



June 18, 2021

**TO:** CADA Board of Directors

**SUBJECT: June 25, 2021, Board Meeting  
AGENDA ITEM 10  
CohnReznick LLP CONTRACT FOR INDEPENDENT AUDIT AND TAX  
CREDIT PROJECT SERVICES**

**CONTACT PERSON:** Noelle Mussen, Finance Director

**RECOMMENDED ACTION:**

Staff recommends that the Board adopt a resolution authorizing the Executive Director to enter into a contract with CohnReznick LLP for Independent Audit Services and Tax Credit Consulting Services for CADA's results of operations for fiscal year 20-21, with four optional one-year extensions for FY 2021-22, FY 2022-23, FY 2023-24 and FY 2024-25.

**BACKGROUND**

The 1978 joint powers agreement establishing CADA designates the City of Sacramento's Director of Finance as the CADA Controller. A Memorandum of Understanding subsequently entered into in 2002 between the City and CADA delegates internal controller duties from the City Director of Finance to the CADA Finance Director but states that the independent auditor utilized by CADA will be jointly selected by the City Director of Finance and CADA.

In 2002, CADA and the City agreed that CADA would utilize the professional auditing services of Macias, Gini & O'Connell (MGO), the same professional auditing services firm previously used by the City, through the end of FY 05-06. CADA staff then negotiated another three-year contract for auditing services with MGO through FY 08-09, which was approved by the City Director of Finance.

Subsequently, the City went out to bid and through their process selected MGO as the most responsive bidder. CADA relied on the City bidding and selection process and contracted with MGO for another four years ending in 2012-2013. CADA then, with approval from the City Director of Finance, extended MGO's contract for another two years ending in 2014-2015.

With the end of that audit contract, CADA staff decided to proceed with a competitive informal bid process to select external auditors instead of simply relying on the last selection process the City conducted in 2013 and hiring the City's selected auditor. Accordingly, in May 2016, CADA issued a Request for Proposals (RFP) for external audit services.

Staff convened a review committee consisting of two CADA staff members and one City Finance Department Staff member. CADA received four proposals. The committee used a point formula during the review process to score the four proposals using a set of criteria where price was considered, but was not the primary deciding factor. Based on the results of CADA's RFP process

the Board approved CohnReznick and awarded them the audit contract for FY 2015-16 through FY 2019-20.

## **ANALYSIS**

With the end of our current audit contract CADA, and with approval from the Sacramento Assistant City Manager who oversees the Department of Finance, staff recommends extending our contract with CohnReznick for CADA's annual audits and the incorporation of additional services, included in **Attachment 1**.

CADA created a new limited partnership for the 1322 O Street project to develop affordable housing projects using tax credit funding. Staff will require assistance from a specialized consultant who has experience with governmental agencies and affordable housing projects, to establish new internal accounting structures, reporting systems for this entity, and other required services. Due to timing of construction and stabilization of the project, staff determined there is a need for these services over the next five years. Staff believes that CohnReznick will provide us with quality audit services and expert guidance with this new project.

CohnReznick has proven to be very knowledgeable about government accounting and has provided us with excellent service. Part of the initial selection criteria was experience in developing tax credit affordable housing processes and other required contract services. The firm has extensive experience not just in providing services to governmental entities but also experience within the affordable housing industry in California and in the Sacramento region. Its experience also includes not-for-profit clients, developers, syndicators, and mortgage companies.

Additionally, CohnReznick has provided a consistent engagement team year-over-year and has not rotated senior staff off of CADA engagements, which means the current team has many years of experience working with CADA and an intimate knowledge of the agency. Finally, CohnReznick has offered more partner-level interaction during our audits and will continue to do so throughout the term of the contract. This will give CADA a high-quality resource when complex issues arise over the next few years as we prepare to bring affordable housing projects online and begin managing them.

## **Fees**

CADA's annual audit fee for FY 2020-21 is \$50,100 with a cost escalation factor of 3% per year. The fee for FY 2020-21 reflects only a 2% increase from the prior FY 19-20 audit fee.

The Tax Credit Fees are in Attachment 1 and are based on the given service. Certain costs are one-time fees while others are over the five year period on an as needed basis. CADA anticipates using the consulting services while the other services and fees may be borne by the 1322 O street partnership.

## **POLICY ISSUES**

Auditing is a consultant or professional service. CADA Contract Policy allows CADA staff to exercise discretion to select the most suitable contractor for a given professional service. The selection and award of contracts for consultant services or audit services does not require bidding procedures, except such procedures as the Executive Director or the Board may establish. The award of consultant contracts in excess of \$50,000 requires Board approval.

Prior to 2002, the selection of CADA's Independent Auditor was made solely by the City Director of Finance through a City RFP process. The Memorandum of Understanding executed between CADA and the City in 2002 states that the selection of CADA's Independent Auditor will be made jointly by the City Director of Finance and CADA. The recommendation to extend and add additional services was communicated to the Assistant City Manager for Finance, who approved the recommendation with the requirement of separate partners for the two engagements which CohnReznick is able to accommodate.

## **STRATEGIC PLAN**

This recommended action supports the 2016-2020 Strategic Plan value of "Fiscal Responsibility" by ensuring that CADA's audits are conducted by the most qualified audit firm.

