

City of Culver City, California
City Council Agenda Item Report

Meeting Date: 09/08/08		Item Number: <u>A-3</u>	
AGENDA ITEM: Approval of a Professional Services Agreement with MuniServices for Business Tax Compliance Services.			
Contact Person/Dept.: Crystal Alexander		Phone Number: (310) 253-5866	
Fiscal Impact: Yes ☒ No ☐		General Fund: Yes ☒ No ☐	
Public Hearing: ☐		Action Item: ☒ Attachments: ☒	
Public Notification: Master E-Mail Notification List (09/03/08); Culver City Chamber of Commerce (09/03/08); Doug Jensen, Executive Vice President, MuniServices (08/28/08); other firms responding to the Request for Proposal (09/03/08)			
Department Approval: Jeff Muir (08/27/08)		City Attorney Approval: Carol Schwab (by H. Baker) (09/03/08)	
Chief Financial Officer Approval: Jeff Muir (09/03/08)		City Manager Approval: Jerry B. Fulwood (09/03/08)	
<u>RECOMMENDATION:</u> Staff recommends the City Council approve a professional services agreement with MuniServices for Business Tax Compliance Services. <u>BACKGROUND:</u> As a matter of best business practices and especially during the challenging fiscal times facing the City, the State, and the Nation, a prudent practice is to ensure the City is receiving all the revenue it is entitled to under existing ordinances. In implementing this practice, the City routinely conducts audits on various entities who are required to make payments to the City. This includes individuals and corporations doing business in the City. In preparation for this most recent compliance effort, the Finance Department asked for and received proposals from four companies who provide complete business tax compliance services. Finance Department staff reviewed the responses to its Request for Proposal. Based on that initial review, it was determined that two firms were most responsive, MuniServices and Municipal Revenue Advisors. Both were invited to make a presentation to Finance Department staff. Based upon the in depth presentations and final reference checks, the Finance Department recommends an award of contract to MuniServices. The Business Tax Audit Program is part of the approved work programs for the Finance Department. MuniServices is eminently qualified to provide the City with a number of services which the Finance Department can utilize. MuniServices is well known throughout the public sector for providing a comprehensive and effective program, and no other			

City of Culver City, California
City Council Agenda Item Report

company offers a program as comprehensive as MuniServices. Culver City has a more than 20 year track record of working with MuniServices in a variety of other revenue compliance areas such as sales tax, property tax, transient occupancy tax and, currently, with utility user tax/franchisee fee identification and collection. MuniServices has partnered with more than 260 jurisdictions nationwide, including Los Angeles, Beverly Hills, Santa Monica and Pasadena.

DISCUSSION:

The goal of this compliance program is to “ensure an even playing field” for the businesses in the City. This is accomplished through further improving compliance with the applicable sections of the Culver City Municipal Code (CCMC) via education of the business community. Some businesses may not be fully aware of the requirements for a business operating within the City’s jurisdiction. This process will allow the opportunity for the business to understand the requirements of the CCMC and to fully comply with them.

The proposed agreement includes the provision of Discovery Services and Deficiency Audit Services along with other ancillary services. Discovery Services are designed to identify entities subject to taxation by the City that are not properly registered and/or otherwise not remitting taxes to the City. Deficiency Audit Services are designed to identify entities subject to the business tax which are not properly reporting the full amount to which they are subject.

The processes for both services will ensure that all businesses are treated with respect and fairness.

In working with MuniServices, not only will revenue be produced that would not otherwise have been realized by the City, but there will be an opportunity for MuniServices to work with Finance Department staff to supplement and enhance the operations and procedures currently in place. In particular, the use of new databases and the ability to cross check the information in them will allow City staff to simultaneously increase compliance with the CCMC’s business tax (and other fees as well) while also enhancing customer service by better ensuring that “fewer stones go unturned” and uncommunicated to the businesses in the search for City revenues.

