



# Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Scott P. Johnson

**SUBJECT:** SEE BELOW

**DATE:** 5-29-07

Approved

*Ray Winer*

Date

*6/6/07*

**CITY DISTRICT:** City-wide

**SUBJECT: SELECTION OF TAX COMPLIANCE SERVICES TO PROVIDE  
REVENUE ENHANCEMENT SERVICES**

## **RECOMMENDATION**

Approval of an agreement with Tax Compliance Services (TCS) to provide Utility Users Tax and Franchise Fee compliance services and related revenue enhancement services for a one-year term beginning July 1, 2007 through June 30, 2008 for an amount not to exceed \$138,000, and authorizing the Director of Finance to extend the contract for up to three additional one-year option periods for a maximum compensation for the agreement not to exceed \$552,000 subject to the appropriation of funds by the City Council.

## **OUTCOME**

Approval of this agreement with Tax Compliance Services (TCS) will allow the consultants to assist staff with Utility Users Tax compliance services to recover monies due the City.

## **BACKGROUND**

The City has utilized Tax Compliance Services for utility users tax compliance services for the past five years. The previous contract with TCS expired April 23, 2007. On February 27, 2007, the Finance Department issued the Request for Proposal (RFP) which was posted on the City's Purchasing website Bidline for maximum exposure and was sent to 13 firms for utility users tax compliance services.

Representatives from the Finance Department reviewed the proposals for qualifications and interviewed the proposers to determine the best qualified to provide the services.

## **ANALYSIS**

Utility Users Tax (UUT) and Franchise Fee (FF) compliance reviews are a specialized area of auditing in which very few companies have the experience and capacity to perform the tasks successfully. The City received three responses to the RFP from Maximus, MuniServices, and Tax Compliance Services (TCS). Each of the proposals demonstrated capacity to perform utility users tax and franchise fee reviews.

The elements used to evaluate proposals were:

- Quality of proposed service.
- Cost of proposed service.
- Small business preference.
- Local business preference.
- Capacity to perform the service.
- Past service record.
- Quality of references.

Maximus showed strength in the area of franchise fee implementation and reviews. They proposed outsourcing one of the major components of the RFP which is the utility users tax compliance reviews. MuniServices demonstrated strength with their legislative legal consulting services. However, the company that proposed the most advantageous service to the City was TCS. TCS emphasized conducting compliance reviews and also balanced the proposal with providing legislative analysis consultation. During the prior contract period with TCS (from April 2002 to April 2007) the City benefited with an additional \$4.45 million at a cost of \$730,000, resulting in a return on investment to the City of \$6.09 for every \$1 dollar in cost.

The other distinctive factor in the selection process is the cost component. Maximus and MuniServices proposed a fixed fee in addition to receiving a fee of 25% of new net-revenue recovered for the next several years, based on a conservative estimate of one million dollars in new net UUT/FF revenues generated as a result of consultants audit findings: Maximus would be compensated at \$300,000; MuniServices would be compensated at \$350,000, plus 25% of all back quarters and 25% of revenues for 3 years forward. In comparison, TCS's proposal is for a fixed flat fee of \$138,000 per year. TCS's proposal provides for the City to accomplish all of its goals with the UUT/FF compliance reviews within budget.

Chapter 4.06 of the San Jose Municipal Code provides for Ten percent of the total evaluation points be reserved for local and small business preference in accordance with the City's Local and Small Business Preference Ordinance. None of the proposers met the qualification for Local or Small Business Preference.

The staff involved in the rating process were: Huey Dang, Finance Department; Dat Vu, Finance Department; Mark Brogan, Finance Department.

The evaluation team consisted of three staff from the Finance Department Revenue Management Division, Compliance Unit.

