



DATE: June 6, 2023

TO: Mayor and City Council

FROM: Director of Finance

SUBJECT: Adopt a Resolution Authorizing the City Manager to Execute a Contract with MuniServices for Municipal Sales Use Tax Management and Auditing Services

RECOMMENDATION

That Council adopts a resolution (Attachment II) authorizing the City Manager to execute a contract with MuniServices, LLC for sales use tax management and auditing services, for three years with the option to extend for two additional one-year periods.

SUMMARY

In July 2022, the City conducted a competitive Request for Proposals (RFP) process for municipal sales use tax and auditing services. These services include Sales and Use Tax Allocation Audits and Information Services (STARS), Utility Users' Tax/Franchise Compliance and Revenue Protection (also known as UUT), Transient Occupancy Tax (TOT) Audits and Compliance, and Local Tax Compliance (LTC). One of the responsive vendors was MuniServices, LLC (MuniServices). The City has had contracts with MuniServices for the above-referenced services. Staff recommends that the Council authorizes execution of a contract for said services with MuniServices.

BACKGROUND

In July 2022, the City conducted a competitive RFP process, which included municipal sales use tax and auditing services. Following a thorough review of the four responsive proposers, the City determined MuniServices was the preeminent tax management firm that submitted a proposal. The City has contracted with MuniServices to provide sales use tax management and auditing services since April 1995, and the existing contract expires June 30, 2023. These services include, but are not limited to, a detailed quarterly report of the City's sales use tax, research and analysis on issues, assistance with developing sales tax projections for the upcoming fiscal year budget, and identification of sales tax misallocations and collections.

DISCUSSION

The sales use tax management and auditing services provided by MuniServices are valuable resources for the City to maintain federal compliance. MuniServices assists the City in enhancing its sales use tax analysis and information services by detecting, documenting and correcting sales and use tax errors, thereby producing previously unrealized revenue for the City. This helps guide economic development efforts and provides insight into anticipated revenues for budgeting purposes. In addition, MuniServices is able to recoup additional sales tax revenue for the City by identifying misallocations of sales and use tax to other jurisdictions or by identifying businesses that are not reporting correctly. This has resulted in the recovery of over \$65 million for the City since first starting services in 1995. Professional services covered under the agreement with MuniServices will include:

Sales, Transaction and Use Tax Allocation Audits and Information Services (STARS)

MuniServices will assist the City in realizing Sales, Transactions and Use Tax revenue that the City is entitled to. Their allocation audit service is to detect and correct taxpayer reporting errors and thereby generate new sales, transactions and use tax revenue, which would not otherwise have been realized by the City. They identify new revenue without causing any additional tax liability for businesses. Compensation for these services is 15% of the new sales, transactions and use tax revenue received by the City as a result of MuniServices detecting and correcting the related point-of-sale/use distribution error. STARS reports are billed at \$1,750 quarterly.

Utility Users' Tax/Franchise Compliance and Revenue Protection (UUT)

MuniServices will provide the City with certain professional services in furtherance of a comprehensive Utility Users' Tax/Franchise Compliance and Revenue Protection program, with broad participation by California public agencies that are designed to preserve, protect, and enhance its UUT and Utility Franchise Revenues. The City's annual contingency fee for participating in the program is 0.5% of the total UUT revenues received, with a minimum of \$15,000. Franchise Fee compliance and audit services will have a 25% contingency fee.

Transient Occupancy Tax and Compliance Program (TOT)

MuniServices assists the City to realize TOT revenue to which it is entitled and educate collectors and remitters of TOT to assist in future compliance with the City's ordinances. The contingency fee for these services is 28% or \$1,600 per hotel. Should the cost of these services exceed the contingency fee, MuniServices is required to obtain approval from the City prior to the lodging property review.

Local Tax Compliance Program (LTC)

MuniServices' LTC will locate tax revenue that the City may not be receiving from its local tax registry by detecting, documenting, and assisting with the correction of errors and omissions made by taxpayers who are subject to the local business tax. The LTC service also aims to reduce future errors by informing the businesses that are identified as having errors and omissions about the proper methods for compliance. Informing business owners of the requirements of the ordinance helps to prevent future mistakes by businesses, making future enforcement efforts by the City less burdensome for the City. Compensation for these services is at 33% of additional revenue received and \$125 per hour for cannabis tax auditing.

FISCAL IMPACT

The annual fiscal operating budget allocates funding for sales tax analysis and information services. An allocation is included in the Finance Department General Fund budget for FY 2024 to cover the annual cost, which is outlined in the Discussion above.

STRATEGIC ROADMAP

This is a routine operational item and does not relate to a specific strategic roadmap project.

PUBLIC CONTACT

The agenda for this item was posted in compliance with the California Brown Act.

NEXT STEPS

Upon approval from Council, staff will prepare for the execution of the agreement between the City of Hayward and MuniServices, LLC for a three-year period with the option to extend the agreement for two (2) additional one-year periods. Services will commence in accordance with the outlined scope of work provided in the proposal effective July 1, 2023.

Prepared and Recommended by: Nicole Gonzales, Director of Finance

Approved by:



Kelly McAdoo, City Manager