

<b>Items 2 and 3</b> <b>Files 11-0960 and 11-0961</b>	<b>Department:</b> Controller
<b>EXECUTIVE SUMMARY</b>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• <u>File 11-0960</u>: The proposed resolution would authorize the Office of the Controller to examine Sales or Transactions and Use Tax records of the State Board of Equalization, pursuant to California Revenue and Taxation Code Section 7056.</li> <li>• <u>File 11-0961</u>: The proposed resolution would authorize MuniServices, LLC (MuniServices) to examine Sales or Transactions and Use Tax records of the State Board of Equalization on behalf of the City, pursuant to California Revenue and Taxation Code Section 7056.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• For more than ten years, the Controller’s Office has contracted with a private firm to provide State Board of Equalization Sales or Transactions and Use Tax audit, analysis, and database system services. The purpose of these services is (a) to ensure the City receives the correct amount of Sales or Transactions and Use Tax revenue due from the State and (b) to provide the City with a database that allows for analysis of Sales or Transactions and Use Tax revenues.</li> <li>• California Revenue and Taxation Code Section 7056 requires Board of Supervisors authorization before designated City officers and any third party contractors are permitted to access State Board of Equalization Sales or Transactions and Use Tax records. The two proposed resolutions would provide such authorizations.</li> <li>• Based on a competitive RFP process, the Controller awarded an agreement to MuniServices to provide Sales or Transactions and Use Tax audit, analysis, and database system services for the five-year period from July 1, 2011 through June 30, 2016. MuniServices previously provided these services under a five-year agreement with the City for the period from July 1, 2006 through June 30, 2011.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• Review of the sales or transaction and use tax records of the State Board of Equalization is estimated to generate \$2,777,778 in additional Sales or Transactions and Use Tax revenues for the City in excess of what the State would have otherwise remitted to the City over the next five fiscal years, at a total cost to the City of an estimated \$500,000 in service fees paid by the City to MuniServices. This total estimated \$500,000 cost is based on MuniServices receiving 18 percent of the total additional Sales or Transactions and Use Tax revenues recovered by MuniServices on behalf of the City.</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approve the proposed two resolutions.</li> </ul>	

## MANDATE STATEMENT AND BACKGROUND

### Mandate Statement

In accordance with California Revenue and Taxation Code Section 7056, Board of Supervisors approval is required to designate officers and employees to examine confidential Sales or Transactions and Use Tax records of the State Board of Equalization. Furthermore, under California Revenue and Taxation Code Section 7056, the City may designate any officer, employee, or any other person to examine all of the Sales or Transactions and Use tax records of the State Board of Equalization pertaining to Sales or Transactions and Use Taxes remitted to the City by the State Board of Equalization.

### Background

For more than ten years, the Controller's Office has contracted with private firms in order for such firms to provide audit, analysis, and database system services pertaining to Sales or Transactions and Use Tax records maintained by the State Board of Equalization. The purpose of these services is to ensure the City receives the correct amount of the Sales or Transactions and Use Tax revenue that is due to the City and to provide the City with a database that allows for analysis of Sales or Transactions and Use Tax revenues.

According to Ms. Michelle Allersma of the Budget and Analysis Division of the Controller's Office, the Controller uses a private firm for these services because (a) audit, and analysis, and database systems pertaining to the Sales or Transactions and Use Tax are specialized services that require detailed knowledge of State tax regulations and the auditing of Sales or Transactions and Use Tax records; (b) any errors made by the State Board of Equalization or Sales or Transactions and Use Tax permit holders need to be identified and addressed as quickly as possible, and the amount of work varies in response to the number of errors identified; and (c) two large private firms with extensive experience in Sales or Transactions and Use Tax practices, MuniServices, LLC and HdL and Associates, work with numerous California cities, counties, and special districts, providing those two firms with Statewide comparative information. Ms. Allersma adds that many large California jurisdictions contract for these services.

