



# Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Scott P. Johnson

**SUBJECT:** SEE BELOW

**DATE:** 8-9-06

Approved

*Deanna Paulina*

Date

*8/12/06*

**CITY DISTRICT:** City-wide

**SUBJECT: SELECTION OF TAX COMPLIANCE SERVICES TO PROVIDE  
TRANSIENT OCCUPANCY TAX COMPLIANCE SERVICES**

## **RECOMMENDATION**

Approval of an agreement with Tax Compliance Services (TCS) to provide Transient Occupancy Tax (TOT) compliance services, education (to the hotels and the City) and related consulting services for a term from September 1, 2006 until August 31, 2007, for \$42,500 per year and authorizing the Director of Finance to extend the contract for three annual option periods for \$42,500 per year for a total compensation not to exceed \$170,000, subject to annual appropriations of funds by the City Council.

## **OUTCOME**

Approval of an agreement authorizes the Director of Finance to enter into a TOT compliance services agreement with TCS which will ensure that hotels operating in the City of San José will be educated about the City's TOT ordinances and TCS will assist City finance staff with enforcement of the ordinances.

## **BACKGROUND**

On May 12, 2006, the Finance Department issued the Request for Qualifications (RFQ) which was posted on the City's Purchasing website Bidline for maximum exposure and sent to seven firms for Transient Occupancy Tax compliance services. MBIA Muni-Services (MBIA) and Tax Compliance Services (TCS) sent proposals to the City. Representatives from the Finance

Department, Office of Economic Development, and Budget Office served on the evaluation team in which they reviewed the proposals and interviewed the two proposers on June 7, 2006.

## **ANALYSIS**

Finance staff recognizes the importance of completing compliance reviews of all hotels within the City of San Jose's jurisdiction. There are several benefits to regular compliance reviews and they include:

- Increase and improve education to hotel operators on the City's TOT ordinance provisions;
- Better customer service to the hotel operators; and
- Improve compliance and accuracy of tax remitted to City.

Based on the evaluation criteria outlined below, the evaluation team recommends selection of TCS to provide TOT compliance and consulting services to the City:

- Quality of Proposed Service
- Cost of Proposed Service
- Completeness of Proposal
- Location of Proposer
- Financial Responsibility
- Past Service Record
- References

TCS earned a rating of superior overall according to the criteria noted above. In addition, the evaluation team noted that TCS also demonstrated that they possessed the following desirable qualities:

- TCS has experience and a proven track record of producing audit results on time.
- All references provided expressed satisfaction with the scope and quality of work performed by TCS.
- TCS demonstrated that it would be able to provide excellent customer service not only to the City but to the hotels as well.
- TCS demonstrated that it understands that public outreach and educating the hotels are as important as compliance.

TCS demonstrated that it is the best-qualified firm. Its proposed audit strategy and fixed fee cost structure is the most advantageous to the City. TCS is proposing a fixed annual fee of \$42,500 to audit 40 to 42 hotels per year. The City currently has 85 hotel/motels. The audit plan is structured so that a compliance review of the City's 85 hotel/motels is completed on a rotational

basis every two years. In addition, TCS will educate the hotels and motels within the City's jurisdiction regarding how each can better comply with the City's TOT ordinances.

### **POLICY ALTERNATIVES**

**Alternative:** Do not do the Transient Occupancy Tax audits.

**Pros:** None

**Cons:** TOT taxes may not be paid in accordance with the San José Municipal Code.

**Reason for not recommending:** Hotel personnel turnovers occur quite frequently. Therefore, education and enforcement of the TOT ordinance is necessary. Absent a City-wide hotel audit, education, and enforcement, the City may not receive all the Transient Occupancy Tax it is entitled to. The monies generated from TOT are vital to services that draw resources from the City's General Fund and special Conventions, Arts and Entertainment Fund.

### **PUBLIC OUTREACH/INTEREST**

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

This item does not meet any of the criteria listed below.

- 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 Budget Office, City Auditor's Office, Office of Economic Development, and in consultation with the City Attorney's Office.

**FISCAL/POLICY ALIGNMENT**

The Agreement with TCS to provide TOT revenue enhancement services is consistent with the Council approved *2006-07 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**

The City Wide Appropriations in the Finance Department for Revenue Enhancement Services will be sufficient to cover the cost of this contract for FY 2006-2007. The maximum annual compensation for the contract will be \$42,500. Extension of the agreement for each of the option years will be subject to appropriation of funds by the City Council.

**BUDGET REFERENCE**

Fund #	Appn #	Appn. Name	Total Appn	Amt. for Contract	2006-2007 Proposed Budget Page	Last Budget Action (Date, Ord. No.)
001	2060	Revenue Enhancement Consulting Services	\$685,000	\$42,500	IX-15	NA

**CEQA**

Not a project.

  
SCOTT P. JOHNSON  
Director, Finance

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

