



City Manager's Report
November 13, 2018, City Council Meeting
Prepared by: Dave Warren, Director of Finance
Item #: 8.5

Subject: Adopt a resolution:

1. Authorizing the examination of sales, use, and transactions tax records; and
2. Authorizing the City Manager to negotiate a professional services agreement with Hinderliter, de Llamas, and Associates for sales, use, and transactions tax audit and information services; and
3. Authorizing the City Manager, City Attorney, and City Clerk to execute the same.

Purpose:

The proposed agreement with Hinderliter, De Llamas, and Associates (HDL) will help ensure the City continues to collect the correct amount of sales tax through periodic merchant audits and provide important financial information and analysis to the Public, City Council, and City management.

Background:

For the past 27 years, the City has contracted with HDL to perform periodic sales tax audits on merchants who may not be reporting the correct amount of sales tax. This audit program has been very successful in identifying and obtaining sales tax dollars that otherwise would have been lost. For example, the City has collected over \$1 million in additional sales tax since 1991 due to HDL's past audit efforts. Staff desires to add additional services to this agreement including online access to HDL's sales tax software and the preparation of periodic reports and analysis. Tonight, staff respectfully requests the City Council to approve the proposed agreement with HDL.

Discussion:

In preparing periodic Bradley Burns (1.00%) sales tax trends and analysis for the Public, City Council, and City management, Finance Department staff currently obtains raw sales tax data each month from the State Department of Tax and Fee Administration, which was previously known as the State Board of Equalization. In order to prepare finished charts and graphs, staff enters this information into Microsoft Excel. Because the sales tax data is maintained in two separate databases (business names by account numbers are maintained in one database and sales tax receipts by account number are maintained in another), this information is currently entered into Excel manually which is very labor intensive and susceptible to errors. Querying historical sales tax information in Excel tends to be cumbersome and time consuming as well. Currently, all charts and graphs are created from scratch in Excel, which is also very time consuming. Due to associated workload demands, staff has been unable to prepare similar information for Measures H, J, and L sales taxes.

In contrast, HDL maintains a robust sales tax software that automates this process on behalf of the city. The proposed agreement with HDL would provide Finance staff online access to its sales tax software which is updated in real time with the latest sales tax data from the State. Staff will be able to quickly query historical sales tax receipt information with a few key strokes. Sales tax charts and graphs can be quickly prepared with the online tools included with the software. As part of the proposed agreement, HDL will prepare an executive summary, including important sales tax trends and analysis on a quarterly basis. Examples of these reports are attached for your reference. By having access to HDL's software,

staff will gain additional efficiency and the ability to quickly prepare analysis, charts, and graphs for all City sales taxes including Bradley Burns and Measures H, J, L sales taxes.

The City currently collects over \$8 million in sales taxes annually, and sales tax currently represents 56.45% of total General Fund revenues. Due to the growing importance of sales tax revenues, which are vulnerable to economic swings, and the need for more reliable, refined, and timely information, staff recommends the City Council to approve the proposed agreement with HDL.

Options:

1. Approve the agreement with HDL as presented.
2. Approve a revised agreement with HDL.
3. Take no action.

Cost:

The annual cost of the online software, periodic reports, and analysis (sales tax and economic analysis services) within the proposed agreement with HDL is \$5,400. The annual fee is subject to increases equal to the annual change in the Consumer Price Index (CPI). Additionally, HDL will receive 15.00% of all recovered sales taxes and future sales tax receipts received during the first consecutive eight quarters following the completion of each merchant audit.

Budget Impact:

The City Council adopted the Fiscal Year 2018/2019 Operating Budget which assumed the projected costs associated with the proposed agreement with HDL agreement.

Recommendation:

Adopt a resolution:

1. Authorizing the examination of sales, use, and transactions tax records; and
2. Authorizing the City Manager to negotiate a professional services agreement with Hinderliter, de Llamas, and Associates for sales, use, and transactions tax audit and information services; and
3. Authorizing the City Manager, City Attorney, and City Clerk to execute the same.



M. Cleve Morris, City Manager



Dave Warren, Director Finance

Attachments:

1. Resolution
2. Agreement
3. Sample Reports