### *Competitive Selection Process*

On March 14, 2011, the Controller issued a Request for Proposals (RFP) in order to retain a consultant to provide Sales or Transactions and Use Tax audit, analysis, and database system services. The solicitation was reissued on April 22, 2011 when it was discovered that the original RFP included an error in the minimum qualifications paragraph. According to Mr. Richard Kurylo of the Controller's Office, the original paragraph stated,

“The Proposer certifies that it has submitted two (2) Prior Project Descriptions in accordance with RFP Attachment V, Section B, clearly demonstrating successful provision of (Sales or Transactions and Use Tax) auditing, forecasting and reporting to *at least five (5)* of the twenty largest counties in California within the last five (5) years of the date of this RFP.” (emphasis added)

The reissued RFP revised the minimum qualifications paragraph to state

“The Proposer certifies that it has submitted two (2) Prior Project Descriptions in accordance with RFP Attachment V, Section B, clearly demonstrating successful provision of (Sales or Transactions and Use Tax) auditing, forecasting and reporting to *two* (2) of the twenty largest counties in California within the last five (5) years of the date of this RFP.” (emphasis added)

The Controller received three proposals, and two of the proposers were deemed to be qualifying: MuniServices, LLC (MuniServices) and HdL and Associates. MuniServices is the Controller’s existing contractor for these services; HdL and Associates previously held the service agreement with the Controller from April 1, 2001 through December 31, 2006.

A three member scoring panel<sup>1</sup> initially evaluated the qualifying firms’ written proposals. Because the scoring of the written proposals was close (MuniServices received 80/100 points, HdL and Associates received 81/100 points), the review panel selected both firms to be interviewed. Based on the interviews of both firms, the review panel selected MuniServices, which received an oral interview score of 90/100 points, compared to HdL and Associates’ 78/100 points. A summary of the scoring for both the written proposals and interviews is shown in Table 1 below. Based on the interview scores, the Controller’s office has awarded an agreement to MuniServices, for the five year period from July 1, 2011 through June 30, 2016.

**Table 1: Scoring Summary of the Two Proposals**

<b>Written Proposal (Maximum Points)</b>	<b>Average Scores</b>	
	<b>HdL &amp; Associates</b>	<b>MuniServices</b>
Proposer / Partner Firm Qualifications (15 Points)	13.00	14.33
Proposed Staff Qualifications (25 Points)	18.67	20.00
Approach to Services (40 Points)	33.33	32.00
Cost Proposal (20 Points)	16.00	13.67
<b>Written Proposal Total</b>	<b>81.00</b>	<b>80.00</b>
<b>Oral Interview (Maximum Points)</b>	<b>HdL &amp; Associates</b>	<b>MuniServices</b>
Prior Project Experience (20 Points)	16.00	18.00
Firm Qualifications, Approach, Score (40 Points)	30.33	35.33
Query Demonstration (30 Points)	25.00	27.67
Proposer Wrap-up (5 Points)	3.33	4.67
Overall Presentation (5 Points)	3.33	4.33
<b>Oral Interview Total</b>	<b>78.00*</b>	<b>90.00</b>

\* Rounded.

The agreement between the City and MuniServices does not contain a Local Business Enterprise (LBE) component. According to Mr. Kurylo, the Controller’s Office was granted an LBE waiver by the Human Rights Commission because it has proven difficult for prime contractors to subcontract an appropriate and substantive portion of the service agreement to an LBE firm due to the specialized nature of the services.

<sup>1</sup> The three-member scoring panel consisted of one employee each from the Controller’s Office, the Treasurer and Tax Collector’s Office, and the Office of Economic and Workforce Development.

## DETAILS OF PROPOSED LEGISLATION

California Revenue and Taxation Code Section 7056 requires Board of Supervisors approval before designated City officers and any third party contractors are permitted to access Sales or Transactions and Use Tax records maintained by State Board of Equalization.

