

CITY AND COUNTY OF SAN FRANCISCO
BOARD OF SUPERVISORS
BUDGET AND LEGISLATIVE ANALYST

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TO: Budget and Finance Committee
FROM: Budget and Legislative Analyst 
SUBJECT: January 16, 2013 Budget and Finance Committee Meeting

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Items 7 and 8 Files 12-1197 & 12-1195	Department: Treasurer/Tax Collector's Office
EXECUTIVE SUMMARY	
Legislative Objective	
<p><u>File 12-1195</u>: An ordinance appropriating \$2,566,145 from the General Fund Reserve to the Treasurer/Tax Collector's Office for Gross Receipts Tax implementation planning in FY 2012-13.</p>	
<p><u>File 12-1197</u>: An ordinance amending the Annual Salary Ordinance (ASO) for FYs 2012-13 and 2013-14 (Ord. 162-12) to reflect the addition of five new Treasurer/Tax Collector's Office positions, including one permanent and four limited term positions, equaling 2.5 full-time equivalencies (FTEs) in FY 2012-13 and 5.0 FTEs in FY 2013-14 for the implementation of the Gross Receipts Tax.</p>	
Key Points	
<ul style="list-style-type: none"> • San Francisco voters passed Proposition E on November 6, 2012, which (a) created a Gross Receipts Tax designed to reduce or eliminate the Payroll Expense Tax imposed on San Francisco businesses, and (b) increased the City's business registration fees. The City will phase in the new Gross Receipts Tax and reduce or eliminate the Payroll Expense Tax beginning in 2014. The Treasurer/Tax Collector's Office anticipates short- and long-term workload increases to implement and administer the Gross Receipts Tax. • The Treasurer/Tax Collector's Office has requested a supplemental appropriation of \$2,566,145 to implement the Gross Receipts Tax beginning in FY 2012-13, including (a) \$2,000,000 for increased information technology system consulting; (b) \$371,145 in increased program staffing; and (c) \$195,000 for an increase in the Treasurer/Tax Collector's Office work order with the City Attorney's Office. • The Treasurer/Tax Collector's Office is proposing \$2,000,000 to fund two contracts on a sole source basis to add Gross Receipts Tax collections and processing capability to its new tax collection and processing computer system. • In addition, the Treasurer/Tax Collector's Office has proposed the addition of five new positions to the City's ASO to implement the Gross Receipts Tax, including one permanent position (0953 Deputy Director III) and four limited term positions (0922 Manager I; 1053 Senior Business Analyst; 1064 Principal Programmer Analyst; 1244 Senior Personnel Analyst). These five positions have been proposed at a total of 2.5 FTEs (or 0.5 FTE per position) in FY 2012-13, annualized to 5.0 FTEs beginning in FY 2013-14. • The proposed supplemental appropriation of \$371,145 only provides sufficient funding for 2.2 FTE of the 2.5 FTE requested for FY 2012-13, resulting in each position requested being funded at 0.44 FTE. Therefore, the Budget and Legislative Analyst recommends amending the ASO amendment (File 12-1197), reducing each of the five positions from 0.5 FTE to 0.44 FTE per position on lines 19-23, and reducing the total FTEs from 2.5 FTEs to 2.2 FTEs on line 24 of the proposed ordinance. 	

- As of the writing of this report, the Budget and Legislative Analyst's Office had not received details of the proposed \$195,000 work order between the Treasurer/Tax Collector's Office and the City Attorney's Office, which is part of the proposed supplemental appropriation ordinance (File 12-1195).

