



FILED
OFFICE OF THE CITY CLERK
OAKLAND

2015 MAR 12 PM 10:02

AGENDA REPORT

TO: JOHN A. FLORES
INTERIM CITY ADMINISTRATOR

FROM: David McPherson

SUBJECT: Agreement with HdL for Property
Tax, and Sales and Use Tax
Consultant Services

DATE: February 16, 2015

City Administrator
Approval

Date

3/10/15

COUNCIL DISTRICT: City-Wide

RECOMMENDATION

Staff recommends the City Council adopt: 1) a resolution authorizing the City Administrator to execute a three-year contract, with two optional one-year extensions, with Hinderliter, de Llamas and Associates; and (2) adopt a resolution authorizing the City Administrator to execute a three-year contract commencing January 2015 and ending January 2018, with two optional one-year extensions with HdL, Coren & Cone to provide consulting, economic analysis, web based data and specialized tax auditing services. (Hereafter, the affiliated companies of Hinderliter, de Llamas and Associates and HdL Coren & Cone are collectively referred to as "HdL"¹). HdL was selected on the basis of quality and scope of services, price, technology and responsiveness. The contracted services for HdL will assist the City with greater tax compliance, enhance City staff capabilities to perform more complex tax audits, and result in increased revenue without raising tax rates.

OUTCOME

Adoption of the resolutions authorizes the City Administrator to enter into contracts with the affiliated companies, for sales and use tax and property tax auditing, staff training, and data services for an initial three-year period plus two optional one-year extensions. In addition, HdL will provide data services and annual training to City staff to build in-house capacity to conduct more extensive tax audits for a fixed cost of \$34,200 annually for consulting service and a percent of revenue discovered and recovered for the City as a result of HdL performed audits.

¹ Hinderliter, de Llamas and Associates was created in 1987 with a primary focus on sales tax analysis, allocation audits and software. In 1993, a separate corporation, HdL Coren and Cone was created to provide property tax related services. The affiliates operate as a single, coordinated unit. However, due to their legal structure, they require individual contracts.

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BACKGROUND/LEGISLATIVE HISTORY

The Revenue Management Bureau issued an request for proposal (“RFP”) to elicit proposals from qualified firms for tax auditing and data services to replace the current contract that expired on December 31, 2014.

The work to be performed is intended to meet the Revenue Management Bureau’s primary objectives, which are:

1. Ensure complete and accurate remittance of sales and use taxes, and property taxes;
2. Enhance the revenue base by identifying non-compliant individuals or businesses in the reporting and payment of taxes;
3. Provide information about new or proposed legislation that could affect tax receipts;
4. Train the audit staff to use new tools and data services to build that capacity to perform complex tax audits in-house; and,
5. Provide easily accessible data on past, current, and projected tax revenues.

The City published a notice in the San Francisco Chronicle advertising the RFP. On September 12, 2014, responses to the RFP were received from affiliated companies Hinderliter de Llamas and Associates and HdL Coren & Cone (collectively referred to as “HdL”), and from MBIA Muni Services Company (“MBIA”), all of which specialize in providing the type of consulting services requested. The City met with the two bidders, each gave a sixty-minute presentation clarifying their proposals and discussing the services their firms provide. A selection committee composed of staff from the Revenue Management Bureau determined that HdL offered the most advantageous proposal based on price, technology, and responsiveness.

Reference checks of HdL’s references were positive, which reflected the City’s own experience with this firm over the past sixteen years. The City has been under contract with HdL for sales and use tax and property tax consulting and auditing service since 1998 and has realized over \$7 million in additional revenues as a result of HdL’s detections, corrections, and recoveries. Staff is very satisfied with HdL’s performance, as the firm consistently excels in responsiveness and effectiveness. In addition, HdL provides premiere software tools that facilitate technical analysis and support for local audits and revenue forecasting.

ANALYSIS

HdL will perform audits and compliance reviews for sales and use tax allocations and property assessment valuations, which in turn, will ensure the City receives its fair share of tax allocation. In this net revenue proposition (revenue realized or received upon a successful audit), the contingent audit fee (based on a percentage of revenues identified) will be payable only after the additional revenues are received. Without these audit services, the City may lose revenue that it otherwise is entitled to collect. Furthermore, the data services provided by the contract will

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assist the City's Budget Department and Revenue Management Bureau with forecasting future tax revenues.

Currently, the Revenue Management Bureau performs audits of the business tax, transient occupancy tax, real estate transfer tax, and parking tax. The Bureau also monitors and reviews appeals of sales tax misallocations based upon the State Board of Equalization audits. The new contract with HdL will assist City staff in utilizing HdL's specialized software and obtaining valuable data to expand local capacity to complete complex tax audits, potentially resulting in enhanced revenue streams to the City.

In addition, the data services provided by HdL are used by other departments in the City, such as the Office of Economic & Workforce Development and the City Administrators Office to forecast tax revenues, identify key taxpayers, and to analyze growth trends.

PUBLIC OUTREACH/INTEREST

No public outreach was required beyond the required posting on the City's website.

COORDINATION

This report was prepared by the Revenue Management Bureau in coordination with the City Administrator's Office – Contract Compliance Division, City Attorney's Office, and the Controller's Bureau.

