



City of San Antonio

Agenda Memorandum

File Number:

Agenda Item Number: 31

Agenda Date: May 2, 2024

In Control: City Council A Session

DEPARTMENT: Finance Department

DEPARTMENT HEAD: Troy Elliott

COUNCIL DISTRICTS IMPACTED: Citywide

SUBJECT:

Contract Renewal with Sales Tax Assurance, dba HdL Companies (HdL)

SUMMARY:

Ordinance authorizing exercising an option to renew the contract with Sales Tax Assurance LLC, dba HdL Companies, for sales and use tax audit services for the City, extending the term of the contract to June 30, 2025. Funding in the amount of \$100,000 is available from the General Fund FY 2024 Adopted Budget. Funding for future fiscal years is contingent upon City Council approval of an appropriation within the annual budget.

BACKGROUND INFORMATION:

In June 2021, City Council authorized an agreement with Sales Tax Assurance, dba HdL Companies, to provide sales and use tax audit recovery services for the City for an initial three-year term through June 30, 2024, with an option to renew and extend the Contract for two additional one-year terms [Ordinance No. 2021-06-17-0451].

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 this three-year contract term, HdL has identified taxpayer errors and omissions resulting in \$2,429,746 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 22.5% 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 \$427.7 million over the past five fiscal years. The Adopted FY 2024 General Fund budget for sales and use tax is approximately \$411.6 million. Given the volume of sales tax the City receives and the potential for taxpayer errors or omissions, the City proposes to exercise an option under the existing contract to renew the contract for one additional one-year term to June 30, 2025, as well as allowing the second one-year renewal in the contract to be approved by the City's Deputy Chief Financial Officer.

ALTERNATIVES:

The City could choose not to renew this contract; in which case, 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 22.5% 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. Funding in the amount of \$100,000 is available from the General Fund FY 2024 Adopted Budget. Funding for future fiscal years is contingent upon City Council approval of an appropriation within the annual budget.

RECOMMENDATION:

Staff recommends exercising the option to renew the professional services contract with HdL Companies, extending the contract for one additional one-year term to June 30, 2025. In addition,

Staff recommends authorizing the City's Deputy Chief Financial Officer to approve the second one-year renewal commencing July 1, 2025.