Fiscal Impact

- File 12-1195 would appropriate \$2,566,145 from the City's General Fund Reserve to the Treasurer/Tax Collector's Office for Gross Receipts Tax implementation planning for FY 2012-13. The General Fund Reserve has a balance of \$32,162,000, and if the requested \$2,566,145 supplemental appropriation is approved, the resulting balance of the General Fund Reserve would be \$29,595,855.
- As noted above, the Treasurer/Tax Collector's Office is requesting \$2,000,000 in FY 2012-13 to fund two contracts to implement the Gross Receipts Tax collections and processing system. The total contract costs are an estimated \$12,000,000, including (a) \$3,000,000 over five years for the contract between the Treasurer/Tax Collector's Office and 21 X-Tech, and (b) \$9,000,000 over six years for the contract between the Treasurer/Tax Collector's Office and Manatron.
- Files 12-1195 and 12-1197 would result in new salary and mandatory fringe benefit costs of no more than \$371,145 for FY 2012-13. Once annualized, the proposed five new positions would result in salary and fringe benefit costs of approximately \$836,371 beginning in FY 2013-14.
- The costs for implementing the City's new Gross Receipts Tax are expected to be offset by additional revenues generated by the Gross Receipts Tax and business registration fees under 2012 Proposition E. According to the Controller, the City will receive approximately \$28.5 million in additional General Fund revenue beginning in FY 2013-14.

Recommendations

- Amend File 12-1197, page 1, lines 19 through 23, to reduce the FTE for each position from 0.5 FTEs to 0.44 FTE, and page 1, line 24, to reduce the total FTEs from 2.5 FTEs to 2.2 FTEs.
- Amend File 12-1197, page 1, lines 19, 21, 22, and 23 to specify that the 0922 Manager I; 1053 Senior Business Analyst; 1064 Principal Programmer Analyst; and 1244 Senior Personnel Analyst are limited term for no more than three years.
- Place \$195,000 of the requested \$2,566,145 on Budget and Finance Committee reserve, pending the receipt of the detailed work order budget between the Treasurer/Tax Collector's Office and the City Attorney's Office.
- Because the voters of San Francisco approved Proposition E in 2012 to implement a new Gross Receipts Tax, including increased administrative costs, the Budget and Legislative Analyst recommends approval of File 12-1195 and File 12-1197 as amended.

MANDATE STATEMENT & BACKGROUND

Mandate Statement

Under Section 3.15 of the City's Administrative Code, supplemental budget requests, subsequent to the adoption of the annual budget for the current fiscal year, are subject to Board of Supervisors approval.

Under Section 21.30(d) of the City's Administrative Code, where a vendor has proprietary rights to software or where maintenance of equipment by a particular vendor is required to preserve a warranty, software support and equipment maintenance agreements entered into with that vendor shall be treated as a sole source for the purposes of any contract requirements included in the Municipal Code.

Background

San Francisco voters passed Proposition E on November 6, 2012, which (a) created a Gross Receipts Tax designed to reduce or eliminate the Payroll Expense Tax, and (b) increased the City's business registration fees. Under Proposition E, businesses with gross receipts of \$1 million or more, adjusted annually for inflation, would pay a tax on their annual gross receipts, with rates ranging from 0.075% to 0.650%. San Francisco businesses had previously paid either a Gross Receipts Tax or a Payroll Expense Tax, whichever was greater, starting in the 1970s. However, following a similar tax structure being declared unconstitutional in Los Angeles, San Francisco eliminated its Gross Receipts Tax in 2001.

Under Proposition E, from calendar years 2014 through 2018, the City will phase in the new Gross Receipts Tax and reduce or eliminate the Payroll Expense Tax. According to Ms. Pauline Marx, Finance Director for the Treasurer/Tax Collector's Office, the complexity of the Gross Receipts Tax will result in short- and long-term increased workload for the Treasurer/Tax Collector's Office.

DETAILS OF PROPOSED LEGISLATION

File 12-1195

The proposed supplemental appropriation ordinance (File 12-1195) would appropriate \$2,566,145 from the General Fund Reserve to the Treasurer/Tax Collector's Office to pay for five new positions, professional services contracts, and a work order with the City Attorney's Office for initial implementation of the Gross Receipts Tax in FY 2012-13. According to Ms. Marx, ongoing budget increases would be included in the FY 2013-14 and FY 2014-15 Annual Appropriation Ordinance, which will be submitted for Board of Supervisors approval in June 2013. Uses for the supplemental appropriation are shown in Table 1 below.

