



# REPORT TO COUNCIL

## City of Sacramento

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915 I Street, Sacramento, CA 95814-2604  
www. CityofSacramento.org

Consent Report  
July 25, 2006

Honorable Mayor and  
Members of the City Council

**Title: Agreement: Revenue Audit and Recovery Services and Examination of  
Sales and Use Tax Records**

**Location/Council District:** City-wide

**Recommendation:** Adopt a 1) **Resolution** authorizing the City Manager to enter into a Consultant Services Agreement with MBIA MuniServices Company (MMC) to provide revenue audit and revenue recovery services; and 2) **Resolution** designating a City consultant as the authorized City representative to examine sales and use tax records.

**Contact:** Brad Wasson, Revenue Manager, 808-5844  
Walker Black, Senior Management Analyst, 808-5833

**Presenters:** Brad Wasson, Revenue Manager, 808-5844

**Department:** Finance

**Division:** Revenue

**Organization No:** 1121

### **Description/Analysis**

**Issue:** The Finance Department contracts with a revenue audit and revenue recovery consultant firm to assist the City in collecting additional tax revenues (sales, business operations, utility user, transient occupancy, real property transfer, and property taxes) by ensuring compliance with various City codes. Sales tax auditing and compliance services are on-going, while the remaining services are as requested.

**Policy Considerations:** The collection and recovery of tax revenues due the City is consistent with the City Council's policy of collecting funds for General Fund operations in order to provide essential City services. Approval of the agreement with MMC will increase tax revenues to the City, make information available to City staff that could enhance revenues, and provide the City with data for economic development planning.

**Environmental Considerations:** The request for award of this agreement is not subject to the provisions of the California Environmental Quality Act (CEQA)



under the general rule (Section 15061(b)(3)) that CEQA applies only to projects that have the potential for causing a significant effect on the environment.

**Rationale for Recommendation:** An RFP for services issued to qualified firms resulted in two (2) consultant proposals to provide these services. A selection committee interviewed and evaluated these two firms, resulting in the selection of MBIA MuniServices Company as the most qualified, experienced, and cost advantageous to perform the services requested.

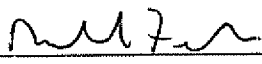
**Financial Considerations:** The revenue audit and recovery services provide the City with additional General Fund revenues that would otherwise likely not be collected. The agreement for these services is to be paid on a contingency basis, as a percent of new revenues recovered by the City due to MMC's services, plus an annual fixed fee amount dependent on the services requested.

Sales and use tax audit services:	20% contingency
Sales and use tax information services:	\$17,000 annual fixed fee, with CPI adj
Business operations tax compliance services:	30% contingency
Utility user tax audit services:	25% contingency
Utility user tax revenue protection services:	\$36,000 annual fixed fee
Transient occupancy tax audit services:	\$83,000 not to exceed fixed fee
Transient occupancy tax seminar services:	\$4,000 not to exceed fixed fee
Property tax and tax increment audit services:	25% contingency

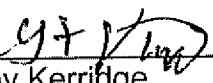
No additional budget augmentations are requested, as the anticipated contingency and fixed fee charges have been included in the FY07 approved budget.

**Emerging Small Business Development (ESBD):** The City provides a five point preferential bonus for firms that are either EBE or SBE certified in the evaluation process. However, there are only two firms known to the City and other local agencies that specialize in providing sales tax audit and recovery services. Neither of these firms is a certified EBE/SBE firm. MBIA MuniServices Company also provides a complete program of all revenue audit and recovery services, and has demonstrated the capability to provide the most comprehensive and effective services to the City.

Respectfully Submitted by: Brad Wasson  
 Brad Wasson  
 Revenue Manager

Approved by:   
Russell Fehr  
Director of Finance

Recommendation Approved:

*gr*   
Ray Kerridge  
City Manager

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**Attachment 1**

**Background Information:** The City has used MBIA MuniServices Company and its related entities since 1986, resulting in significant additional tax revenues to the General Fund.

The sales and use tax audit and recovery service alone has resulted in approximately \$25.2 million in net new sales tax revenue to the City since 1986, by capturing tax revenues which had been allocated in error to other jurisdictions, or not collected at all.

The utility user tax audit and recovery service has generated \$1.2 million in net one-time additional revenues since FY 2003, and on-going additional revenues of approximately \$102,000 annually.

The business operations tax audit and compliance service has also added \$1.25 million in net new revenues to the City since FY 2004.

The scope of services to be included in the new agreement include:

- Sales and Use Tax services - provide audit services to ensure the City is receiving its correct allocation of sales taxes; represent the City before the State Board of Equalization; and provide sales tax analysis and reporting on a quarterly basis.
- Utility User Tax/Franchise services - provide auditing, geo-coding, compliance, and revenue protection services.
- Business Operations Tax services - provide auditing, detection, and compliance services to assist the City in realizing all revenue due from businesses operating within the city limits.
- Transient Occupancy Tax services – provide auditing, compliance review, and educational services, as requested.
- Property Tax and Tax Increment services – provide auditing and review services to assist the City and the Sacramento Housing & Redevelopment Agency (SHRA) in recovering revenues due, as requested.