File 11-0960 would authorize the Office of the Controller to examine Sales or Transactions and Use Tax records of the State Board of Equalization pursuant to California Revenue and Taxation Code Section 7056.

File 11-0961 would authorize MuniServices to examine Sales or Transactions and Use Tax records maintained by the State Board of Equalization on behalf of the City, pursuant to California Revenue and Taxation Code Section 7056, for the duration of the agreement between the City and MuniServices, from July 1, 2011 through June 30, 2016. MuniServices is to determine whether or not the State Board of Equalization has allocated the correct amount of Sales or Transactions and Use Tax to San Francisco, under California Tax Revenue and Taxation Code Section 7056.

The proposed resolution (File 11-0961) does not approve the agreement itself between the Controller and MuniServices, but rather designates MuniServices as the City's authorized representative in Sales or Transactions and Use Tax Records Examinations, as required by the California Revenue and Taxation Code. The Controller has entered into a five-year agreement, from July 1, 2011 through June 30, 2016 with MuniServices, to provide the City with Sales or Transactions and Use Tax audit, analysis, and database system services pertaining to records maintained by the State Board of Equalization.

Regarding the proposed resolution (File 11-0961), California Revenue and Taxation Code Section 7056(b) requires that the Board of Supervisors certify that MuniServices has an existing agreement with the City to examine Sales or Transactions and Use Tax records, and that the agreement meet the following conditions:

- (1) MuniServices is required by the agreement to disclose information contained in, or derived from, those Sales or Transactions and Use Tax records only to an officer or employee of the City who is authorized by the City to examine such information;
- (2) MuniServices is prohibited by the agreement from performing consulting services for a retailer during the term of the agreement; and,
- (3) MuniServices is prohibited by the agreement from retaining information contained in, or derived from, those Sales or Transactions and Use Tax records after the agreement has expired.

According to Deputy City Attorney Ms. Rosa Sanchez, the above conditions, as required by California Revenue and Taxation Code Section 7056(b), are part of the agreement.

## FISCAL IMPACTS

File 11-0960, which authorizes the Office of the Controller to examine Sales or Transactions and Use Tax records of the State Board of Equalization pursuant to California Revenue and Taxation Code Section 7056, does not have fiscal impact to the City. Under File 11-0961, per the agreement between MuniServices and the Controller, the Controller's Office would pay a fee to MuniServices based on 18 percent of the total additional Sales or Transactions and Use Tax revenues realized by the City in excess of the amount of the Sales or Transactions and Use Tax amount which would have otherwise been allocated by the State Board of Equalization to the City and County of San Francisco. According to Ms. Allersma, this additional Sales or Transactions and Use Tax revenue to be realized by the City are estimated, based on historical data, to total \$2,777,778 over the five-year term of the MuniServices agreement, resulting in total estimated payments to MuniServices of \$500,000 over five years, or an average of \$100,000 per year. As noted above, this agreement itself, which is estimated to cost the City a total of \$500,000 over five years, is not subject to Board of Supervisors approval.

In response to the RFP, MuniServices initially proposed a fee amount of 20 percent of the total additional Sales or Transactions and Use Tax revenues to be recovered by MuniServices on behalf of the City.<sup>2</sup> This 20 percent fee amount is the same percentage as the previous five-year agreement between MuniServices and the City that extended from July 1, 2006 to June 30, 2011. After MuniServices was selected as the winning proposal, the Controller and MuniServices negotiated a reduced fee of 18 percent of the total additional Sales or Transactions and Use Tax revenues to be recovered by MuniServices on behalf of the City.

## RECOMMENDATION

Approve the two proposed resolutions.

---

<sup>2</sup> According to Mr. Kurylo, the other qualifying respondent to the RFP, HdL & Associates, proposed a 15 percent fee. As is noted in Table 1 above, the cost proposal comprised only 20 percent of the scoring of the written proposal.