Table 1. Proposed Supplemental Appropriation Uses

Use	Amount	Purpose
Sole Source Contract Information Technology System Consultant 21 X-Tech	\$640,000	21 X-Tech would provide the Treasurer/Tax Collector's Office with (a) development of the requirements for the new Gross Receipts Tax system, (b) data migration from the existing system to the new system, (c) staff training, and (d) project management of Gross Receipts Tax systems implementation. The term of the contract is anticipated to be six years, and the Department anticipates a total contract amount of \$3,000,000 over five years, including the \$640,000 of the subject supplemental appropriation request.
Sole Source Contract Information Technology System Consultant Manatron	\$1,360,000	Manatron is the software license owner of the Department's business tax system. The proposed contract between Manatron and the Treasurer/Tax Collector's Office is to configure their software to meet the needs of the new Gross Receipts Tax. The term of the new contract would be six years, and the Department anticipates a total contract amount of \$9,000,000, including the \$1,360,000 supplemental appropriation request.
Subtotal, Contracts	\$2,000,000	
Programmatic Projects – Staffing	\$371,145	Salary and mandatory fringe benefit costs for five new positions, including one permanent and four limited term positions, totaling no more than 2.5 FTE in FY 2012-13, as proposed in the amendment to the City's Annual Salary Ordinance (File 12-1197).
City Attorney Work order	\$195,000	Additional City Attorney services required in FY 2012-13 for the implementation of the Gross Receipts Tax.
Total Supplemental Appropriation	\$2,566,145	

Sole Source Contracts - \$2,000,000

Prior to the passage of Proposition E, the Treasurer/Tax Collector's Office had already begun the process of implementing a new tax collections and processing computer system. The Treasurer/Tax Collector's Office selected 21 X-Tech and Manatron through a competitive process in 2010, and entered into \$2,340,723 contract to develop the new tax collections and processing computer system. 21 X-Tech is the prime contractor and Manatron is the subcontractor. Adding the Gross Receipts Tax to that system will require additional services to be provided to the Treasurer/ Tax Collector's Office by 21 X-Tech and Manatron on a sole source basis, pursuant to Administrative Code Section 21.30(d), which authorizes sole source contracting for proprietary rights of software, as noted above. As noted in Table 1 above, the proposed contracts between the Treasurer/Tax Collector's Office and 21 X-Tech and Manatron are for less than 10 years and less than \$10,000,000, and therefore, would not be subject to Board of Supervisors approval. The subject request is just to provide the needed contract funding.

City Attorney Work Order - \$195,000

As of the writing of this report, the Treasurer/Tax Collector's Office has not provided budget details on the proposed work order with the City Attorney's Office. Therefore, The Budget and Legislative Analyst recommends that the Budget and Finance Committee reserve the requested \$195,000, pending submission of budget details to the Committee.

New Positions - \$371,145 (File 12-1197)

The second proposed ordinance would amend the Annual Salary Ordinance (ASO) for FYs 2012-13 and 2013-14 (Ord. 162-12) to reflect the addition of five new Treasurer/Tax Collector's Office positions, including one permanent and four limited term positions, equaling 2.5 full-time equivalencies (FTEs) in FY 2012-13 and 5.0 FTEs in FY 2013-14 for the implementation of the Gross Receipts Tax. A list of the positions that have been requested, including salary and fringe benefit amounts, the prorated salary for the remainder of FY 2012-13, and the description of the responsibilities, are shown in Table 2 below.

Table 2. Five Positions Requested for Proposition E/Gross Receipts Tax Implementation

Position Code and Title	FY 2012-13 Salary + Fringe Benefits (0.5 FTE)	Salary + Fringe Benefits (Annualized)	Position Description
0953 - Director Gross Receipts	\$123,200	\$246,400	Architect of Gross Receipts: manages implementation of the Gross Receipts Tax; becomes in house expert - Permanent Exempt
1053 - Principal Business Analyst	\$73,564	\$147,129	Business Requirements: manages consultants and oversees development of the Treasurer/Tax Collector's Office gross receipts system – Limited Term
1064 - Principal Programmer	\$73,728	\$147,456	Develop online forms for tax filings; all filing will need to be adjusted (New Business Application, Business Registration, Payroll filing) - Limited Term
0922 - Manager, Project Management	\$77,732	\$155,464	Project management, including coordinating new changes in cashier system, delinquent collections and reconciliation practices, new business applications, account updates - Limited Term
1244 - Sr. Personnel Analyst	\$69,961	\$139,922	Process hiring of new positions and other human resources functions - Limited Term
Total Salary¹	\$418,185	\$836,371	

¹ As noted below, the salaries and benefits for the requested 2.5 FTE of \$418,185 exceed the requested supplemental appropriation of \$371,145.

