

**TO:** Andrew P. Powers, City Manager

**FROM:** Jaime Boscarino, Finance Director

**DATE:** June 18, 2024

**SUBJECT: Professional Sales and Property Tax Audit Services Agreements**

**RECOMMENDATION:**

1. Approve agreement with Hinderliter, de Llamas & Associates (HdL) (Brea, CA), for Sales and Use Tax Audit Services in an annual base contract amount of \$10,800 (subject to an annual CPI increase beginning in year two), plus a percentage, not to exceed 15 percent, of all new sales and use tax revenue received as a result of audit and recovery work performed by HdL for a three-year period beginning July 1, 2024, with two one-year options to extend the agreement through June 30, 2029. The total not-to-exceed amount for the entirety of the agreement is \$350,000.
2. Approve agreement with HdL Coren & Cone (HdLCC) (Brea, CA), for Property Tax Audit services, in an annual base contract amount of \$23,625 (subject to an annual CPI increase beginning in year two), plus a percentage, not to exceed 25 percent, of net tax revenues recovered for the City as result of audit efforts for a three-year period beginning July 1, 2024, with two one-year options to extend the agreement through June 30, 2029. The total not-to-exceed amount for the entirety of the agreement is \$145,000.
3. Authorize expenditure in FY 2024-25 for the Sales and Use Tax Audit Services for the base contract amount of \$10,800 from A/C #001-3110-612-5210 (General Fund - Audit Services) and \$50,000 for the contingency fee based on new revenues received by the City as a result of audit and recovery work performed by HdL from A/C #001-0000-412-9900 (General Fund Sales and Use Tax Contra Revenue/Audit Expense).
4. Authorize expenditure in FY 2024-25 for the Property Tax Audit Services for the base contract amount of \$23,625 from A/C #001-3110-612-5210 (General Fund - Audit Services), and \$5,000 for the contingency fee based on net revenues recovered for the City as a result of audit work performed by HdLCC from A/C #001-3110-612-5210 (General Fund - Audit Services).
5. Find that this action is not a project as defined under the California Environmental Quality Act.

**LEVINE ACT ITEM: Yes**

**FINANCIAL IMPACT:**

**No Additional Funding Requested.** \$39,400 is Included in the Adopted FY 2024-25 General Fund Budget to cover base costs of Sales and Use Tax and Property Tax Audit Services combined. Also included in the Adopted FY 2024-25 General Fund budget is \$50,000 to cover the contingency fee related to new and recovered sales and use tax and property tax revenue. The additional funds for the remaining contract term will be requested during the upcoming biennial budget process.

**BACKGROUND:**

**Sales and Use Tax**

Sales and use tax is the largest General Fund revenue source with a budgeted amount of approximately \$40.9 million, or 36.6 percent of total General Fund revenue for FY 2024-25. The City utilizes the services of a sales and use tax audit firm in order to ensure that sales tax is properly allocated and any misallocations by businesses or the California Department of Tax and Fee Administration (CDTFA) are corrected. In addition to providing audit services, HdL provides sales tax revenue projections, economic analysis, and strategic planning for the preservation and enhancement of sales tax revenue generated by local businesses.

The CDTFA, formerly the California State Board of Equalization, is responsible for collecting and monitoring sales tax revenues from over one million accounts, some having 200-300 sub-outlets. Due to the number of accounts, the complexity of the State's regulations, and the number of out-of-state corporations filing quarterly sales tax returns, taxpayers often make allocation errors, which impact the CDTFA's allocation of the local portion of sales tax. A substantial amount of audit fieldwork and analysis is necessary to identify and correct these errors.

Pursuant to Section 7056 of the California Revenue and Taxation Code, consultants must be authorized by resolution to access CDTFA confidential sales tax records. Via Resolution No. 2007-001, HdL was designated as the City's consultant and authorized access to the City's department records.

The City has contracted with HdL since 2007 for Sales and Use Tax audit services. The current five-year agreement term began July 1, 2017, and expires on June 30, 2024. Since becoming the City's sales tax auditor, HdL has been instrumental in forecasting sales tax revenue, identifying misallocations of sales tax revenue and developing strategies to attract and retain sales tax producing

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businesses.

### **Property Tax**

The City incorporated without a general municipal property tax and thus receives a small portion of the local property tax revenue in the form of tax equity allocation (TEA). For FY 2023-234 the City's total taxable assessed property value was \$37.3 billion. Residential properties comprise 76.5 percent of the City's taxable assessed value. General Fund property tax revenues, including property tax in lieu of Vehicle License Fee and property transfer tax, are budgeted at \$33.6 million for Fiscal Year 2024-25.

The City requires a firm with a strong understanding of California property tax, including redevelopment dissolution and the Redevelopment Property Tax Trust Fund (RPTTF). In addition to receiving periodic reports and audits, the City works closely with its property tax consultant in developing budget estimates.

For property tax audit services, the City has contracted with HdLCC since 2020. Since becoming the City's property tax auditor, HdLCC has provided accurate forecasts of the various forms of property tax revenues received by the City, providing insightful reports and guidance on a timely basis, which are accessible through their web-based property tax software.

