



BOARD OF SUPERVISORS  
AGENDA LETTER

Agenda Number:

Clerk of the Board of Supervisors  
105 E. Anapamu Street, Suite 407  
Santa Barbara, CA 93101  
(805) 568-2240

**Department Name:** Auditor-Controller  
**Department No.:** 061  
**For Agenda Of:** Nov. 6, 2018  
**Placement:** Administrative  
**Estimated Time:** N/A  
**Continued Item:** No  
**If Yes, date from:**  
**Vote Required:** 4/5

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**TO:** Board of Supervisors  
**FROM:** Department Theo Fallati, CPA Auditor-Controller  
Director 805-568-2100  
Contact Info: Ed Price, CPA Chief Deputy Controller  
805-568-2126

**SUBJECT:** Agreement for Services from Hinderliter, de Llamas & Associates

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**County Counsel Concurrence**

As to form: Yes

Other Concurrence: Risk Management

As to form: Yes

**Recommended Actions:**

That the Board of Supervisors:

- a. Adopt a Resolution in the Matter of Authorizing Examination of Sales, Use and Transactions Tax Records (Attachment A); and
- b. Approve, ratify and authorize the Chair of the Board of Supervisors to execute the Agreement for Services of Independent Contractor with Hinderliter, de Llamas & Associates (HdL) to deliver Sales and Use Tax Services, for a five year term commencing 7/1/2018 and ending 6/30/2023, in an amount not to exceed \$105,000 annually (Attachment B); and
- c. Approve a Budget Revision Request (BRR# 0006030) increasing appropriations of \$98,400 in the Dept 990, General Fund for Services and Supplies funded by unanticipated sales tax revenues (Attachment C); and
- d. Determine that the above actions are organizational or administrative activities of government that will not result in direct or indirect physical changes in the environment and are not a project under the California Environmental Quality Act (CEQA) pursuant to section 15378(b)(5) of the CEQA Guidelines.

**Auditor-Controller Concurrence**

As to form: Yes

**Summary Text:**

The Auditor-Controller recommends contracting with HdL, for sales tax economic and analysis services, and allocation audit and recovery services. This will serve to eliminate the need to maintain an aged existing in-house developed software application and limit staff resources used for allocation recovery. The annual costs related to economic and analysis services are \$6,600 (\$550 per month). Fees for allocation recovery are 15% of amounts recovered. To satisfy state disclosure requirements, the attached resolution grants HdL, in their performance under the contract, access to State sales tax data related to the County.

**Background:** The Auditor-Controller's office uses sales tax data for reporting and in conjunction with the CEO office analyzes this data for budgeting and long term revenue planning. In addition the Auditor-Controller's Office analyzes sales tax data to identify potential misallocated sales taxes and generate correction claims with the State. Since 1998 the allocation auditing function has identified over \$1.3 million in sales taxes misallocated to other jurisdictions and caused them to be correctly reallocated to the County.

Recently sales tax administration responsibilities at the State have been transferred under the Taxpayer Transparency and Fairness Act of 2017, effective 7/1/2017, from the State Board of Equalization to the newly established California Department of Tax and Fee Administration. As sales tax data is confidential in nature, the State limits access to County related data to those so designated by the Board of Supervisors.

Currently the Auditor-Controller's office uses an in-house developed software application to analyze and report sales tax data as provided by the State on a quarterly basis. The Sales Tax application was developed in the early 2000's and is near the end of its lifecycle. As part of the restructuring at the State, the formats of the data has changed requiring the Auditor-Controller to either invest in upgrading the in-house application or look for another solution. After consideration of the options it was decided to use a vendor-provided service as it is reasonably priced and will allow both accounting and IT staff to focus on more essential core systems. HdL, who provides these services to most other California counties, was selected due to their substantial knowledge of the State's sales and use taxes and comparable costs.

HdL sales tax and economic analysis services will provide substantially the same reporting capability along with enhanced analysis. This service is \$550 a month or \$6,600 per year and will be paid by the Auditor-Controller out of Department 061.

In addition the in-house software application is also used to identify potential misallocated sales taxes and generate correction claims with the state. HdL provides this service (allocation audit and recovery) at a cost of 15% of any amounts recovered. This fee will be offset by the associated sales tax revenues recovered and not negatively impact the budget. In essence the County will net 85% of the recovered misallocated taxes. As the recovered misallocated taxes are countywide discretionary revenues reported in Department 991, the HdL recovery fee will be recorded in Department 990.