MuniServices proposal contains a full range of services from identification of unlicensed business all the way through collection, if desired. The City will retain full control for how aggressively collection is pursued. Most of the time during the in depth interviews was spent discussing methods of communication during the collection process, in addition to the database sources which will be utilized and

City of Culver City, California
City Council Agenda Item Report

cross checked to identify both unlicensed business and audit targets due to under-reported tax.

Should the City Council award this Agreement, compensation to MuniServices will be based upon the unlicensed business that they identify and for which collection is received into City coffers. The initial kick off meeting with MuniServices will include Finance Department identification of businesses already under review, which will be excluded from MuniServices compensation. Additionally, a number of other topics will be addressed during that meeting, including the efficacy of implementing a one time amnesty program prior to the launch of MuniService's efforts. Staff will return to the City Council to seek direction on any such policy matters prior to implementation.

FISCAL ANALYSIS:

There will be no initial cash outflow for this service. MuniServices provides Discovery Services with a contingency fee based on the additional revenue realized by the City from the services performed. The fee applies only to the revenue actually received by the City, and does not apply to future year payments the City will receive. The Deficiency Audit Services are also performance based with no payment due until the City has received the new revenue. Given the expected time period for service implementation, we don't anticipate receipt of the first invoice based on new realized revenues until the first quarter of 2009.

The selection of businesses to be audited will be made by the City with recommendations from MuniServices. This contingent fee arrangement is standard for the type of service provided, and staff believes it is reasonable based upon the projected benefits of the program.

The structure of MuniServices compensation is as follows:

SERVICE	FEE	NOTE
Discovery Services	36%* for current tax year, eligible prior periods, calculated on tax, penalties, interest and late charges	
Deficiency Audit Services	See above	
Collection Services	22.5%* of recovery	
Optional Data Entry Services	\$50 per hour	Need for service to be assessed at a future date, with required budgetary authority
Corollary Consulting	\$75-\$300 per hour	See above
City Election Not to Proceed with Any Recovery on specific identified accounts	½ of fee entitled per above	Excludes insolvency and legal limitations

City of Culver City, California
City Council Agenda Item Report

* Rate includes a 10% discount for net remit program via escrow account upon payment within 90 days.

As such contingency fee based revenue contracts have been handled in the past, and authorized by the adopted budget resolution, MuniServices' compensation will be drawn against the business tax revenue account number 10114400.315000, following staff review of their invoice. It is anticipated that the Finance Department will submit quarterly reports to the City Council on additional revenues received via the MuniServices contract, as well as reporting on their agreed upon compensation. As mentioned above, it is expected the first of such reports would be provided to the City Council beginning in the second quarter of Calendar Year 2009.

Overall, there will be a net gain in revenue associated with this program, but more importantly, there will be a consistent method for ensuring compliance by all businesses. This compliance includes not only ensuring that the businesses are licensed, but also ensuring through a directed audit process that currently licensed businesses are paying the appropriate amount to the City.

The City could forego these audits and in so doing will likely not realize taxes that are owed to the City. An estimate of this amount is very difficult to determine since there are many factors that contribute to a business not paying the full amount of taxes that they owe. It is also challenging to estimate the amount of unpaid taxes since these amounts are unknown. Given that it is not that uncommon to have a more than 10% turnover in businesses in any given year, it is reasonable to assume that revenues associated with un- and underreported business tax remain to be collected.

Many cities also find it more cost effective to supplement their existing in-house staff services with that of a firm such as MuniServices. In the case of Culver City, staff generally does not possess the specialized training and knowledge required to successfully conduct these types of audits. Moreover, the City does not possess the requisite technology to adequately perform the business license audits, as MuniServices frequently relies upon various electronic databases to identify businesses domiciled in Culver City that are not identified as having paid taxes to the City.

ATTACHMENTS:

1. RFP
2. MuniServices Proposal.

City of Culver City, California
City Council Agenda Item Report

MOTION:

That the City Council:

1. Approve a professional services agreement with MuniServices for Business Tax Compliance Services; and,
2. Authorize the City Attorney to review/prepare the necessary documents; and,
3. Authorize the City Manager to execute such documents on behalf of the City.