



DATE: June 28, 2022

TO: Mayor and Council Members

FROM: Director of Finance

SUBJECT: Adopt a Resolution Authorizing the City Manager to Execute Amendment No. 3 to the Professional Services Agreement with MuniServices, LLC for a One-Year Contract for FY 2023 Sales Tax Auditing Services

RECOMMENDATION

That Council adopts a resolution (Attachment II) authorizing the City Manager to execute Amendment No. 3 to the Professional Services Agreement with MuniServices, LLC for a one-year contract for FY 2023 sales tax auditing services.

SUMMARY

The City engages with MuniServices, LLC to provide 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). Quarterly sales and use tax analysis reports are reviewed by the City and the Consultant to inform and provide analysis to the City of its top revenue producers, as well as shifts in the local, state, and national economy and legislation related to sales and use tax.

The proposed amendment will bring the total term of services from MuniServices to eight years. The limited contract extension will allow staff appropriate time to complete the Request for Proposals (RFP) process. Staff issued a competitive RFP for sales tax auditing services in May 2022 for FY 2024 services. This RFP will close on July 22, 2022. Staff will then begin the review process of choosing a vendor to award these services to for FY 2024.

BACKGROUND

The City contracts with MuniServices to provide sales tax auditing services, which includes identifying and ensuring receipt of misallocated or underreported tax revenues. Revenue reporting services include quarterly written reports and briefings concerning revenue performance, trend analysis, gains and declines, revenue projections, enhanced recovery options, and an analysis of present and future issues related to revenue recovery.

DISCUSSION

Quarterly sales and use tax reports from MuniServices provide the foundation for the City's sales and use tax revenue projections. Analysis includes information from the California Department of Tax and Fee Administration (CDTFA), the state agency that administers sales and use tax. Reports by MuniServices include information of the City's top revenue producers, indication of revenue changes by business and economic category, identification of major businesses that influence change in the City's tax revenue, analysis of key businesses that grew or declined during the reporting period, identification of the top revenue generators in the city, and an analysis of their potential growth or decline.

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

MuniServices assists the City in realizing sales, transactions and use tax revenue that the City is entitled to. MuniServices' allocation audit service detects and corrects taxpayer reporting errors and thereby generates 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 \$1,750.00 quarterly.

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

MuniServices provides 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 contract with MuniServices also includes the legal services of Donald H. Maynor, who provides the City with assistance related to UUT revenue protection services, legal interpretation of the City's ordinance, and Federal and State laws that currently exist or will be proposed impacting these issues. The City's annual fixed fee for participating in the program is 0.5% of the total UUT revenues received based on the prior fiscal year, with a minimum of \$15,000 and a maximum of \$106,400.

Transient Occupancy Tax and Compliance Program (TOT)

MuniServices assists the City to realize TOT revenue to which it is entitled. They also educate collectors and remitters of TOT to assist in future compliance with the City's ordinances. MuniServices requires prior approval from the City should the cost of these services exceed \$1,500 per lodging property review.

Local Tax Compliance Program (LTC)

MuniServices' LTC service assists the City in locating 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 35% of the additional revenue received.

The existing contract with MuniServices expires on June 30, 2022. Staff requests Council authorization to extend the term of the contract to June 30, 2023. This will allow the City sufficient time to complete the currently issued Request for Proposals (RFP) and award an agreement for services upon the next expiration.

ECONOMIC IMPACT

There is no significant impact on the local economy related to the renewal of this routine service contract.

FISCAL IMPACT

There are sufficient funds budgeted in the FY 2023 operating budget to cover the cost associated with the amended professional services agreement for sales tax auditing services.

STRATEGIC ROADMAP

This agenda item is a routine operational item and does not relate to any of the six priorities outlined in the Council’s Strategic Roadmap.

SUSTAINABILITY FEATURES

There are no sustainability features associated with this report.

PUBLIC CONTACT

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

NEXT STEPS

Upon approval of this agreement, staff will continue to work with MuniServices on sales tax auditing services for the next twelve months, allowing the City time to thoroughly review the proposals received.

Prepared and Recommended by: Dustin Claussen, Director of Finance

Approved by:



Kelly McAdoo, City Manager