HdL also offers Consulting and Optional Services billed on an hourly basis which the County from time to time may wish to utilize. This contract would allow these services to be utilized without the need for an additional contract provided that such costs when combined with the Sales Tax and Economic Services, and Allocation Audit and Recovery Services fees do not exceed the maximum \$105,000 annual amount.

The attached resolution designates HdL, in their performance under this contract, access to sales tax data related to the County.

**Contract Renewals and Performance Outcomes:**

The contract is for a five year term commencing 7/1/2018 and ending 6/30/2023 and includes a 30 day termination clause for convenience. The contract includes a CPI inflation adjustment to the Sales Tax and Economic Services charges. There is no adjustment provision on the Recovery Services fees.

**Fiscal and Facilities Impacts:**

Budgeted: No

The cost of HdL Sales Tax and Economic Analysis services is \$550 a month or \$6,600 per year and will be paid by the Auditor-Controller out of General Fund Department 061. Although not specifically budgeted for in 2018-19 the cost will be absorbed by the Auditor-Controller and will not require a budget adjustment.

The cost of HdL Allocation Audit and Recovery services is contingent on the amounts of misallocated sales taxes identified and recovered at a rate of 15%. The exact amounts of recovery fees are uncalculatable as the future amounts of misallocated sales taxes that will be identified and recovered are unknown. However, based on historical recovery amounts it is anticipated that annual recovery fees will be in the \$25,000-\$50,000 range.

The recovery fee is only payable on additional revenues received. Accordingly any recovery fees paid will be offset by the associated sales tax revenues recovered. In essence the County will net 85% of the recovered misallocated taxes. For illustration purposes, recovered misallocated sales taxes of \$10,000 would require \$1,500 of recovery fees to be paid resulting in a net increase of spendable resources of \$8,500. As the recovered misallocated taxes are countywide discretionary revenues reported in General Fund Department 991, the HdL recovery fees and costs associated with any Consulting and Optional services will be recorded in General Fund Department 990.

Due to the uncertainty of annual costs for Allocation Audit Recovery services and potential Consulting and Optional services, we recommend a maximum annual contract amount of \$105,000. This amount less the \$6,600 fees for monthly Sales Tax and Economic Analysis services would result in \$98,400 available for the other services. The budget adjustment requests increased appropriations of \$98,400 funded by unanticipated sales tax revenues.

**Fiscal Analysis:**

<b><u>Funding Sources</u></b>	<b><u>Current FY Cost:</u></b>	<b><u>Annualized On-going Cost:</u></b>	<b><u>Total One-Time Project Cost</u></b>
General Fund - 061	\$ 6,600.00	\$ 6,600.00	
General Fund - 990	\$ 98,400.00	\$ 98,400.00	
<b>Total</b>	<b>\$ 105,000.00</b>	<b>\$ 105,000.00</b>	<b>\$ -</b>

The cost of HdL Sales Tax and Economic Analysis services is \$550 a month or \$6,600 per year and will be paid by the Auditor-Controller out of General Fund Department 061.

The cost of HdL Allocation Audit and Recovery services is contingent on the amounts of misallocated sales taxes identified and recovered at a rate of 15%. The cost of HdL Consulting and Optional services is contingent on the nature and extent of services provided. The amounts of recovery fees and any consulting/optional services costs are estimated not to exceed \$98,400. This when combined with the Sales Tax and Economic Analysis fees brings the total annual contract not to exceed amount to \$105,000.

**Key Contract Risks:**

The key contract risk is if the vendor does not provide the reporting, analysis and or recovery services with quality in a timely manner. As sales tax analysis is performed quarterly in the Auditor-Controller's office any deviations from expectations would be quickly identified and dealt with. Performance issues are unlikely as the vendor has been providing these services for many years for most California counties.

**Special Instructions:**

Please provide two signed copies of contract to Ed Price, Auditor-Controller's Office.

**Attachments:**

- A. Resolution: Authorizing Examination of Sales, Use and Transactions Tax Records
- B. Contract: Agreement for Services of Independent Contractor with HdL
- C. BJE No. 0006030
- D. Board Contract Summary

**Authored by:**

Ed Price