FISCAL IMPACT

The proposed supplemental appropriation ordinance (File 12-1195), which includes funding for the requested five new positions for FY 2012-13 (File 12-1197), including one permanent position and four limited term positions, would be funded from the City's General Fund Reserve. According to the Controller's Office, as of the writing of this report, the General Fund Reserve had a balance of \$32,162,000. If the total requested \$2,566,145 supplemental appropriation is approved, the resulting balance of the General Fund Reserve would be \$29,595,855.

As noted in Table 1 above, the total contract costs are an estimated \$12,000,000, including (a) \$3,000,000 over five years for the contract between the Treasurer/Tax Collector's Office and 21 X-Tech, and (b) \$9,000,000 over six years for the contract between the Treasurer/Tax Collector's Office and Manatron. As noted in Table 2 above, the annual salary and benefit costs for five new positions in FY 2013-14 are \$836,371, as compared to the subject request for six months funding of \$371,145 in FY 2012-13.

According to Ms. Marx, the costs for implementing the City's new Gross Receipts Tax are expected to be offset by additional revenues generated by the Gross Receipts Tax and business registration fees under 2012 Proposition E. According to the Controller, the City will receive approximately \$28.5 million in additional General Fund revenue beginning in FY 2013-14.

POLICY CONSIDERATION

The Proposed Supplemental Appropriation Ordinance (File 12-1195) Does Not Fully Fund the Proposed Annual Salary Ordinance Amendment (File 12-1197)

File 12-1197 would amend the City's ASO, to create five new positions, equal to 2.5 total FTEs in FY 2012-13 or 0.5 FTE per position with salary and mandatory fringe benefits totaling \$418,185, as shown in Table 2 above. However, for the positions to be 0.50 FTE, the new employees would have needed to be added to the payroll on January 1, 2013. Furthermore, the proposed supplemental appropriation ordinance only includes \$371,145 for salary and fringe benefits, which corresponds to approximately 0.44 FTE, or a start date of January 22, 2013. The earliest that the Board of Supervisors could approve these positions would be January 29, 2013.

According to Ms. Tajel Shah, Deputy Director of the Office of the Treasurer/ Tax Collector's Office the hiring process for the proposed positions is underway, with the Department having already issued position announcements and completed position tests. Therefore, if the Board of Supervisors approves both of the proposed ordinances, the Department would be in a position to fill the five positions relatively quickly.

However, in order to conform to the proposed hire date of the five new positions in late January or early February 2013, the Budget and Legislative Analyst recommends amending the ASO (File 12-1197), reducing each of the five positions from 0.5 FTE to 0.44 FTE on lines 19-23, and reducing the total FTEs from 2.5 FTEs to 2.2 FTEs on line 24 of the proposed ordinance.

Further, the proposed ordinance (File 12-1197) should be amended to specify that four positions – 0922 Manager I; 1053 Senior Business Analyst; 1064 Principal Programmer Analyst; and 1244 Senior Personnel Analyst – are limited term for no more than three years.

RECOMMENDATIONS

1. Amend File 12-1197, page 1, lines 19 through 23, to reduce the FTE for each position from 0.5 FTEs to 0.44 FTEs, and page 1, line 24, to reduce the FTE from 2.5 FTEs to 2.2 FTEs.
2. Amend File 12-1197, page 1, lines 19, 21, 22, and 23 to specify that the 0922 Manager I; 1053 Senior Business Analyst; 1064 Principal Programmer Analyst; and 1244 Senior Personnel Analyst are limited term for no more than three years.
3. Place \$195,000 of the requested \$2,566,145 on Budget and Finance Committee reserve, pending the receipt of the detailed work order budget between the Treasurer/Tax Collector's Office and the City Attorney's Office.
4. Because the voters of San Francisco approved Proposition P in 2012 to implement a new Gross Receipts Tax, including increased administrative costs, the Budget and Legislative Analyst recommends approval of File 12-1195 and File 12-1197 as amended.