



COUNTY OF SAN MATEO
Inter-Departmental Correspondence
County Manager



DATE: June 6, 2016
BOARD MEETING DATE: June 21, 2016
SPECIAL NOTICE/HEARING: None
VOTE REQUIRED: Majority

TO: Honorable Board of Supervisors

FROM: John L. Maltbie, County Manager

SUBJECT: Fourth Amendment to Agreement with Hinderliter, de Llamas & Associates

RECOMMENDATION:

Adopt a resolution authorizing the President of the Board to execute an amendment to the agreement with Hinderliter, de Llamas & Associates (HdL) by increasing the total not-to-exceed amount by \$178,423, from \$750,000 to \$928,423, for the purpose of compensating HdL for Public Safety Half-Cent ("Prop. 172") sales tax recoveries.

BACKGROUND:

The County has a five-year agreement with Hinderliter, de Llamas & Associates (HdL) that is set to expire on December 31, 2016. HdL finds sales and use tax dollars that have been distributed incorrectly to other taxing agencies and works with the State Board of Equalization to recover those funds for the County. Under the current agreement, HdL is paid 15% commission on all new sales and use tax revenue and 25% on new Measure A transaction tax revenue received by the County as a result of their audit and recovery work. HdL's commission applies to State fund transfers received for back quarter reallocations and monies received for the first eight consecutive reporting quarters following completion of the audit by HdL.

In addition to the sales tax audit and recovery services, HdL maintains two sales and use tax databases, providing the County with sales tax and economic analysis, including periodic reports on major sales tax producers; sales tax receipts for each business category; changes in sales by major outlets and category; analysis of sales tax activity by area; and benchmark comparisons with the state and other counties. They also provide analysis and forecasts for Public Safety Sales Tax (Prop. 172) and Measure A Half-Cent Sale Tax revenues.

DISCUSSION:

In November 2014 local agencies, including the County, received over \$124 million in Prop. 172 and Realignment sales tax revenues that were under-remitted by the State Board of Equalization. The discovery of the allocation errors was directly related to audit

testing conducted by HdL over a year-long period. In all, the County received more than \$2 million, including \$1,189,485 in under remitted Prop. 172 revenues. Shortly after the County received these funds, HdL forwarded an invoice to the County for \$178,423, representing 15% of the Prop. 172 portion. Recognizing this recovery involved a substantial amount of money, HdL opted not to bill clients for the recovery of Realignment sales tax revenues. Though the recovery of Prop. 172 and Realignment sales tax were not specifically covered in the Agreement and were not expressly subject to HdL's commission, the under-remitted funds would not have been discovered without HdL's assistance and at least 31 other counties constituting the vast majority of HdL's county clients have compensated HdL for the recovery of the under-remitted Prop. 172 funds, with five more counties expected to pay by fiscal year-end.

All other terms and conditions of the original agreement dated December 13, 2011, as amended on May 8, 2012, October 8, 2013 and January 13, 2015, between the County and HdL remain in full force and effect, including all provisions that are required by County Ordinance Code and administrative memoranda, including but not limited to insurance, hold harmless, non-discrimination, equal benefits and jury service policy. The County's Contract Compliance Committee has reviewed and approved this two year extension. County Counsel has reviewed and approved this Amendment and Resolution as to form.

Approval of this Amendment contributes to the Shared Vision 2025 outcome of a Collaborative Community by maximizing sales and use tax revenues and ensuring that sound practices are used to project sales and use taxes for budgeting purposes. Sales and use tax revenue is a significant general purpose funding source that can be used at the Board's discretion to provide services that achieve the County's vision.

FISCAL IMPACT:

There are sufficient funds appropriated in the FY 2015-16 Non-Departmental Services budget to cover these fees in light of the unanticipated Prop. 172 revenues resulting from HdL's audit.