



COUNTY OF HUMBOLDT

For the meeting of: 4/28/2026

File #: 26-147

To: Board of Supervisors

From: County Administrative Office

Agenda Section: Consent

Vote Requirement: Majority

SUBJECT:

Tax Management Services Agreement Not to Exceed \$172,302 with Hinderliter, De Llamas & Associates (HdL) for Tax Audit and Management Services Through Fiscal Year (FY) 2029-30

RECOMMENDATION(S):

That the Board of Supervisors:

1. Approve a new five-year agreement (Attachment 1) with HdL for tax audit and management services, effective upon execution and set to expire June 30, 2030; and
2. Authorize the County Administrative Officer to sign the attached agreement, and any amendments or extensions pursuant to the Humboldt County Purchasing Policy.

STRATEGIC PLAN:

This action supports the following areas of your Board's Strategic Plan.

Area of Focus: Core Services/Other

Strategic Plan Category: 9999 - Core Services/Other

DISCUSSION:

The item before your Board recommends executing a new contract with HdL, which has a long track record with the county of provide sales tax audit and management services, as well as transient occupancy and business license management services. The contract includes a set percentage for collections of new revenues, and monthly fees for the other services. The county currently contracts with HdL for these services, however, that contract expires at the end of the fiscal year. In addition, the new contract will add services related to Measure O, which passed in 2024, and remove an unnecessary service related to short-term rental monitoring.

Background

The county receives sales tax on goods purchased within Humboldt County, and the additions of Measures Z and O to the county's sales taxes has brought additional calculations and the potential for missed payments to this critical revenue sources. Additionally, the county collects transient occupancy taxes (TOT) and monitors associated business licenses. Voters in 2022 approved Measure J to increase TOT and expand the tax to include private campgrounds. Similar to sales tax, this adds a layer of administrative complexity and potential for missed payments.

Occasionally, sales tax that should have been recorded to the county is incorrectly allocated to a different taxing jurisdiction, which causes a loss of sales tax to the county. Common "point of sale" errors include transposition errors causing miscalculations, erroneous consolidation of multiple outlets, misreporting a "point of sale" from the wrong location, delays in reporting new outlets,

misidentifying transactions as a use tax rather than a sales tax, and erroneous fund transfers and adjustments, which are usually related to businesses with multiple retail locations.

For the county to effectively and efficiently identify the loss of sales tax and recover it, as described above, staff recommends renewing the attached agreement with HdL for a term of five years. HdL is a highly qualified tax reporting and auditing firm, providing services to over 400 agencies in seven states. Inasmuch, HdL is experienced in assisting local jurisdictions with reviewing and auditing sales tax information to correct any “point of sale” distribution errors, thereby generating previously unrealized sales tax income for that entity.

The county has had a contract with HdL for sales tax audit services since Nov. 9, 1999. The terms of the contract require the HdL receive 15% of all recovered sales, transactions and/or use tax revenue, and 25% of the initial amount of new transactions and use tax revenue received by the county as a result of its audit and recovery work. The table below shows the amounts the county has paid HdL over the last 13 years and how much the county has gained in previously-unrealized income:

Year	Gross New Revenue	HdL Commission	Net New Revenue
2012	\$540,571.00	\$81,085.65	\$459,485.35
2013	\$539,060.00	\$80,859.00	\$458,201.00
2014	\$683,562.00	\$102,534.30	\$581,027.70
2015	\$484,247.00	\$72,637.05	\$411,609.95
2016	\$716,163.00	\$107,424.45	\$608,738.55
2017	\$540,115.00	\$81,017.25	\$459,097.75
2018	\$492,466.00	\$73,869.90	\$418,596.10
2019	\$501,719.00	\$75,257.85	\$426,461.15
2020	\$353,137.00	\$52,970.55	\$300,166.45
2021	\$4,479.00	\$671.85	\$3,807.15
2022	\$9,306.00	\$1,395.90	\$7,910.10
2023	\$20,485.00	\$3,072.75	\$17,412.25
2024*	\$69,975.00	\$10,496.25	\$59,478.75
TOTAL	\$4,955,285	\$743,292.75	\$4,211,992.25
*2024 amounts are estimates			

The revenue received through audits have dropped significantly since 2020. HdL audit fees are directly tied to the amount of previously misallocated or unreported revenue identified on behalf of the county. In recent periods, billing has declined primarily because HdL is finding fewer instances of recoverable revenue-not due to any reduction in effort or scope of their work. This is particularly true with respect to boundary error cases, where the California Department of Tax and Fee Administration (CDTFA) mapping and GIS systems are now doing a much better job of assigning the correct Tax Area Code (TAC) as accounts are initially registered. This reduction also aligns with CDTFA fully implementing its Centralized Revenue Opportunity System (CROS), which is an online sales and use tax filing and payment system for California business owners, which likely contributed to reduced errors.