## **FINANCIAL IMPACT**

### **CADA Annual Audit Fees**

The CohnReznick proposal is for this year's FY 2020-21 audit and includes an option to provide services for four additional years of audits, with a 3% rate increase each year. The proposed annual fees for the four-year period are as follows:

Fiscal Year ending June 30, 2021	\$50,100
Fiscal Year ending June 30, 2022	\$51,550 (3% increase)
Fiscal Year ending June 30, 2023	\$53,000 (3% increase)
Fiscal Year ending June 30, 2024	\$54,450 (3% increase)
Fiscal Year ending June 30, 2025	\$55,900 (3% increase)

Multi-year contracts with escalation clauses are standard. By way of comparison, CADA's past audit contracts have had escalation clauses of 3% per year.

### **Tax Credit Projects Annual Audit Fees**

CADA's tax credit projects will be audited separately. Audit fees for tax credit projects for Year 1 are \$10,000, which decreases in the following year, then increases 4% in both Years 3 and 4, followed by a 3% increase in the last year of the contract. The first-year fees are higher because they include initial set up of the financial statements and other items that will not need to be done in the following years. Tax return fees in the first year are \$2,200 and increase 3% each year thereafter.

The proposed CADA audit fees for the year ending June 30, 2021, tax credit consulting, and other services are reflected in the FY 21-22 budget proposal that is being presented to the Board for approval at this meeting. The subsequent four years' fees will, consistent with prior years, be reflected in the FY 22-23, FY 23-24, FY 24-25 and FY 25-26 budgets.

## **ENVIRONMENTAL REVIEW**

Not applicable. The recommended action is not a project pursuant to the California Environmental Quality Act (CEQA) guidelines and does not require environmental review.

## **CONTRACT AWARD CONSIDERATIONS**

Contract issues were discussed in the Policy Issues section above.

Attachments:

1. CohnReznick Proposals for audit and tax Services for the 1322 O St Investors LP

May 10, 2021

Ms. Noelle Mussen  
 Finance Director  
 Capitol Area Development Authority  
 1522 14<sup>th</sup> Street  
 Sacramento, CA 95814

Dear Ms. Mussen,

On behalf of CohnReznick, we are pleased to present this proposal to 1322 O St Investors LP for audit and tax services.

As one of the largest accounting firms in the U.S., and as a firm focused on serving the Affordable Housing Industry, CohnReznick is uniquely qualified to provide the level of service and type of industry expertise that you require. Specifically, we will:

- Assign a team with extensive experience in the affordable housing
- Deliver the highest level of client service, which includes providing a consistent client service team year-over-year
- Provide the requested services for a very competitive fee
- Deliver on time and to meet your investor and management's deadlines

You have the commitment of our top resources to provide you with attentive service that anticipates your needs and provides you with forward-thinking solutions to your challenges. Based on the information provided and discussions, we have summarized below the expected services and related fees.

<u>Service</u>	<u>Year 1*</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
Audit	\$10,000	\$8,000	\$8,300	\$8,600	\$8,900
Tax	\$2,200	\$2,270	\$2,330	\$2,400	\$2,475

Other services that may be required include:

<u>Service</u>	<u>Fee</u>
Cost Certification	\$14,000
Form B	\$1,000
DSCR	\$4,500
Other Agreed Upon Procedures	\$2,000 to \$3,000
Section 42 Tenant certification	\$60 per file
Consulting services**	\$3,000 - \$5,000
Tax return while in construction	\$1,100
8609 tax credit calculation	\$800

\*Assumes year property is placed in service - tentatively 2022

\*\*Answering questions related to set up of initial tax credit property books & records, Section 42 specific questions.

Ms. Noelle Mussen  
Capitol Area Development Authority  
May 10, 2021  
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We look forward to continuing our long-lasting business relationship with you, and we believe this proposal will demonstrate our expertise and ability to manage the engagement and exceed your expectations. If you have any questions or would like additional information, please do not hesitate to contact us directly.

Very truly yours,

A handwritten signature in black ink, appearing to read "Sean C. Holloway", with a long, sweeping flourish extending to the right.

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Sean C. Holloway, CPA  
Partner

**RESOLUTION NO. 21-25**

Adopted by the Capitol Area Development Authority

June 25, 2021

**RESOLUTION TO CONTRACT  
WITH COHNREZNICK LLP**

**WHEREAS**, a Memorandum of Understanding between CADA and the City of Sacramento states that the independent auditor utilized by CADA will be jointly selected by the City Director of Finance and CADA and;

**WHEREAS**, in 2016 CADA's RFP process, staff recommended the firm of CohnReznick, which was acceptable to the City Director of Finance, for audit services for fiscal year ending June 30, 2016, with an option for four additional one-year audits, and;

**WHEREAS**, CADA has received a proposal from CohnReznick that is acceptable to the Assistant City Manager for Finance, to extend the 2016 contract for a five-year term, along with additional affordable housing services.

**NOW, THEREFORE, BE IT RESOLVED**, that the Executive Director is hereby authorized to execute a contract for independent audit services and tax credit consulting services for the fiscal year ending June 30, 2021, with an option of for four (4) additional year of audit services on behalf of the Authority with CohnReznick LLP. The total compensation possible payable for CADA's audit service contract shall not exceed:

\$50,100 for Fiscal Year ending June 30, 2021  
\$51,550 for Fiscal Year ending June 30, 2022  
\$53,000 for Fiscal Year ending June 30, 2023  
\$54,450 for Fiscal Year ending June 30, 2024  
\$55,900 for Fiscal Year ending June 30, 2025

The total compensation possible payable for Tax Credit project audit and tax service contract shall not exceed \$55,500. Total compensation for other affordable housing services shall not exceed \$35,000.

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Ann Bailey, Chair

ATTEST:

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Jill Azevedo  
Acting Secretary to the Board of Directors