



# City of San Antonio

## Agenda Memorandum

**File Number:**19-3675

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**Agenda Item Number:** 20.

**Agenda Date:** 5/30/2019

**In Control:** City Council A Session

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**DEPARTMENT:** Finance

**DEPARTMENT HEAD:** Troy Elliott, CPA, Deputy Chief Financial Officer

**COUNCIL DISTRICTS IMPACTED:** City Wide

**SUBJECT:** Contract Renewal with Sales Tax Assurance, DbA HdL Companies

### SUMMARY:

This ordinance authorizes exercising an option to renew the contract with Sales Tax Assurance LLC, dba HdL Companies (HdL), for sales and use tax audit services for the City, extending the term of the contract to June 1, 2021.

### BACKGROUND INFORMATION:

Texas imposes a state sales tax on all retail sales, leases and rentals of most goods, as well as taxable services. Texas cities, counties, transit authorities and special purpose districts have the option of imposing an additional local sales tax for a combined state and local tax rate of up to 8.25%

San Antonio's current sales tax rate is 8.25% and is distributed as follows:

6.250%	State of Texas;
1.000%	City of San Antonio General Fund;
0.125%	San Antonio Edwards Aquifer Protection and Parks Development and Expansion Venue Projects;
0.125%	San Antonio Pre-K 4 SA initiative;
0.250%	San Antonio ATD (Advanced Transportation District); and
0.500%	San Antonio MTA (Metropolitan Transit Authority).

In June 2016, City Council authorized the agreement for Sales Tax Assurance, now HdL, to provide sales and use tax audit recovery services for the City for an initial three year term through June 1, 2019, with an option to

renew and extend the Contract for one additional two-year term through Ordinance No. 2016-06-02-0402.

Under the contract, HdL gathers data from the Texas Comptroller of Public Accounts (TCPA) analyzing it using their proprietary software to identify businesses which appear to be underreporting sales tax. HdL then works with the TCPA and businesses to correct any errors found. Typical recoveries are due to taxpayers reporting in the wrong local jurisdiction. In addition HdL provides the City internal research reports and monthly sales tax analysis reports.

Over the course of the three year initial contract term, HdL has identified taxpayer errors and omissions resulting in \$1,843,882 of additional sales and use tax revenues realized by the City. Without HdL's assistance, the City would not have received these revenues. The City pays HdL a 25% commission on any additional realized revenue resulting from HdL's work, for two years following HdL's correction of an issue. After the two-year commission period, the City continues to receive the improved revenue stream with no commission. Under this compensation arrangement, there is no risk to the City, as HdL gets paid only when recoveries are realized by the City.

#### **ISSUE:**

City sales tax collections have averaged approximately \$267 million over the past five fiscal years. The Adopted FY 2019 General Fund budget for sales and use tax is approximately \$295 million. Given the volume of sales tax the City receives and the potential for taxpayer errors or omissions, the City proposes to exercise the option under the existing contract to renew the contract with HdL and extend the contract for one additional two-year term to June 1, 2021.

#### **ALTERNATIVES:**

The City could choose not to renew this contract; however, the City would not have a process to identify and collect additional revenue resulting from sales and use tax errors or omissions.

The City could attempt to insource the function; however, that would require a capital investment to develop analytic software and expert personnel to administer the system. The current contract allows HdL to spread that investment over more customers than just the City.

#### **FISCAL IMPACT:**

This ordinance authorizes exercising an option to renew an existing professional services contract with HdL to provide sales and use tax audit services. As compensation under the contract, HdL will be entitled to receive 25% of any recoveries achieved by the City as a result of the consultant's efforts, for two years after the recovery is identified. Any recovered amounts will be incremental revenue above Sales and Use Tax revenue previously budgeted for, which will offset the 25% commission expense.

#### **RECOMMENDATION:**

Staff recommends exercising the option to renew the professional services contract with HdL Companies, extending the contract for one additional two-year term to June 1, 2021.