



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL DATE: OCTOBER 21, 2025

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) STARTING ON OCTOBER 25, 2025, FOR A ONE-YEAR TERM FOR A NOT-TO-EXCEED AMOUNT OF \$340,000 WITH AN OPTION TO EXTEND ONE ADDITIONAL YEAR, FOR A NOT-TO-EXCEED AMOUNT OF \$370,000 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, starting on October 25, 2025, for a one-year term for a \$340,000 not-to-exceed amount with an option to extend one year, for a not-to-exceed amount of \$370,000.

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), starting on October 25, 2025, for a one-year term for a \$340,000 not-to-exceed amount with an option to extend one year, for a not-to-exceed amount of \$370,000; 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 \$18.5 million in Fiscal Year (FY) 2024/25. Efficient management of the collection of these revenues is crucial to maintain stable funding for police, fire, parks, and other public services.

On October 25, 2023, the City of Riverside, with City Council approval, executed a one-year agreement with HdL 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). The City exercised the option to extend for one year with the current term expiring on October 24, 2025.

DISCUSSION:

HdL partners with over 800 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 Transient Occupancy Tax (TOT). Since the City's partnership with HdL began in November 2020, revenues have grown significantly, with approximately \$18.5 million collectively generated in FY 2024/25.

Since partnering with HdL, the Business Tax Division has 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 over \$1 million 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 with the City's Municipal Code.

Additionally, under the proposed agreement, the City and HdL have agreed to implement a third initiative focused on audits of UUT providers to ensure compliance with the City's Municipal Code. In FY 2024/25, the City, in partnership with HdL, collected over \$35 million in UUT revenue.

Business Tax Discovery Program

On September 6, 2022, the City Council approved staff's recommendation to initiate a Citywide Discovery Program to help identify non-compliant businesses and bring them into compliance. The Council-approved approach authorized HdL to collect three years of back taxes while waiving penalties through a three-month amnesty program. The amnesty program provided businesses

an opportunity to resolve past-due obligations while establishing a stronger foundation of compliance moving forward.

The Discovery Program launched in November 2022 with an initial focus on property rentals (residential and commercial). During the amnesty phase, HdL identified inconsistencies between current City practices and Riverside Municipal Code (RMC) Chapter 5.04. As a result, the program was temporarily paused in March 2023 to allow for a comprehensive review. The Business Tax Division, in consultation with the City Attorney's Office, evaluated HdL's findings and proposed code updates to modernize language, provide clearer definitions, align practices with state law, and ensure greater consistency in enforcement.

The Discovery Program resumed in December 2024. To date, it has generated over \$1 million in new revenue and is projected to generate additional revenue for the City as HdL continues to identify non-compliant businesses. HdL's contingency fee totals approximately \$350,000 to date.

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:

City Staff Responsibilities	HdL Responsibilities
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 and perform UUT audits.

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 in the contract, HdL was tasked with auditing TOT for all City hotels. The City and HdL implemented an audit rotation of ten hotels annually, with the goal of auditing all 26 hotels within a three-year cycle. All three rounds of audits have now been completed, with the final audit concluded in October 2024. Each audit was conducted remotely, followed by phone calls, emails, and information exchanges in the months thereafter. HdL identified various inconsistencies in hotel TOT collection practices and worked collaboratively with the City to remediate the findings at each property. Correcting these issues on a go-forward basis will generate additional revenue for the City and strengthen long-term compliance.

Proposed Agreement

Staff recommends continuing HdL services for an additional year, with an option to extend for one more year, to ensure operational stability within the Business Tax Division, complete the Business Tax Discovery Program, continue Transient Occupancy Tax (TOT) audits, and initiate UUT audits.

The City currently has an agreement with HdL that was executed in October 2023 for a one-year term, with an option to extend for one additional year, at a not-to-exceed cost of \$340,000. The proposed agreement continues HdL services for one year at the same not-to-exceed cost of \$340,000, with an option for a second-year extension at a not-to-exceed cost of \$370,000. HdL services are billed either on a per-item fee basis or on a contingency basis (percentage of collections). The contract also provides for annual CPI increases on per-item fees, with a minimum adjustment of 2% and a maximum of 5%. To maintain system continuity and avoid disruptions, the continued use of the software and related services from the existing vendor is desired and covered by the Purchasing Resolution 24101, Section 702(t).

Purchasing Resolution 24101, Section 702 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 annual maintenance, license(s), support, or similar need for current technology systems, including hardware and the items procured are from the owner/developer of the software/hardware or from a sole source 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. 24101 Section 702(t).

FISCAL IMPACT:

The fiscal impact of this agreement is \$340,000. Sufficient funds are budgeted and available for FY 2025/26 in the General Fund, Finance Department-Business Tax, Professional Services account number 2304000-421000. If the contract extension is exercised, appropriations for FY 2026/27 will be incorporated in the Department's budget submission for City Council approval.

Prepared by: Daniel Sanchez, Business Tax Supervisor

Approved by: Julie Nemes, Deputy Finance Director

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. Professional Consultant Services Agreement
2. Presentation