



# City Council Memorandum

*City of Arts & Innovation*

TO: HONORABLE MAYOR AND CITY COUNCIL                      DATE: OCTOBER 24, 2023

FROM: FINANCE DEPARTMENT                                      WARDS: ALL

SUBJECT: AGREEMENT FOR BUSINESS LICENSE, TRANSIENT OCCUPANCY TAX, SHORT-TERM RENTAL, AND UTILITY USER TAX SERVICES WITH HINDERLITER, DE LLAMAS AND ASSOCIATES (HDL) FOR A ONE-YEAR TERM WITH AN OPTION TO EXTEND ONE YEAR, FOR A NOT-TO-EXCEED AMOUNT OF \$340,000 ANNUALLY

**ISSUE:**

Approve a Professional Consultant Services Agreement with Hinderliter, de Llamas and Associates (HdL) for Business License, Transient Occupancy Tax, Short-Term Rental, and User Utility Tax Services, for a one-year term with an option to extend one year, for a not-to-exceed amount of \$340,000 annually pursuant to Purchasing Resolution 23914, Section 702(t).

**RECOMMENDATIONS:**

That the City Council:

1. Approve an Agreement for Business License, Transient Occupancy Tax, Short-Term Rental, and Utility User Tax Services with Hinderliter, de Llamas and Associates (HdL), for a one-year term with an option to extend one year, for a not-to-exceed amount of \$340,000; and
2. Authorize the City Manager, or his designee, to execute the Agreement, issue a notice of termination when applicable, execute extensions if necessary and subject to the availability of budgeted funds, and to make any other required non-substantive changes.

**BACKGROUND:**

A City of Riverside (City) business tax certificate is required for all persons or companies conducting business within the City. Business taxes are paid annually and are due on or before the expiration date of the current certificate.

The Business Tax Division processes applications for brick-and-mortar, home-based, and mobile businesses located inside Riverside’s City limits and businesses located outside of the City but doing business within the City, such as contractors and vendors. There are over 26,000 businesses with active licenses operating within the City, including businesses not located within

the City’s boundaries. Business Tax and Transient Occupancy Tax (TOT) generated over \$18.1 million in Fiscal Year (FY) 2022/23, accounting for approximately 5.1% of the City’s total General Fund revenue in FY 2022/23 (unaudited results). Efficient management of the collection of these revenues is crucial to maintain stable funding for police, fire, parks, and other public services.

### City/HdL Partnership

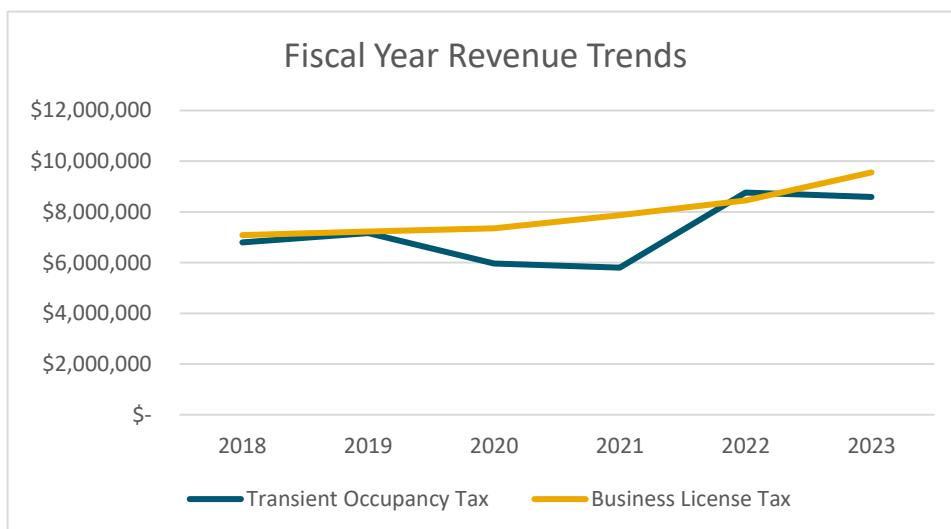
On November 3, 2020, the City of Riverside, with City Council approval, executed a three-year agreement with Hinderliter, de Llamas and Associates (HdL). At the time of the agreement, the Business Tax Division was budgeted for ten full-time equivalent (FTE) positions. Four of the ten positions were vacant and used to fund the HdL contract. A partnership with HdL was proposed to provide operational stability, which would allow the remaining Business Tax team to focus its efforts on other areas of strategic importance such as customer service and collections.

