



AGENDA REPORT

TO: Edward D. Reiskin
City Administrator

FROM: Margaret L. O'Brien
Interim Finance Director

SUBJECT: Local Tax Software Solution

DATE: February 2, 2021

City Administrator Approval

Date: Feb 4, 2021

RECOMMENDATION

Staff Recommends That The City Council Adopt A Resolution Waiving The Competitive Bidding Process And Authorizing The City Administrator To Renew The Professional Services Agreement With HdL Software, LLC For An Additional Three-Year Term With An Option To Renew For One Additional Two-Year Term In An Amount Not To Exceed Nine Hundred Thousand Dollars (\$900,000) For All Five Years For The Provision Of Technical Support, Ongoing Maintenance, And Upgrades For The City's Local Tax Software

EXECUTIVE SUMMARY

The Finance Department- Revenue Management Bureau ("RMB"), following the City Council's approval to award the Local Tax Software Solution ("LTSS") to HdL Software, LLC. ("HdL") in April 2016 and the subsequent execution of the Agreement in July 2016, successfully launched the LTSS and the accompanied Business Tax Online Portal in November 2016.

This report summarizes the RMB's work since the launch of the LTSS and seeks City Council approval waving the competitive bidding process and authorizing the City Administrator, or designee, to negotiate and enter the First Amendment to the Agreement with HdL for on-going maintenance, necessary upgrades, technical, and professional support for an additional fixed three-year term with one two-year option to renew totaling \$900,000 for all five years of the Agreement.

BACKGROUND / LEGISLATIVE HISTORY

In November 2015, RMB released a Request for Qualifications ("RFQ") for an LTSS through the City's e-procurement system, iSupplier, with the objective of procuring a web-based, turnkey solution that would replace and upgrade the City's then existing

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LTSS. A cross-functional evaluation committee comprised of 19 knowledgeable members from Revenue, Treasury, and Controller Bureaus, and the Information Technology Department was created. Their role was to fairly, objectively, and systematically evaluate all aspects of the five proposals submitted. The evaluation committee concluded its work with the recommendation to award the contract to HdL Software, LLC as the best provider based on the criteria set forth in the RFQ.

In April 2016, the City Council, following staff's recommendation, adopted Resolution No. 86120 C.M.S., authorizing the execution of an agreement with HdL to provide an LTSS for an initial five-year term with five one-year options to renew, subject to Council approval. Pursuant to Resolution No. 86120 C.M.S., the City entered into an agreement with HdL on July 1, 2016 and the business tax online portal went live in or around December 2016. The initial allocation of \$1,266,730 for the HdL contract covered the purchase, configuration, training, and implementation of LTSS, and on-going maintenance, upgrades, and technical support for the first five years. Any contract extensions and additional funding beyond year five is at the discretion of the City and upon approval by the City Council.

ANALYSIS AND POLICY ALTERNATIVES

Staff seeks authority to amend the current Agreement with HDL to ensure continuation and maintenance of a high-performing, reliable, and consistent tax software solution at an affordable cost.

To that end, LTSS has been a very stable and useful software that works as intended. In fact, LTSS is considered a mission critical system for the RMB whose responsibility is to administer, audit, and collect more than \$180 million in annual revenues, which include business, transient occupancy, utility user, and parking taxes, as well as the collection of fees, such as business improvement district, rent adjustment program, and excess litter. As part of the Amendment, HdL proposed to reverse the fixed annual maintenance and support cost to the same costing level of 2018. This proposal represents the savings of approximately 8%, or about \$10,000, in annual costs.

Cost is not the only factor that prompted staff to request for amendment. As mentioned above, LTSS is considered a mission critical system. Below are additional key benefits to the City since the launch of LTSS in November 2016:

- **Improved Customer Service:**
 - Online Registration and Renewal Portal. The online application provides flexibility and convenience to businesses. It provides businesses with instant tax calculations and expedites the issuance of the business tax certificate. The portal is a critical tool during the current pandemic because of the Shelter-in-Place Orders, City businesses are able to register and make tax payments through this portal.