Below is a summary of the rating criteria used to evaluate the three proposals and shows why TCS is the recommended choice:

<b>Summary: Rating Criteria</b>	<b>Maximus</b>	<b>MuniServices</b>	<b>Tax Compliance Services</b>
Quality of Proposed Service	Emphasis on Franchise Fee right of way experience	Emphasis on legal consultation w/ some compliance review	Emphasis on compliance review w/ legislative consultation
Cost of Proposed Service	\$50,000 fixed fee and 25% of revenue found as a result of audit findings (est. cost to City is \$300,000)*	\$100,000 fixed fee and 25% of revenue found for all back years plus 25 % of revenues for 3 years forward (est. cost is \$350,000)*	\$138,000 fixed fee
Small Business Preference	N/A	N/A	N/A
Local Business Preference	Non-local	Non-local	Non-local
Capacity to Perform the Service	Audit team dedicated to perform task	Audit team dedicated to perform task	Audit team dedicated to perform task
Past Service Record	Proposal meets service requirements experience	Proposal meets service requirements experience	Proposal meets service requirements experience
References	Positive references	Positive reference	Positive references

\* Based on cumulative estimate of \$One million generated in new UUT/FF revenues as a result of consultant's findings.

In addition to the rating criteria above, TCS has also demonstrated that they possess the following qualities:

- The principal auditor for TCS has 30 years experience in the telecom industry as an employee and strategic planner. In addition, he has 16 years auditing experience in UUT and FF.
- TCS's in depth technical and industry knowledge will be advantageous for the City and will help the City generate more UUT and FF revenues.
- TCS will also give staff the opportunity to train with the consultant to perform UUT and FF compliance reviews.

- TCS has proven that they are able to provide a high level of service to the City and has been able to meet established deadlines.

In addition to providing services related to the UUT and FF compliance reviews, TCS has demonstrated the willingness to provide City departments with services related to other governmental functions such as budget estimates, financial projections, and economic impacts. These revenue compliance and consulting services add value to various City Departments and are essential for additional protection of the City's UUT and FF revenue bases.

### **POLICY ALTERNATIVES**

**Alternative:** Direct staff to perform the utility users tax audit services.

**Pro:** All utility users tax audits would be performed in-house.

**Con:** Utility users tax is a specialized area which requires technical expertise. Current staff does not have technical expertise nor the resources to undertake a project of this size. Furthermore, no budget has been approved for additional staff which would be required to accomplish the work.

**Reason for not recommending:** None. It is more cost effective to have TCS perform the audit services as they have the technical expertise and professionals to ensure that the City receives all of the UUT and FF dollars it is entitled to.

### **PUBLIC OUTREACH/INTEREST**

The Request for Proposal was posted on the City's Bidline in addition to being mailed to the City's list of interested parties related to utility users tax audit/compliance services.

- Criteria 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
- Criteria 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- Criteria 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

**COORDINATION**

This report has been coordinated with the City Manager's Office, Budget Office, and in consultation with the City Attorney's Office.

**FISCAL/POLICY ALIGNMENT**

The Agreement with TCS to provide utility users tax compliance services is consistent with the Council approved 2007-2008 Budget Balancing Strategy Principles which directed the creation of a balance budget which mitigated direct service reductions by utilizing a combination of ongoing expenditure reductions or retention of ongoing revenue sources.

**COST SUMMARY/IMPLICATIONS**

1. AMOUNT OF RECOMMENDATION/COST OF PROJECT: The maximum annual compensation for the contract is \$138,000 with three one year options to extend.
2. SOURCE OF FUNDING: City Wide Appropriations in the Finance Department for Revenue Enhancement Services.
3. FISCAL IMPACT: N/A-One time cost.

**BUDGET REFERENCE**

Fund #	Appn #	Appn. Name	Total Appn	Amt. for Contract	2007-2008 Proposed Budget Page	Last Budget Action (Date, Ord. No.)
001	2060	Revenue Enhancement Consulting Services	\$485,000	\$138,000	IX-16	NA

**CEQA**

Not a project.

  
SCOTT P. JOHNSON  
Director, Finance Department

For questions, please contact Scott P. Johnson, Director at (408) 535-7000.

