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DATE: March 3, 2026

TO: Rio Dell City Council

FROM: Travis Sanborn, Finance Director

THROUGH: Kyle Knopp, City Manager

SUBJECT: Sales Tax Audit and Reporting Services Agreement with HdL Companies

#### RECOMMENDATION

Authorize the City Manager to execute a Master Services Agreement with Hinderliter, de Llamas and Associates (HdL Companies) for sales tax audit and reporting services, subject to City Attorney review and approval, provided there are no substantive changes to the agreement terms. Direct staff to return with a resolution authorizing HdL to examine confidential CDTFA sales tax records as required under Revenue and Taxation Code Section 7056.

#### BACKGROUND

Sales and use tax is a significant component of the City's General Fund revenue. To ensure Rio Dell is receiving its full and accurate allocation, the City engaged HdL Companies, a firm specializing in sales tax analysis, allocation audit, and recovery services for California local governments. HdL works directly with the California Department of Tax and Fee Administration (CDTFA) to identify and correct misallocations, reporting errors, and other discrepancies that may result in the City receiving less than its entitled share of tax revenue.

#### DISCUSSION

The agreement offers two service tiers under Schedule A. Staff recommends Option 2 Essential Services at \$192 per month, which includes all Option 1 Basic Services features plus quarterly trend summaries suitable for public and economic development use, budget forecasting support, and two semi-annual presentations led by an HdL Sales Tax Principal. Option 1 Basic Services is available at \$183 per month for a reduced scope limited to database maintenance and quarterly allocation reports.

Allocation and Audit Recovery Services are included under both options and will run concurrently. This allows HdL to proactively identify and correct allocation errors directly with the CDTFA on the City's behalf. Common errors addressed include transposition misallocations,

erroneous consolidation of business outlets, and misreporting of point-of-sale location. The audit recovery fee is 18% of all new, increased, and recovered sales tax revenue resulting from HdL's work, and applies to revenue received for eight consecutive reporting quarters following CDTFA confirmation of each correction.

Monthly fees are subject to an annual CPI adjustment based on the Consumer Price Index for All Urban Consumers (CPI-U) as reported by the U.S. Bureau of Labor Statistics. The initial term is five years with two optional one-year renewal periods. Either party may terminate without cause with 120 days' written notice.

Per Revenue and Taxation Code Section 7056, the City is required to adopt a resolution authorizing HdL to examine confidential CDTFA sales tax records. Staff will return with that resolution for Council adoption.

### ATTACHMENTS

Master Services Agreement, HdL Companies (including Schedule A and Schedule B)