- Accepts payments by credit cards or electronic check. Businesses can pay business, transient occupancy, parking, and utility user taxes online. The availability of e-check reduced the fees the City pays for accepting credit cards.
- Allows for communication with account holders via email. The City has been able to reduce the use of paper and manual processing by notifying account holders with registered email addresses of account renewals and status.
- Taxpayer self-help. Those who need a copy of account forms or certificates can retrieve them online.
- Scalable: At its peak time, such as during the renewal period starting in January through March, LTSS can process hundreds of transactions a day while simultaneously meeting the demands of more than two dozen staff logged on to the system assisting taxpayers.
- Versatile: In addition to housing the business tax structure that comprises of 22 different categories with each having a unique tax rate, there are several other tax programs and fees that are also housed in LTSS and staff plans to add more.
- Robust: One of the key criteria outlined in the RFQ released in 2015 was the requirement of a robust reporting and data extraction tool. LTSS's reporting modules comes with a number of preconfigured reports that allow for quick access to the summarized data in a meaningful and useful way to analyze business sectors, types, and activities. Staff can use the data extraction tool to extract and export current and historical data in various formats making it easy for sophisticated data analysis functions.
- Reliable: LTSS is highly accessible and operational in the high 90s percentile. Downtime is scheduled ahead of time and often at nights or on weekend. Use of LTSS is intuitive and easy. Staff is quite happy with the LTSS.
- Excellent Support: HdL's technical and managerial staff are easily accessible even after hours.
- Cost: As part of the requirement to submit the proposals outlined in the RFQ, RMB required that the software providers submitting the proposals keep the cost proposals sealed in order to ensure cost was not the influential factor during the review process. The evaluation committee gave the technical capabilities of LTSS the highest score among the proposals. It also turned out the cost was also the least expensive among the five proposals. In staff's recent review and survey of other local jurisdictions seeking to implement a similar solution, staff learned that the cost of maintaining the current LTSS remains one of the most affordable solutions on the market.

It is for all the reasons outlined above that staff seeks City Council approval to replace the approved five one-year options with a fixed three-year amendment and one two-year option to renew. Staff further requests that the Council authorizes the City Administrator the discretion of exercising the one two-year option without returning to the City Council for approval.

In addition to the fixed annual maintenance and support cost averaging approximately \$112,384 per year, including the one two-year option, this First Amendment will include provisions to allow the City, at its discretion, to engage and utilize HdL's development resources to add additional features and functionality to the LTSS in order to streamline processing operations and, at the same time, be in a position to accommodate the potential major overhaul of the business tax structure.

The First Amendment includes making changes to LTSS to enhance user experience and improve key processes, which include geocoding (the conversion of physical addresses into geographical coordinates) allowing for more granular analysis of business activity in the City and upgrading the public facing online portal to improve customer engagement.

The First Amendment would allow for the implementation the proposed Progressive, Modern and Equitable Business Tax Structure should the City Council adopt a resolution putting forth to the voters to consider approval to repeal and replace the existing business tax structure in November 2022 General Election. The proposed business tax structure would set forth many potential changes to the existing business tax structure, including exemption setting a fixed flat \$100 annual tax for small business grossing less than \$250,000. This would encompass the reconfiguration of the LTSS to accommodate these changes.

Staff will work with HdL to keep development hours to the minimum. The payment for making changes to enhance user experience and improve key process is conditioned upon staff verification and acceptance of work produced by HdL.

FISCAL IMPACT

The City Council's approval of the Recordation and Technology Fee for the LTSS at the start of FY 2016-17 on new and renewal of each Business Tax account to reduce the need to acquire funding from other funds, such as the General Purpose Fund or the Information Technology Department's operating budget. Staff will seek approval to appropriate all available funds from the Recordation and Technology Fee during the budget process to cover the costs of the Agreement.

Table 1: First Amendment Cost Breakdown

Item	From	To	Average Annual Fee	Total
Software Maintenance & Support (3-Yr. Fixed)	Jan 2021	Jan 2024	\$108,243.00	\$324,730.00
Software Maintenance & Support (2-Yr. Option)	Jan 2024	Jan 2026	\$116,524.00	\$233,050.00
Contingency				\$342,220.00
Total First Amendment (5 years)				\$900,000.00

PUBLIC OUTREACH / INTEREST

This item will be posted on the City's website for the February 16, 2021 City Council meeting.

COORDINATION

This report has been coordinated with the Budget Bureau and the City Attorney's Office.

SUSTAINABLE OPPORTUNITIES

Economic: The enhanced LTSS will improve organizational efficiencies and user experience leading to improved service delivery to residents and businesses in the City. This will enable the City to continue being in a strong position to meet upgrade and modification technology needs in the future.

Environmental: There are no environmental opportunities associated with this project.

Race and Equity: There are no social opportunities associated with this project.

ACTION REQUESTED OF THE CITY COUNCIL

Staff recommends that the City Council adopt a resolution waiving the competitive bidding process and authorizing the City Administrator to renew the professional services agreement with HdL Software, LLC for an additional three-year term with an option to renew one additional two-year term in an amount not to exceed nine hundred thousand dollars (\$900,000) for all five years for the provision of technical support, ongoing maintenance, and upgrades for the city's local tax software.

For questions regarding this report, please contact Rogers Agaba, Interim Revenue & Tax Administrator, (510) 238-7009.

Respectfully submitted,

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