



# STAFF REPORT

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July 10, 2024

File Number 0600-10; A- 3521

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## SUBJECT

**CONSULTING AGREEMENT FOR SALES AND USE TAX, BUSINESS LICENSE TAX AND TRANSIENT OCCUPANCY TAX ADMINISTRATION CONSULTING SERVICES**

## DEPARTMENT

City Manager's Office and Finance

## RECOMMENDATION

Request the City Council adopt Resolution No. 2024-62, authorizing the Mayor to execute a Consulting Agreement with Hinderliter, DeLlomas & Associates ("HdL") for Sales and Use Tax, Business License, and Transient Occupancy Tax ("TOT") Administration Consulting Services; adopt Resolution No. 2024-63 authorizing access to Sales or Transaction and Use Tax Records and Documents Pursuant to California Revenue & Taxation Code Section 7056(b); adopt Resolution No. 2024-96 terminating the current consulting agreement with MuniServices; and approve the Budget Adjustment Request (Attachment "1").

Staff Recommendation: Approval (City Manager's Office and Finance: Jennifer Schoeneck, Director of Economic Development and Christina Holmes, Director of Finance)

Presenter: Jennifer Schoeneck, Director of Economic Development and Christina Holmes, Director of Finance

**ESSENTIAL SERVICE – No**

**COUNCIL PRIORITY – Eliminate Structural Deficit**

## FISCAL ANALYSIS

Over the last three years, sales and use tax averaged \$47.1 million per year, approximately 37 percent of the City's General Fund. In order 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. Compensation under this consulting agreement includes a combination of contingency-based and fixed fee arrangements. HdL offers two primary services related to sales tax: sales tax management services and sales tax audit services. For sales tax services, the fee for ongoing analysis, reports and access to the sales tax database is \$850 per month to be billed quarterly. The fee for audit services is 15 percent of all new sales and use tax revenue received by the City as a result of audit and recovery work performed by the Consultant. This fee applies to monies received in the first eight consecutive reporting quarters beginning with the receipt of the audit revenue and includes retroactive back quarter adjustments obtained by the Consultant. For Business License Administration, HdL charges \$16 per processed business



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license permit. There is an accompanying fee of 25 percent of revenue recovered through collection services and 40 percent of revenue collected through audit services. Lastly, for TOT Administration, HdL charges an annual \$900 hotel filing fee.

### **BACKGROUND**

As part of the City's overall effort to operate within a balanced budget, a great deal of emphasis has been placed on ensuring that all revenues to which the City is entitled are received, and that future revenues are accurately forecasted. Revenue, audit and recovery services are specialized in nature and require an in-depth knowledge of local and state government operations and legislation.

In 1993, the City contracted with MuniServices, LLC, to provide Sales Tax Audit and Information Services including compliance audits, analysis and information, and reporting services on the City's sales tax. MuniServices, LLC has been providing sales tax consulting services to the City since that time. While MuniServices has performed satisfactorily, the City's business requirements have evolved, suggesting the need to solicit bids for a broader array of audit and revenue enhancement services.

In November 2023, staff issued a Request for Proposal ("RFP") from qualified consultants to provide a range of revenue monitoring and consulting services, including services for Sales Tax and Property Tax. Proposals were received from HdL Companies and MuniServices LLC. Each proposal was evaluated and scored by staff from the Finance and Economic Development departments based on scoring criteria identified in the RFP: background, consultant team and experience in similar organizations, three references of the consultant team, proposed plan for service, and value.

While both firms were qualified to perform the engagement, based on these criteria, staff concluded that HdL Companies is the most highly qualified, would likely deliver the best services, and offered a superior proposal. HdL Companies has long-standing and documented success in audit recoveries, ability to meet project work plan and timelines, experienced and qualified staff, methodology that would be used to maximize City revenues, financial stability, available resources, competitive pricing, and revenue enhancement with City scope of work. Staff has completed its due diligence with comprehensive reference checks and all came back with positive comments and feedback.

HdL is a well-respected company that was founded almost 40 years ago. HdL currently serves over 400 public agencies, including many in the County of San Diego. Because HdL serves so many agencies, it has compiled an extensive database, enabling HdL to be more efficient in recovering misallocated revenue.

HdL will 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, 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, an update of sales and use tax trends on a national level, and legislative analysis and recommendations. HdL will also provide City staff with access to its sales tax database, which shall include sales tax and business



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registration data, electronic data matching and leads services for business license discovery, as well as a subscription providing analytics data on targeted business areas within the City.

HdL shall also provide sales tax audit services to 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 shall prepare the required documentation to the California Department of Tax and Fee Administration (“CDTFA”) to recover those revenues.

Because sales tax information is confidential, the State of California Revenue and Taxation Code Section 7056 provides that only designated City staff or specifically authorized persons can obtain sales tax information. In order to authorize HdL to access sales tax data on the City’s behalf, the City must enter into a contract with HdL and adopt a resolution authorizing designated persons to access such records.

Revenue, audit and recovery services ensure that the City is applying local law equitably and accurately for all individuals and entities subject to local taxation in the City. To continue to properly and effectively provide sales tax management services and sales tax audit services, staff recommends that the City approve the consulting agreement with Hinderliter, de Llamas & Associates and adopt Resolution No. 2024-63 to authorize the examination of confidential sales, use and transactions tax records of the California Department of Tax and Fee Administration. Resolution No. 2024-96 is also included which authorizes the Director of Finance to terminate the current consulting agreement with MuniServices.

In the area of business licensing, HdL has streamlined processes, reduced costs, increased revenue, and provided greater efficiency and productivity for many municipalities similar to Escondido. HdL will provide comprehensive operations management services, processing of registrations, tax returns, payments, and business license administration. In order to onboard the new HdL business license software effectively, the staff recommendation is to add a full-time customer service representative position to the City Manager’s Department. This is a 100% cost recovery program that will improve the customer experience and result in an increase in business license revenue as our contractor discovers new unlicensed businesses and verifies compliance.

### RESOLUTIONS

- a. Resolution No. 2024-62
- b. Resolution No. 2024-62– Exhibit “A” – Consulting Agreement
- c. Resolution No. 2024-62– Exhibit “1” to Attachment “A” of Exhibit “A” – Scope of Services
- d. Resolution No. 2024-63
- e. Resolution No. 2024-96

### ATTACHMENTS

- a. Attachment “1” – Budget Adjustment Request