### **DISCUSSION:**

HDL partners with over 700 government agencies across the U.S. and has recovered more than \$3 billion in revenue for their clients. Their team of Certified Revenue Officers, auditors, field inspectors, and tax specialists work to ensure the business community receives the highest levels of service while monitoring and maintaining the City’s business tax base. HdL’s compliance services ensure entities subject to taxation or licensure are properly registered and accurately reporting.

HDL currently provides services to assist the City of Riverside with business tax renewals, collections, short-term rentals, TOT, and Utility Users Tax (UUT). These services include sending renewal notices via mail and email; making outbound calls; processing payments for renewals and balances owed; and performing TOT audits. Responsibilities of the City’s Business Tax Division include new business license application processing; providing in-person customer service at the City’s One Stop Shop at City Hall; monitoring, managing, and following up on delinquent accounts; and identifying non-compliant businesses (discoveries) per the Riverside Municipal Code.

In FYs 2017/18 and 2018/19, the Business Tax Division generated nearly \$14 million annually from Business Licenses and TOT. Under the HdL partnership which began in November 2020, HDL and the City collectively generated approximately \$18.1 million in FY 2022/23.



Although revenue has increased significantly, there are several factors to take into consideration. In 2020, the Covid-19 pandemic caused financial hardship for many businesses due to mandated temporary closures and statewide stay-at-home orders. Businesses were not able to generate as much revenue, which impacted their total gross receipts that were reported for the year. Local industries most affected by the pandemic were retail, wholesale, manufacturing, and auto dealerships. City of Riverside businesses that report gross receipts constitute roughly 45% of the City’s revenue for active business license accounts. As pandemic restrictions were lifted, the local economy continued to improve, and businesses have been able to generate more sales, which has directly contributed to an increase in revenue collected by HdL and the Business Tax Division.

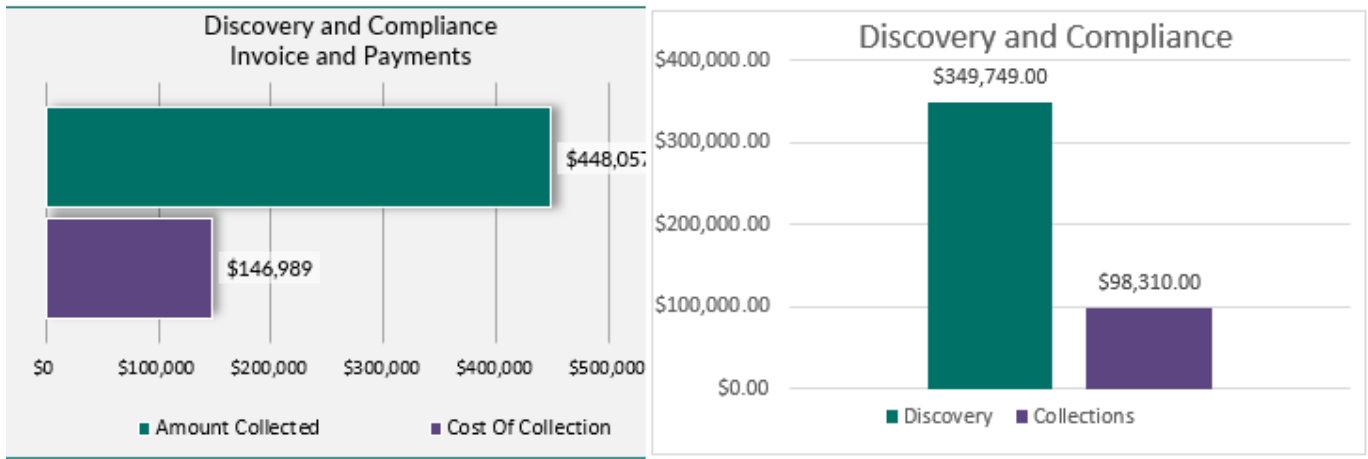
Other factors that may have contributed to the revenue increase are stimulus payments and additional unemployment income that were given as aid during the pandemic. Additionally, the Business Tax Division, in partnering with HdL, started two initiatives that have played a role in the City’s overall revenue increase. The City initiated a Discovery Program approved by the City Council in September 2022 and has generated approximately \$448,000 dollars in additional City revenue. The second initiative, TOT audits of all Citywide hotels, is currently ongoing and has been successful in generating additional revenue while also ensuring compliance to the City’s municipal code.

