almost 40 years ago. HdL currently serves over 400 public agencies, many in California, including the City of Huntington Beach, City of Irvine and City of Santa Monica. Due to HdL's success of serving so many agencies, it has compiled an extensive database, enabling HdL to be more efficient in recovering misallocated revenue.

The firm recommended by the selection committee, HdL, would have a contract for a base amount of \$9,600 annually, not to exceed \$28,800 over three years with the option to extend the term for two additional one-year extensions; plus 15% of new sales and use tax revenue as a result of the audit and recovery work performed by the firm (Exhibit 1). If the City exercises the two one-year optional extensions, the additional cost will be \$19,200, for a five-year total amount of \$48,000. HdL shall provide the City with sales and use tax consulting services, including economic trend reports which analyze key economic drivers, geographic area reports and benchmark reports of the City in comparison to other jurisdictions. In addition, the California Department of Tax and Fee Administration ("CDTFA") will administer and perform the services necessary to set up Measure K (Transaction and Use Tax). Exhibit (2) is Resolution no. 21-062 for the City Council to authorize and request that the CDTFA provide access to the City Manager, Finance Director and Revenue Manager to examine all of CDTFA's sales or transactions and use tax records pertaining to the ascertainment of those sales or transactions and use taxes collected for the City, it being understood that such City staff members shall work together with Hinderliter, de Llamas and Associates to analyze, examine and use all such confidential records and data.

In June, the CDTFA will send a letter to each taxpayer in the region informing them of the new Measure K sales tax rate CDTFA will also send out press releases to the media and include an article in its quarterly Tax Information Bulletin that is received by most accountants and tax professionals. The first full quarter's data will not be available until December 2021.

HdL will meet with staff on a quarterly basis to provide sales and use tax projections based on the City's mix of businesses, the City's top sales tax producers, update of sales and use tax trends on a national level and legislative analysis and recommendations.

In addition to the sales tax projections services, HdL will also recover sales and use tax revenues for the City that had been misallocated to other jurisdictions through coding errors or miscalculations from individual businesses. If a misallocation is identified, HdL will prepare the required documentation to the CDTFA to recover these revenues. This tax audit of finding “missing” sales revenues due to reporting and allocation errors helps increase revenue collection. This is an important component of the service provided. The following chart provides a summary of the City’s cumulative sales and tax recoveries through calendar year 2020.

<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
\$2,169,480	\$2,198,978	\$2,742,243	\$2,536,402	\$2,823,389
<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
\$2,992,232	\$2,857,199	\$2,303,635	\$2,880,025	\$2,955,927

HdL provides the City base-case scenarios (sales tax revenue forecast) on which to plan the annual budget. HdL uses the following criteria:

- The company utilizes the vast majority of the State’s sales tax data that is available to better see how changes in technology and the law are resulting in changes in allocations. For example, an economist might be able to correctly predict that sales of clothing will increase based on increased demand, but they would have a much more difficult time seeing that most of that revenue is shifting to the internet and therefore only coming to cities on an indirect basis, which may be substantially less or more, on a proportionate basis than store receipts within a jurisdiction. HdL is able to track the overall spending trends within the State and factor that into revenue forecast, both for the State as a whole and also for individual local government agencies.
- HdL is also able to see how new legislation, such as the Wayfair/AB147 law, is impacting actual sales tax results to cities. This is new money that is not resulting from changes in the economy but changes in legislation, and HdL has been able to incorporate that in the revenue forecasting.
- HdL has been able to factor into the forecast the estimated impacts of the Governor’s recent tax deferral programs that benefit smaller businesses, which is a non-economic factor that will delay many tax filings from one year to the next.
- HdL estimates are done at the individual “business-level.” This means that if HdL knows about a business relocating from, or to the City, HdL analysts will include that information in the forecast. If a business is remaining in the City, but it is changing its operational model so that receipts will now be allocated through the Countywide use tax pools (out of state shipments) instead of allocating directly to our jurisdiction, HdL knows the law and will follow-up with taxpayers to identify changes that need to be incorporated into the City’s sales tax revenue forecast. An economist may not be able to generally go to such a micro-level in generating sales tax revenue forecast, as it would be done at only a macro-level. HdL’s projections are also weighted in terms of

your industry mix.

To develop a sales tax revenue forecasts, HdL looks at State and jurisdictional sales tax trends, which is considered a key advantage to the company. HdL also:

- Incorporates the outlook of key economists in their forecasts. HdL has a relationship with Beacon Economics that provides forecasts for US GDP and other metrics of the State and national economies. HdL also follows numerous other economist forecasts throughout the State including UCLA, Chapman and others.
- Subscribes to numerous industry publications and, for example, follow Moody's, JD Powers and other estimates of future new car sales, and the US Restaurant Association's foot-traffic counts and forecasts, which are all incorporated into the City's projections.
- Incorporates real-time sales data into revenue forecasts. For example, while sales tax results lag 2-3 months, HdL has been able to receive weekly counts of new and used car sales from a major LA County area auto center, which has been incorporated into the City's sales tax revenue forecast.
- Closely follows general economic news on job losses/growth, as well as sales and results for individual businesses (closures) or industries. HdL sends City staff regular news story compilations via e-mail, with some of the select stories that the company follows.

The following table shows the last 5 years of sales tax forecast compared to actuals.

FY	FY Projection	FY Actuals	Variance
15-16	\$25,237,237	\$25,364,057	0.50%
16-17	\$24,597,697	\$24,721,304	0.50%
17-18	\$24,194,779	\$24,439,171	1.00%
18-19	\$28,325,990	\$28,554,425	0.80%
19-20	\$27,473,022	\$28,473,022	2.10%
Variance Average			0.98%

V. FISCAL IMPACT

Funds requested for the Contract Services Agreement with Hinderliter, de Llamas and Associates are included in the Fiscal Year 2021-2022 proposed budget.

VI. EXHIBITS

1. Exhibit (1): Contract Services Agreement (Hinderliter, de Llamas and Associates) (page 7-36)

2. Exhibit (2): Resolution 21-062 authorizing examination of transactions and use tax records. (page 37-39)

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Prepared by: Tarik Rahmani, Finance Director; Cristine Gaiennie, Revenue Manager