### **DISCUSSION/ANALYSIS:**

In accordance with Government Code section 4526 and Thousand Oaks Municipal Code section 3-10.401, staff solicited a formal Request for Proposals/Qualifications (RFP/Q) for Professional Sales and Property Tax Audit Services. Unlike the low bid requirements of the Public Contract Code, contracts for professional, management, general, or special services should only be awarded to firms or persons who have demonstrated an adequate level of experience, competence, training, credentials, resources, staffing, and other professional qualifications necessary for more than a satisfactory performance of the services solicited.

On April 19, 2024, a formal RFP/Q for Sales and Use Tax and Property Tax audit services, was published in the Thousand Oaks Acorn newspaper and on the City's e-procurement website. The RFP/Q was emailed to 2,180 users, received 168 views, and had eight downloads. The RFP/Q closed on May 10, 2024. Proposers had the option of submitting a proposal for Sales/Use Tax audit services and/or Property Tax audit services. From this effort, the City received two proposals. HdL was the sole proposer for Sales and Use Tax audit services and HdLCC was the sole proposer for Property Tax audit service.

Finance Department staff evaluated the proposals based on the following criteria:

1. Understanding of work required by the City and approach to the work.
2. Quality, clarity, responsiveness, conformance with the terms of this RFP/Q, and

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overall impression of proposal.

3. Qualifications and availability of key persons to be assigned to the contract resulting from this solicitation.

4. Sub-Consultants qualifications (if applicable).

5. Past experiences with the City.

6. Relevant experience (past similar scope and size projects).

7. Creativity and innovation.

8. Reasonableness of completion schedule and hours dedicated to completion of each task.

9. Reasonableness of time schedule responding to as-needed services.

10. Reasonableness of cost and compensation submittal.

After careful review and consideration, staff determined that HdL and HdLCC met the evaluation criteria for this solicitation. HdL and HdLCC possess a deep understanding of the specifications required by the City and are well-equipped to provide the requested services as noted above. In addition, a detailed scope of work and fees have been negotiated and finalized with HdL and HdLCC. HdL and HdLCC are two separate companies with different tax ID numbers and Boards of Directors. They operate independently of each other and require separate agreements for the specified services.

### **Sales and Use Tax**

HdL has a long working relationship with the City for sales and use tax services dating back to 2007. Staff recommends entering into a three-year contract with HdL (Attachment #1), with two one-year options to extend the agreement to be approved by City Manager. For the first five years, HdL is entitled to a base fee of \$10,800 for sales tax analysis and information reporting, which is subject to a CPI increase starting in year two of the agreement. In addition, HdL is entitled to a percentage of sales and use tax revenue recovered. The services provided in the agreement will include: written reports and periodic briefings, identifying and correcting sales/use tax allocation errors, and to provide insight to revenue performance, trend analysis, gains and declines, and revenue projections.

### **Property Tax**

HdLCC has a long working relationship with the City for property tax services. Staff recommends entering into a three-year contract with HdLCC (Attachment #2) with two one-year options to extend the agreement to be approved by City Manager. For the first five years, HdLCC is entitled to a base fee of \$23,625 for property tax analysis and information reporting, which is subject to a CPI increase starting in year two of the agreement. In addition, HdLCC is entitled to a percentage of property tax revenue recovered.

HdLCC's service team is comprised of individuals with extensive experience in property tax assessment, administration, auditing, economic development and

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financial management. HdLCC's audit team has developed specialized databases and audit techniques, developed a comprehensive, detail-oriented forecast tool to provide one-year and five-year forecasts. HdLCC's web-based property tax software can be used for parcel look-up, displaying parcel ownership, valuation, sales and building/land characteristic information, and links with the County Geographic Information System maps. HdLCC's service also includes a custom newsletter that can be shared with City Council and staff, as well as quarterly meetings with City staff to discuss property tax and real estate trends and legislative issues.

### **LEVINE ACT (California Government Code § 84308):**

This item is subject to the Levine Act. City Councilmembers who have received a campaign contribution of more than \$250 (aggregated) within the preceding 12 months from a party or their agent/representative, or a financially interested participant involved in this proceeding may do either of the following: (1) disclose the contribution on the record and recuse themselves from this proceeding; or if applicable (2) return the portion of the contribution that exceeds \$250 within 30 days from the time the official knew or should have known about the contribution, and participate in the proceeding.

All parties and their agents/representatives must disclose on the record of this proceeding any aggregated contribution of more than \$250 made to any Councilmember within the preceding 12 months (Attachment #3). Councilmembers are prohibited from accepting, soliciting, or directing a campaign contribution of more than \$250 (aggregated) from a party, their agent/representative, or a financially interested participant during a proceeding and for 12 months following the date a final decision is made. In addition, a party, their agent/representative, or a financially interested participant is prohibited from contributing more than \$250 (aggregated) to a Councilmember during a proceeding and for 12 months following the date a final decision is made.

### **COUNCIL GOAL COMPLIANCE:**

Meets the following City Council goal:

C. Operate City government in a fiscally and managerially responsible and prudent manner to ensure that the City of Thousand Oaks remains one of California's most desirable places to live, work, visit, recreate, and raise a family.

**PREPARED BY:** Miguel Chavez, Sr. Financial Analyst

Attachments:

Attachment #1 – Agreement with HdL

Attachment #2 – Agreement with HdLCC

Attachment #3 – Levine Act Disclosure Forms