



Staff Report

File #: 23-0670

REQUEST FOR CITY COUNCIL ACTION

DATE: 09/06/2023

TO: Honorable Mayor and City Council Members

FROM: Finance Department

SUBJECT:

FIRST AMENDMENT TO THE PROFESSIONAL SERVICES AGREEMENT WITH HINDERLITER, DE LLAMAS & ASSOCIATES FOR SALES, TRANSACTION, AND USE TAX CONSULTING SERVICES, AND A PROFESSIONAL SERVICES AGREEMENT WITH HINDERLITER, DE LLAMAS & ASSOCIATES FOR TRANSIENT OCCUPANCY TAX SERVICES

EXECUTIVE SUMMARY:

This staff report asks the City Council to approve the First Amendment to the Professional Services Agreement with Hinderliter, de Llamas & Associates for Sales, Transaction, and Use Tax Consulting Services and approve a Professional Services Agreement with Hinderliter, de Llamas & Associates for Transient Occupancy Tax Services.

RECOMMENDED ACTION:

That the City Council:

- a. Approve the First Amendment to the Professional Services Agreement with Hinderliter, de Llamas & Associates for Sales, Transaction, and Use Tax Consulting Services, increasing compensation by \$320,000 for a new Agreement total of \$420,000 for Fiscal Year 2024 only and approving the compensation of \$250,000 for future fiscal years.
- b. Authorize an appropriation in the amount of \$320,000 from the General Fund 110 to the General Government operating budget.
- c. Authorize the City Manager, or his designee, to execute the First Amendment with Hinderliter, de Llamas & Associates in the amount of \$420,000, including any non-substantive extensions, change orders, purchase orders, and amendments up to \$42,000 or 10% of the total contract cost as authorized by Corona Municipal Code (CMC) [Section 3.08.070\(I\)](#).

- d. Authorize the City Manager, or his designee, to issue purchase orders to Hinderliter, de Llamas & Associates in the amount of \$420,000 for FY 2024 and \$250,000 for future fiscal years.
- e. Authorize the City Manager, or his designee, to execute the Professional Services Agreement with Hinderliter, de Llamas & Associates for Transient Occupancy Tax Services for an initial term of September 9, 2023, through June 30, 2025, in the amount of \$25,000 per fiscal year, and approve two (2) two-year renewals for the period of July 1, 2025, through June 30, 2027, and July 1, 2027, through June 30, 2029, as an exception to bidding pursuant to Corona Municipal Code (CMC) [Section 3.08.140\(E\)](#) "Purpose of bidding is otherwise accomplished."
- f. Authorize an appropriation in the amount of \$25,000 from the General Fund 110 to the Finance Department's operating budget.
- g. Authorize the City Manager, or his designee, to negotiate and execute non-substantive extensions, change orders, and amendments up to \$2,500 or 10% of the total contract cost as authorized by Corona Municipal Code (CMC) [Section 3.08.070\(I\)](#).
- h. Authorize the City Manager, or his designee, to issue purchase orders to Hinderliter, de Llamas & Associates in the amount of \$25,000 per fiscal year.

BACKGROUND & HISTORY:

Each year, sales and use tax dollars are distributed and allocated incorrectly to other taxing agencies by the California Department of Tax and Fee Administration (CDTFA). Other types of errors include transposition errors, erroneous consolidation of multiple retail outlets, delays in reporting new outlets, and misallocation errors. Founded in 1983, Hinderliter, de Llamas & Associates (HdL) was established to maximize local government revenues by providing a variety of audits, analytical services, and software products. Moreover, HdL developed California's first computerized sales tax management program and was responsible for securing legislation that allowed independent verification of state allocations to jurisdictions.

For more than 20 years, the City of Corona has partnered with HdL to contact businesses and the CDTFA to verify the accuracy of the current reporting methodology and obtain the necessary documentation for the CDTFA, to modify allocation formulas, and to return previous misallocated revenue that may be due to the City. The current contract dated August 16, 2021, has a not-to-exceed annual amount of One-Hundred Thousand Dollars (\$100,000) per fiscal year, which includes audit and contract fees for both Sales Tax and Transaction Tax.