COST SUMMARY/IMPLICATIONS

The Revenue Management Bureau currently collects the majority of the City's local tax revenue, and conducts tax audits to ensure compliance with local tax ordinances. Tax auditing firms such as to HdL assist in capturing additional tax revenue utilizing specialized staff, technology and resources that are typically far beyond the capacity of most local government agencies. HdL will conduct specialized audits for the City's property and sales and use taxes and will provide data reports. They will be compensated as follows:

- A. Sales and Use Tax - HdL will receive annual compensation for services of \$10,200 plus 15 percent of net revenue discovered and recovered for the City as a result of HdL's audit services (revenue recovery will be calculated based on the retroactive recovery plus eight additional future quarters, but not to exceed a total of eleven quarters).
- B. Property Tax - HdL will receive annual compensation for service of \$24,000 plus 25 percent of net revenue discovered and recovered for the City as a result of HdL's

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audit services over the period of time allowable by State statute and processed by the County of Alameda.

SUSTAINABLE OPPORTUNITIES

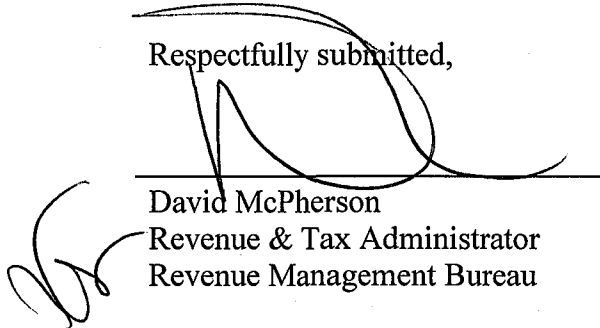
Economic: The City will realize additional revenue to support local government services without raising taxes.

Environmental: There are no environmental impacts associated to this report.

Social Equity: The expanded capabilities offered through HdL's tax auditing services will enhance the City's tax enforcement and compliance efforts and promote equitable treatment of all taxpayers.

For questions regarding this report please, contact David McPherson, Revenue & Tax Administrator at (510) 238-6650.

Respectfully submitted,



David McPherson
Revenue & Tax Administrator
Revenue Management Bureau

Reviewed by:
Margaret O'Brien - Principle Revenue Analyst
Revenue Management Bureau

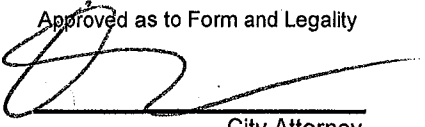
Prepared by:
Andy Best - Principal Revenue Analyst
Revenue Management Bureau

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OAKLAND CITY COUNCIL

Approved as to Form and Legality



City Attorney

RESOLUTION No. _____ C.M.S.

Introduced by Councilmember _____

RESOLUTION AUTHORIZING THE CITY ADMINISTRATOR TO EXECUTE A PROFESSIONAL SERVICES CONTRACT WITH HINDERLITER, DE LLAMS AND ASSOCIATES (HDL) FOR SALES AND USE TAX CONSULTING SERVICES IN AN AMOUNT (I) NOT TO EXCEED \$10,200 ANNUALLY FOR SALES AND USE TAX ECONOMIC ANALYSIS, WEB BASED DATA, AUDITING SERVICES, AND TRAINING; AND (II) ADDITIONAL COMPENSATION NOT TO EXCEED 15% OF NET REVENUE DISCOVERED AND RECOVERED FOR THE CITY AS A RESULT OF CONSULTANT PREFORMED AUDITS, (REVENUE RECOVERY WILL BE CALCULATED BASED ON THE RETROACTIVE RECOVERY PLUS EIGHT FUTURE QUARTERS, BUT NOT TO EXCEED A TOTAL OF ELEVEN QUARTERS); AND AUTHORIZING THIS CONTRACT FOR AN INTIAL THREE-YEAR TERM WITH TWO OPTIONAL ANNUAL EXTENSIONS.

WHEREAS, the City of Oakland seeks to increase its revenue by securing payment of all taxes owed to the City; and

WHEREAS, in order to best achieve such an increase in revenue, the Revenue Management Bureau has determined that a contract with a tax auditing firm would provide the City with valuable information and services; and

WHEREAS, the Revenue Management Bureau issued a Request for Proposal (RFP) for tax auditing and data services; and

WHEREAS, based upon a review and evaluation of the responses to the RFP, staff recommends entering into a contract with Hinderliter, de Llamas and Associates "HdL"; and

WHEREAS, the data and training to be obtained through the contract with HdL will be used by the Revenue Management Bureau for tax auditing, revenue forecasts, and trend analysis; and

WHEREAS, the City has been under contract with HdL for sales and use tax consulting and auditing services since 1998 and has realized additional revenue as a result of services provided by HdL; and

WHEREAS, funding is available in the Revenue Management Bureau Annual Operating

Budget, General Purpose Fund, account (1010.08451.54111.IP59); and

WHEREAS, the Revenue Management Bureau has reviewed the services and determined that this firm continues to provide the best and most cost-effective services; now, therefore, be it