## **RESOLUTION NO.**

Adopted by the Sacramento City Council

### **REVENUE AUDIT AND REVENUE RECOVERY CONSULTANT SERVICES AGREEMENT AWARD TO MBIA MUNISERVICES COMPANY (MMC)**

#### **BACKGROUND**

- A. Since 1986, the City has used revenue auditing and revenue recovery consultant services to assist City staff in maximizing sales, utility user, business operations, and transient occupancy tax revenues due the City. In addition to providing auditing, detection, and compliance services to maximize revenues, the analysis and reporting services assist City staff with financial forecasting.
- B. The current revenue auditing and recovery services agreement expires on July 31, 2006. In May 2006, the City issued an RFP for which two proposals were received. An interview and evaluation committee chose MBIA MuniServices Company (MMC) as the best choice, based on qualifications, experience, scope of services, and cost.
- C. As this revenue auditing and recovery services agreement will cost in excess of \$100,000, City Council approval is required.
- D. The City Council is fully advised in this matter.

#### **BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL RESOLVES AS FOLLOWS:**

- Section 1. The City Council finds and determines that the Background Statements A through D are true and correct.
- Section 2. The City Council hereby awards the revenue auditing and recovery services agreement to MBIA MuniServices Company (MMC).
- Section 3. The City Manager, or authorized designee, is hereby authorized to sign and execute a Consultant Services Agreement with MBIA MuniServices Company (MMC) to provide revenue audit and revenue recovery services.
- Section 4. Services provided under the agreement are to be paid on a contingency basis on a percent of new revenues recovered by the City due to MMC's audit and recovery services, plus an annual fixed fee amount not to exceed \$55,000 for on-

going sales and use tax information services and utility user tax revenue protection services, and if requested, a total not to exceed \$87,000 for transient occupancy tax audit and seminar services.

Section 5. The initial term of the agreement shall be three (3) years, effective August 1, 2006 through July 31, 2009, and shall automatically renew for two (2) additional one-year terms unless either party provides notice of its intention not to renew 15 days prior to the end of the then current term.

**RESOLUTION NO.**

Adopted by the Sacramento City Council

**DESIGNATING A CITY CONSULTANT AS THE AUTHORIZED CITY REPRESENTATIVE TO EXAMINE SALES AND USE TAX RECORDS**

**BACKGROUND**

- A. Whereas, pursuant to California Revenue and Taxation Code Section 7200, et. seq., the City of Sacramento has adopted a sales and use tax ordinance, Sacramento City Code Chapter 3.24, which imposes a tax and provides a measure therefore that can be administered and collected by the State Board of Equalization along the same and existing statutory and administrative procedures followed by the State Board of Equalization in administering and collecting the California State Sales and Use Taxes; and
- B. Whereas, pursuant to California Revenue and Taxation Code Section 7056, the City of Sacramento, by resolution, may designate any officer, employee or any other person to examine all of the sales and use tax records of the Board pertaining to sales and use taxes collected for the City; and
- C. Whereas, the City of Sacramento has entered into an agreement for sales tax audit and information services with the firm of MBIA MuniServices Company, the City Council desires to designate MBIA MuniServices Company as the authorized Consultant to examine such sales tax records maintained by the Board on behalf of the City of Sacramento; and
- D. Whereas, all legal prerequisites prior to the adoption of this Resolution have occurred.
- E. The City Council is fully advised in this matter.

**BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL RESOLVES AS FOLLOWS:**

- Section 1. The City Council finds and determines that the Background Statements A through E are true and correct.

Section 2. In all respects as set forth above, the City Council of the City of Sacramento hereby certifies to the State Board of Equalization that MBIA MuniServices Company (hereinafter "Consultant") is the designated representative of the City of Sacramento to examine all of the sales and use tax records of the Board pertaining to sales and use taxes collected by the Board on behalf of the City of Sacramento.

Section 3. Pursuant to California Revenue and Taxation Section 7056(b), the City Council of the City of Sacramento certifies that Consultant meets all of the following conditions:

- a. Consultant has an existing contract with the City to examine sales tax records;
- b. Consultant is required by that contract to disclose information contained in, or derived from, those sales tax records only to an officer or employee of the City who is authorized by resolution to examine the information;
- c. Consultant is prohibited by the contract from performing consulting services for a retailer during the term of the contract; and
- d. Consultant is prohibited from retaining the information contained in, or derived from, those sales tax records after the contract has expired.

\_\_\_\_\_  
Mayor

I hereby certify that the foregoing Resolution No. \_\_\_\_\_ was duly and regularly adopted at a regular meeting of the Sacramento City Council on \_\_\_\_\_, 2006 by the following vote:

AYES:	NAYS:
ABSTAIN:	ABSENT:

\_\_\_\_\_  
Shirley Concolino, City Clerk