HdL also provides revenue management solutions to local governments, including assistance with Transient Occupancy Tax (TOT) administration. Transient Occupancy Tax is a tax imposed on guests staying at lodging establishments for a short period, such as hotels, motels, vacation rentals, and similar accommodations, as defined in Corona municipal Code Chapter 3.34. HdL's TOT administration services include day-to-day administration of the program, including customer

support, audits and compliance monitoring, and education.

ANALYSIS:

Sales, Transaction, and Use Tax Consulting Services

On July 24, 2023, the Finance Department received an email from HdL explaining that due to a large sales tax re-allocation of over \$1,000,000 for a single case, the next quarterly invoice is projected to be \$223,275 for the audit services portion only, while the contract with HdL is only for \$100,000. The compensation for this type of audit and recovery activity for the remaining seven quarters for this case alone will be approximately \$35,000, extending through FY 2025. Based on this single case as well as the normal audit and recovery activity, staff is recommending a contract increase to \$420,000 for FY 2024 and \$250,000 for the future fiscal years. There will be additional sales and use tax revenues of approximately \$1,000,000 (one-time payment) received in the General Fund in FY 2024 for the resolution of the noted case.

Transient Occupancy Tax Services

TOT revenue receipting and reporting is currently handled by Finance Department staff. HdL has the ability to provide a higher level of discovery and audit services of the TOT information than City staff. In addition, the City's current software used to track TOT information is outdated and it would be costly to purchase new software for this activity. HdL's TOT administration services include scheduled cyclical audits and compliance monitoring of each return as it is filed while unburdening the City from the day-to-day administration of the TOT revenue program. Continually monitoring returns is the optimal way to increase compliance while maintaining positive relations with the City's lodging providers. Lodging providers need good education programs, it's all too easy for businesses to make errors (and deficient payments) when filing and paying their transient occupancy tax. HdL provides a business-friendly approach toward auditing and collecting revenues from this form of taxation.

Moving to HdL for TOT administration services will be cost-effective, as the City will not need to invest in new software for program tracking. The change will also provide for better consistency as the TOT services are directly connected with business license administration, already handled by HdL. The cost for HdL's TOT administration services will be \$900 per filer for FY 2024 and will increase by CPI in future fiscal years. With the current 25 lodging operators and room for changes, the FY 2024 contract is estimated to cost \$25,000.

FINANCIAL IMPACT:

Approval of the recommended actions will result in appropriations totaling \$345,000 from the General Fund 110. The General Government operating budget will increase by \$320,000 and the Finance Department operating budget by \$25,000. There is sufficient fund balance in the General Fund for the recommended actions. Sales tax revenues for FY 2024 will increase by approximately \$1,000,000 and will be included in the revised revenue estimates at the FY 2024 Quarter 1 Budget Update in November. Future contract costs will be requested through the budget process.

ENVIRONMENTAL ANALYSIS:

This action is exempt pursuant to Section 15061(b)(3) of the Guidelines for the California Environmental Quality Act (CEQA), which states that a project is exempt from CEQA if the activity is

covered by the common sense exemption that CEQA applies only to projects that have potential for causing a significant effect on the environment. Where it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to CEQA. This action approves the First Amendment to the Professional Services Agreement with HdL for Sales, Transaction, and Use Tax Consulting Services and approves a Professional Services Agreement with HdL for Transient Occupancy Tax Services, and there is no possibility that approval of the recommended actions will have a significant effect on the environment. Therefore, no environmental analysis is required.

PREPARED BY: JULIE KENNICUTT, BUDGET MANAGER

REVIEWED BY: KIM SITTON, FINANCE DIRECTOR

Attachments:

1. First Amendment PSA with HdL
2. PSA with HdL
3. Quote from HdL for Transient Occupancy Tax Services