HdL has maintained the same level of diligence, resources, and analytical rigor across their discovery programs. In fact, the lower recovery levels may reflect the effectiveness of prior efforts, improved compliance, and a more refined revenue base over time. HdL will continue to proactively monitor, analyze, and pursue all viable recovery opportunities

The contract also includes HdL's Local Tax “Prime” software system, which the Treasurer-Tax Collector's office uses to manage transient occupancy taxes and business licenses. The software is cloud-hosted by HdL, which handles system maintenance, upgrades, and technical support, while county staff access the system through standard workstations. The system also supports PCI-

compliant online payment processing, allowing taxpayers to submit payments by credit card or eCheck. The annual software and hosting fees for FY2025-26 are \$13,717.20 and \$3,429.30, respectively, and increase each year consistent with the CPI adjustment structure described above.

Previously, HdL provided short-term rental monitoring services through Granicus. However, this contract eliminates that service as the Treasurer-Tax Collector is using a different vendor for these services.

Therefore, staff recommend your Board approves the attached agreement and authorizes the CAO to sign the agreement, and any amendments, pursuant to the Humboldt County Purchasing Policy, after review and approval by County Counsel and Risk Management.

SOURCE OF FUNDING:

General Fund allocation for County Administrative Office - Management & Budget Team (1100-103) and Treasurer-Tax Collector (1100-112), and Business License Revenue (1100-112-202000)

FINANCIAL IMPACT:

Tax Management & Audit Services

Expenditures (1100-103)	FY25-26	FY26-27 Projected*	FY27-28 Projected*
Tax Management Services Fees	<u>\$6,276</u>	<u>\$6,904</u>	<u>\$7,594</u>
Transaction & Use Tax Reports	<u>\$4,800</u>	<u>\$5,280</u>	<u>\$5,808</u>
Total Expenditures	<u>\$11,076</u>	<u>\$12,184</u>	<u>\$13,402</u>

Funding Sources (1100-103)	FY25-26	FY26-27 Projected*	FY27-28 Projected*
General Fund	<u>\$11,076</u>	<u>\$12,184</u>	<u>\$13,402</u>
Total Funding Sources	<u>\$11,076</u>	<u>\$12,184</u>	<u>\$13,402</u>

TOT-Related Services

Expenditures (1100-112)	FY25-26	FY26-27 Projected*	FY27-28 Projected*
Prime Software Fees	<u>\$17,147</u>	<u>\$18,862</u>	<u>\$20,748</u>
Total Expenditures	<u>\$17,147</u>	<u>\$18,862</u>	<u>\$20,748</u>

Funding Sources (1100-112)	FY25-26	FY26-27 Projected*	FY27-28 Projected*
Business Licenses	<u>\$1,715</u>	<u>\$1,886</u>	<u>\$2,075</u>
General	<u>\$15,432</u>	<u>\$16,976</u>	<u>\$16,673</u>
Total Funding Sources	<u>\$17,147</u>	<u>\$18,862</u>	<u>\$20,748</u>

*Projected amounts are estimates and are subject to change.

Narrative Explanation of Financial Impact:

The tax management and audit services provided by professional services agreement with HdL will be paid by the County Administrative Office - Management & Budget Team (1100-103), while the TOT-related services will be paid by TTC (1100-112). The total cost of the services for FY2025-26 to be paid by the county is \$28,223, and the service costs increase each year according to the Consumer Price Index (CPI), or a minimum of 2% and maximum of 10%. The maximum total cost of the contract for five years, assuming increases of 10% per year, is \$172,302.

Authorizing the CAO to execute amendments would allow the contract to extend to a maximum of another five years and an

additional \$209,991, assuming continued increases of 10% per year. Therefore, the maximum term of this contract and amendments would be 10 years and \$382,293. However, it should be noted that annual CPI increases are often much lower than that amount, typically in the 3% to 5% range. In addition, as detailed above, HdL also receives 15% of all recovered sales, transactions and/or use tax revenue, and 25% of the initial amount of new transactions and use tax revenue received by the county as a result of its audit and recovery work. However, this revenue is received directly by HdL, rather than being paid for by the county.

The services will be paid with General Fund allocations and business license revenue, and staff estimates there will be sufficient revenues to pay for these services for the duration of the contract.

Over the last 14 years, the county's agreement with HdL has resulted in net revenues of \$4.2 million. This revenue accrues to the county General Fund. Correcting errors may favorably impact the state's disbursements of Health & Welfare Realignment funds as well as Public Safety Proposition 172 funds, which are based on sales tax revenue.

STAFFING IMPACT:

Narrative Explanation of Staffing Impact:

This item does not affect staffing levels. However, the services provided allow staff to more efficiently monitor sales tax activity and develop projections, which affect many departments. In addition, these services allow the TTC's office to more efficiently process and manage TOT vendors and business licenses.

OTHER AGENCY INVOLVEMENT:

HdL, Treasurer-Tax Collector

ALTERNATIVES TO STAFF RECOMMENDATIONS:

Your Board could choose to direct staff to modify this contract to eliminate the tax management & audit services, or the Prime software services for TOT monitoring.

ATTACHMENTS:

1. Professional Services Agreement with HdL

PREVIOUS ACTION/REFERRAL:

Meeting of: April 27, 2027; Nov. 20, 2020

File No.: 21-427; 20-1359