In addition to business license tax and TOT revenue, HdL collected nearly \$40 million in UUT revenue on behalf of the City in FY 2022/23. UUT accounted for 9.8% of General Fund revenues in FY 2022/23 (unaudited results).

**Business Tax Discovery Program**

In September 2022, the City Council approved a citywide Discovery Program that would identify non-compliant businesses and bring them into compliance through an amnesty program, waiving penalties and interest. Based on the approved option, the City was projected to generate an additional \$6.1 million dollars through the discovery program (net of a 35% contingency payable to HdL). The Discovery Program went live in November 2022, beginning with a review of property rentals, and generated approximately \$448,000 in new discovery revenue. Approximately \$98,000 remains uncollected to date. HdL’s contingency fee totals approximately \$147,000.

**Financial Summary**



During the amnesty program, the City’s Business Tax Division received inquiries from HdL regarding the City’s interpretation and enforcement of various sections of Riverside Municipal

Code (RMC) Chapter 5.04 governing business licenses and taxes. It was identified that some current practices are inconsistent with the RMC, resulting in the collection of less revenue than permitted under the RMC. Consequently, in March 2023, the Discovery Program was paused to allow for a comprehensive review of the municipal code and the development of an enforcement strategy moving forward. Under current contract terms, HdL performed a comprehensive review of the City’s ordinance, including a comparison to industry standards. The Business Tax Division is currently in the process of reviewing HdL’s findings and recommendations and is also consulting with the City Attorney’s Office for guidance. Following compilation of the inconsistencies identified, staff will develop a strategy under which to resume the discovery program and will provide an update to the Financial Performance and Budget Committee.

**Customer Service and Experience**

Customer service is a priority for the Business Tax Division, and staff works closely with HdL to ensure that businesses have a positive experience when conducting business with the City of Riverside. Businesses have access to HDL tax specialists Monday through Friday, 8:00am-5:00pm PT via the Business Support phone number, e-mail, and fax. Businesses also have 24-hour access to HdL’s user-friendly online portal to submit new applications, renew annual business tax, submit closures, and make payments. HdL also assists the Business Tax Division with renewals of annual business licenses, which allows City staff to focus its efforts on other areas of strategic importance, such as customer service and collections. While the City and HdL work in close collaboration to provide a seamless customer experience, the following outlines the focus areas of each:

<b>City Staff Responsibilities</b>	<b>HdL Responsibilities</b>
Provide in-person customer service at the City’s One Stop Shop at City Hall.	Provide and support business tax software for the management of business tax functions, online applications, and payment processing.
Process new business license applications.	Process business tax renewals.
Identify non-compliant businesses (Discovery).	Manage payment processing through HdL software.
Monitor, manage, and follow up on delinquent business accounts (up to 180 days past due).	Provide customer service via the business support number, email and fax.
Support HdL customer service as needed, including phone support via 311 calls.	Provide collection services for delinquent accounts greater than 180 days past due.
Prepare Business Improvement District Resolution of Intention & mail notifications.	Identify Short Term rentals subject to business license tax (Discovery).
	Process TOT payments and perform TOT audits.
	Process UUT payments, provide business support.

In addition to the areas of responsibilities detailed, the City and HDL meet bi-weekly to discuss opportunities to enhance customer service, streamline business processes, and trouble-shoot any reported issues.

**Transient Occupancy Tax Audits**

As provided for in the contract, HdL was asked to audit TOT for all City hotels. The City and HdL chose to initiate an audit rotation of 10 hotels annually, with the goal of auditing each of the City’s 30 hotels every three years. The first round of audits began in March 2022 and were conducted remotely, with follow-up phone calls, emails, and information exchanged in the months following. Using the data provided by the City and lodgings provider, HdL conducted a review of TOT returns

filed during the audit period of January 2019 through December 2021. HdL identified various inconsistencies with hotel TOT collection practices and is collaborating with the City to remediate the findings with each hotel. The correction of these issues on a go-forward basis will result in additional revenue for the City. HdL has completed audits for 10 City hotel audits to date; the next round of audits will commence in September 2023, followed by the final round of audits in calendar year 2024.