RESOLVED, that based on information provided by the City Administrator, the Council finds that this contract is for a professional and temporary nature and shall not result in the loss of employment or salary by any person having permanent status in the competitive civil service; and be it

FURTHER RESOLVED, that the City Council of the City of Oakland authorizes the City Administrator to execute a professional services contract with Hinderliter, de Llamas and Associates for an initial three-year term, with two one-year options to renew, for sales and use tax consulting services in an amount (I) not to exceed \$10,200 annually for sales and use tax economic analysis, web based data, auditing services, and staff training, and (II) additional compensation not to exceed 15% of net audit recovery, where revenue recovery will be calculated based on any retroactive recovery plus eight future quarters and not to exceed total of eleven quarters; and be it

FURTHER RESOLVED, that this Resolution shall take effect immediately upon passage; and be it

FURTHER RESOLVED that the contract shall be reviewed and approved by the City Attorney for form and legality prior to execution and placed on file in the Office of the City Clerk.

IN COUNCIL, OAKLAND, CALIFORNIA, _____

PASSED BY THE FOLLOWING VOTE:

AYES - BROOKS, CAMPBELL WASHINGTON, GALLO, GUILLEN, KALB, KAPLAN, REID, and PRESIDENT GIBSON MCELHANEY

NOES -

ABSENT -

ABSTENTION -

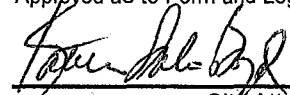
ATTEST: _____

LaTonda Simmons
City Clerk and Clerk of the Council
of the City of Oakland, California

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OAKLAND CITY COUNCIL

Approved as to Form and Legality


City Attorney

RESOLUTION No. _____ C.M.S.

Introduced by Councilmember _____

RESOLUTION AUTHORIZING THE CITY ADMINISTRATOR TO EXECUTE A PROFESSIONAL SERVICES CONTRACT WITH HINDERLITER, DE LLAMAS AND ASSOCIATES (HDL) COREN & CONE FOR PROPERTY TAX CONSULTING SERVICES IN AN AMOUNT (I) NOT TO EXCEED \$24,000 ANNUALLY FOR PROPERTY TAX ECONOMIC ANALYSIS, WEB BASED DATA AND STAFF TRAINING; AND (II) ADDITIONAL COMPENSATION NOT TO EXCEED 25% OF NET REVENUE DISCOVERED AND RECOVERED FOR THE CITY AS A RESULT OF PROPERTY TAX AUDITS PERFORMED BY THE CONSULTANT; AND AUTHORIZING THIS CONTRACT FOR AN INITIAL THREE-YEAR TERM WITH TWO OPTIONAL ANNUAL EXTENSIONS.

WHEREAS, the City of Oakland seeks to increase its revenue by securing payment of all taxes owed to the City; and

WHEREAS, in order to best achieve such an increase in revenue, the Revenue Management Bureau has determined that a contract with a tax auditing firm would provide the City with valuable information and services; and

WHEREAS, the Revenue Management Bureau issued a Request for Proposal (RFP) for tax auditing and data services; and

WHEREAS, based upon a review and evaluation of the responses to the RFP, staff recommends entering into a contract with HdL, Coren & Cone (HdL); and

WHEREAS, the data and training to be obtained through the contract with HdL will be used by the Revenue Management Bureau for tax auditing, revenue forecasts, and trend analysis; and

WHEREAS, the City has been under contract with HdL for property tax consulting and auditing services since 1998 and has realized additional revenue as a result of services provided by HdL; and

WHEREAS, funding is available in the Revenue Management Bureau Annual Operating Budget, General Purpose Fund, account (1010.08451.54111.IP59); and

WHEREAS, the Revenue Management Bureau has reviewed the services and determined that this firm continues to provide the best and most cost-effective services; now, therefore, be it

RESOLVED: That based on information provided by the City Administrator, the Council finds that this contract is of a professional and temporary nature and shall not result in the loss of employment or salary by any person having permanent status in the competitive civil service; and be it

FURTHER RESOLVED: that the City Council of the City of Oakland authorizes the City Administrator to execute a professional service contract with HdL, Coren & Cone for an initial three-year term, with two one-year options to renew, for property tax consulting services in an amount (I) not to exceed \$24,000 annually for property tax economic analysis, web based data and staff training, and (II) additional compensation not to exceed 25% of net revenue discovered and recovered for the City as a result of a property tax audit performed by the consultant; and be it

FURTHER RESOLVED, that this Resolution shall take effect immediately upon passage; and be it

FURTHER RESOLVED: That the contract shall be reviewed and approved by the City Attorney for form and legality prior to execution and placed on file in the Office of the City Clerk.

IN COUNCIL, OAKLAND, CALIFORNIA, _____

PASSED BY THE FOLLOWING VOTE:

AYES - BROOKS, GALLO, GUILLEN, KALB, KAPLAN, REID, WASHINGTON, and PRESIDENT GIBSON
MCELHANEY

NOES -

ABSENT -

ABSTENTION -

ATTEST: _____
LaTonda Simmons
City Clerk and Clerk of the Council
of the City of Oakland, California