



County of Monterey

Board of Supervisors
Chambers
168 W. Alisal St., 1st Floor
Salinas, CA 93901

Board Report

File #: 20-089, Version: 1

Adopt a Resolution to:

- a. Authorize the Auditor-Controller to execute an Amendment No. 1 to an Agreement with Hinderliter de Llamas & Associates for the provision of sales, use and transaction tax analysis and audit services, adding \$117,881 for a total not to exceed amount of \$192,881, with no change to the term of July 1, 2019 to June 30, 2020; and
- b. Authorize the Auditor-Controller to amend the FY 2019-20 Adopted Budget by increasing appropriations by \$117,881 in Annual Audits (001-AUD002), financed by a decrease in appropriations of \$117,881 in Auditor-Controller (001-AUD001).

RECOMMENDATION:

It is recommended that the Board of Supervisors:

Adopt a Resolution to:

- a. Authorize the Auditor-Controller to execute an Amendment No. 1 to an Agreement with Hinderliter de Llamas & Associates for the provision of sales, use and transaction tax analysis and audit services, adding \$117,881 for a total not to exceed amount of \$192,881, with no change to the term of July 1, 2019 to June 30, 2020; and
- b. Authorize the Auditor-Controller to amend the FY 2019-20 Adopted Budget by increasing appropriations by \$117,881 in Annual Audits (001-AUD002), financed by a decrease in appropriations of \$117,881 in Auditor-Controller (001-AUD001). (4/5 vote)

SUMMARY:

The County Auditor-Controller's Office (ACO) provides oversight and coordination related to sales, use and transaction tax analysis and audits to ensure the County of Monterey receives its proper share of these revenues. For many years the ACO has contracted with Hinderliter de Llamas & Associates (HdL) for these services. HdL also provides ongoing data and analyses to support County Administrative Office - Budget and Analysis Division which participates in sales tax update, analysis, and trends meetings with the HdL staff on a quarterly basis.

The cost for HdL services is a set \$6,600 per year plus 15% of all new and recovered sales, use and transaction tax revenue received by the County for eight (8) quarters.

DISCUSSION

State taxing agencies are responsible each quarter for collecting and monitoring sales tax revenues from thousands of accounts. Considering the sheer number of returns, the complexities and variations of each state's tax system, and the number of sales tax filings by out-of-state corporations, the taxing agencies do a very effective job of collecting and distributing sales and use tax revenues. However, despite their diligence, approximately 3% of local revenues are misallocated.

In 2015 HdL identified California Flats, owned by First Solar Electric Inc. as having the potential for generating additional use tax revenue to Monterey County that would otherwise have been misallocated. Working with the Auditor-Controller's Office, the County's stakeholders, the California Department of Tax and Fee Administration and First Solar Electric, HdL was able to detect errors in permit filing which First Solar

Electric subsequently corrected. The action taken by HdL on behalf of Monterey County has resulted in the recovery of approximately \$1.5 million of sales tax revenue for Monterey County. The fee of \$117,881 is charged for the Quarter 1 2019, in which the revenue reported for First Solar Electric Inc, was \$785,875.37, an unprecedented and unanticipated amount for a single quarter. Fortunately, Quarter 1 2019 was the last (eighth) quarter for this firm to be eligible for HdL billing even though additional revenues may be received by the County from First Solar Electric.

The ACO stipulated \$75,000 maximum for the HDL contract, based on an average of the last five (5) years charged by HdL. The ACO is now requesting an increase in appropriations totaling \$117,881 in AUD002 - Annual Audits to fund HdL Companies 15% fee for recovering \$785,875.37 revenue in Sales Tax for Monterey County in Quarter 1 2019.

OTHER AGENCY INVOLVEMENT:

The Budget Committee supports this action. The County Administrative Office has reviewed this report.

FINANCING:

The increase cost of \$117,881 is being funded by salary savings in the Auditor-Controller operational budget (001-AUD001- Departmental) therefore, no additional General Fund monies are being requested for this increase in Annual Audits (001-AUD002- Non-Departmental).

BOARD OF SUPERVISORS STRATEGIC INITIATIVES:

The related Board of Supervisors Strategic Initiatives:

- Economic Development
- Administration
- Health & Human Services
- Infrastructure
- Public Safety

Prepared by: Maria Papurello, Administrative Services Assistant, 755-5084

Approved by: Rupa Shah, Auditor-Controller, 755-5099

Attachments:

- Board Report
- Board Resolution
- Hinderliter de Llamas & Associates Agreement FY2019-20
- Amendment No. 1 to Hinderliter de Llamas Agreement