### Contract Renewal

Staff recommends continuing HdL services for an additional year, and potentially two years, to ensure operational stability within the Business Tax Division as well as complete the Business Tax Discovery Program and TOT audits. The Business Tax Division has historically faced high turnover within the department primarily due to employees leaving entry level positions or receiving promotions elsewhere within the City. Of the current staff, only three have remained in the division longer than five years. Four vacant positions remain in the City's budget but continue to be unfunded with the position savings covering approximately \$299,000 of the current \$300,000 contract cost. Six positions are currently funded; two of the six funded positions are vacant and undergoing recruitment.

The initial contract with HdL was executed in November 2020 for a period of three years with a not-to-exceed cost of \$300,000. The proposed contract extends HdL services for one year with a not-to-exceed cost of \$340,000 and an option to extend the contract for one additional year. HdL services are billed as a per-item fee or on a contingency basis (% of amount collected), as detailed in Exhibit B of the contract (Attachment 1). Annual CPI increases on the per-item fees are provided for in the contract, with a minimum 2% and a maximum 5% CPI adjustment.

Purchasing Resolution 23914, Section 702(t) states that, "Competitive Procurement through the Informal Procurement and Formal Procurement process shall not be required in any of the following circumstances: ... (t) When the Procurement is for the maintenance, license(s), support, or similar need for current technology systems, including hardware, and the items are procured from the owner/developer of the software/hardware or from a sole provider, and the Manager is satisfied that the best price, terms and conditions have been negotiated".

The Purchasing Manager concurs that the recommendation is in compliance with Purchasing Resolution No. 23914 Section 702(t).

### **STRATEGIC PLAN ALIGNMENT:**

This item supports **Strategic Priority 5 – High Performing Government** and **Goal 5.4: Achieve and maintain financial health by addressing gaps between revenues and expenditures and aligning resources with strategic priorities to yield the greatest impact.**

The contract renewal aligns with each of the Cross-Cutting Threads as follows:

1. **Community Trust** – Community trust will be enhanced within the business community through consistent and equitable application of the City's business tax code and administration of the business tax discovery program, as well as adherence to the City's municipal code.
2. **Equity** – The proposed renewal seeks to ensure fairness of treatment, recognition of rights, and equitable application of the City's business tax code and administration HDL services.

HDL will assist in generating revenue for the City that will go back into the General Fund to provide citywide benefit.

3. **Fiscal Responsibility** – RMC 5.04.020 states “This chapter is enacted solely to raise revenue for municipal purposes...” The City is committed to ensuring all businesses subject to the business tax requirements as set forth in the Riverside Municipal Code are compliant and to raise revenue for municipal purposes and the General Fund, which may in turn enable the City to expand services and fund critical needs.
4. **Innovation** – HDL provides administration, compliance services, and software to ensure information is accurate and businesses are compliant. These services are all used to maximize revenues for the City.
5. **Sustainability & Resiliency** – The City partners with HdL to ensure compliance to the RMC (Riverside Municipal Code) and other governing regulations.

**FISCAL IMPACT:**

The fiscal impact of this action is \$340,000. The current budget includes estimated contract costs of \$315,000 General Fund, Finance Department, Professional Services account 2304000-421000. The Business Tax Division is currently experiencing turnover in its budgeted positions; the vacancy savings realized during the recruitment period will provide sufficient savings to fund the additional \$25,000 needed to fund the full contract cost. This amount will be transferred from General Fund Finance Department personnel budget to General Fund Finance Department Professional Services account 2304000-421000 to achieve the funding requirement of \$340,000 in FY 2023/24. If the contract extension is exercised, appropriations for the future fiscal year will be included in the Department’s budget submissions for that fiscal year to be presented to the City Council for approval.

Prepared by:	Daniel Sanchez, Business Tax Supervisor
Certified as to availability of funds:	Kristie Thomas, Finance Director/ Assistant Chief Financial Officer
Approved by:	Edward Enriquez, Assistant City Manager/Chief Financial Officer/City Treasurer
Approved as to form:	Phaedra A. Norton, City Attorney

Attachments:

1. Contract
2. Presentation