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**PALO
ALTO**

City Council Staff Report

From: City Manager

Report Type: CONSENT CALENDAR

Lead Department: Administrative Services

Meeting Date: June 19, 2023

Report #:2304-1337

TITLE

Approval of Contract No. C23187298A with MuniServices, LLC for Tax and Fee Consulting Services in a Total Not-To-Exceed Amount of \$1,161,550 Over a Five-Year Term and Contract No. C23187298B with HdL Coren & Cone for Property Tax Consulting Services in a Total Not-To-Exceed Amount of \$111,800 Over a Five-Year Term; CEQA Status – Not a Project

RECOMMENDATION

Staff recommends that the City Council:

1. Approve and authorize the City Manager or his designee to execute the attached contract with MuniServices, LLC (Attachment A, Contract No. C23187298A) in an amount not-to-exceed \$1,161,550 for tax and fee program administration, fee payment collection and reporting services over a five-year term,
2. Approve and authorize the City Manager or his designee to execute the attached contract with HdL Coren and Cone (Attachment B, Contract No. C23187298B) in an amount not-to-exceed \$111,800 for property tax analysis and reporting services over a five-year term.

EXECUTIVE SUMMARY

A Request for Proposal (RFP) for tax and fee consulting services was issued in Spring 2023. The RFP solicited proposals for support administration, reporting, and auditing of certain taxes and to also implement the City's new Business Tax (BT), as passed by the voters in November 2022. Staff received proposals from three consulting firms for the following services:

1. Sales tax analysis, information, and reporting services
2. Administration, reporting, and audit services for:
 - a. Business Tax (BT)
 - b. Business Registry Certificate Program (BRC)
 - c. Business Improvement District fees (BID)
 - d. Transient Occupancy Tax (TOT)

- e. Telephone Users Tax (TUT)
- 3. Property tax analysis, information, and reporting services

The three proposals were evaluated based on criteria outlined in the RFP. Staff recommends awarding services to two of the three consulting firms that submitted proposals: MuniServices, LLC for services described in one and two listed above. Staff recommends awarding property tax analysis to HdL Coren & Cone (HdL CC) (task three listed above).

Completion and recommended selection of consulting resources to administer the new Business Tax was a key variable in determining staffing resource needs to administer this new revenue. With the completion and recommended selection of a service provider, staff also recommends approval of funding for the equivalent of two positions (2.0 FTE) to support the administration of the new tax in collaboration with the consulting support. Resources to fund consulting services and internal staff resources are included in the June 19, 2023 City Manager Report, Adoption of the FY 2024 Operating and Capital Budgets staff report (CMR 2303-1162).

BACKGROUND

MuniServices is the current consultant for sales and use tax audit and information services and BRC, BID, TOT and TUT administration, report, and audit services. The firm was selected based on a competitive solicitation process conducted in 2019 and agreements were approved by Council on December 2, 2019¹. The existing contract with MuniServices expires December 2, 2024, however staff issued the RFP in advance acknowledging implementation of the BT will begin summer 2023 for the first collection in January 2024.

Property tax analysis and reporting services is currently performed by HdL CC, who was the only firm to submit a proposal for these services. The initial contract with HdL CC began in 2019 and was recently extended² to continue services during the timeframe the RFP was issued. HdL CC has provided valuable information and insight beyond reports provided by the County that assists staff with forecasting property tax and documentary transfer tax revenues.

Below are brief descriptions of the analysis, reporting, and tax administrative services provided:

Sales and Use Tax Analysis, Information, and Reporting Services: Quarterly sales and use tax reports from the City's sales tax consultant provide revenue projections that are used regular revenue monitoring activities, the City's Long Range Financial Forecast (LRFF), and in the City's annual budget process. Briefings and analysis from the sales tax consultant include information from the California Department of Tax and Fee Administration (CDTFA), the state agency that administers sales and use tax, of sales and use tax revenue performance; top revenue producers by economic segment and/or geographical area; trend analysis; revenue projections;

¹ City Council, December 2, 2019, Item #4: <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/year-archive/2019/10493.pdf?t=61629.45>

² City Council, April 10, 2023, Item #6: <https://portal.laserfiche.com/Portal/DocView.aspx?repo=r-704298fc&id=65895>

identification of major businesses that influence change in the City's tax revenue; and an analysis of potential growth or decline shifts in local, state, and national economy; and legislature related to sales and use tax. In addition, sales and use tax audit and discovery efforts are included in this package of services; approximately \$0.5 million in sales tax revenue has been recovered since 2019.

Tax and Fee Administration, Reporting and Audit Services (BT, BRC, BID, TOT, and TUT): These services assist with streamline the administration and collection of taxes and assessment fees. Collection, reporting, and payment remittance for these taxes and fees are done online through the City's website. This contract includes audit and discovery to achieve improved assurance that these taxes and fees are accurate and complete. The scope, work plan, and fees for these services, which includes up front costs for configuration and roll out of the new BT, can be found in the attached draft contract.

Property Tax Analysis, Information, and Reporting Services: Information provided by the City's property tax consultant is used with data provided by the County of Santa Clara to provide insight into real estate activity occurring in the City. Additional informational reports can be provided on an ad hoc basis to support special projects or requests. Examples of such reporting needs include parcel tax or general obligation (GO) bond modeling; LRFF development; the annual budget process; and other special projects in the Treasury, Debt, and Investments Division. Parcel information used for the BT is a recent example of a special project.

ANALYSIS

Procurement Process

An RFP was issued on February 9, 2023 for tax and fee consulting services and was structured to allow award to multiple firms. Proposals were due by March 2nd and the City received three proposals. Table 1 outlines a summary of the RFP process:

Table #1: Summary of Request for Proposal³	
Proposal Description	Tax and Fee Consulting Services (RFP #187298)
Proposed Length of Project	Ongoing
Number of Vendors Notified	1,485
Number of Proposal Packages Downloaded	12
Total Days to Respond to Proposal	22 calendar days
Pre-Proposal Meeting	None
Number of Proposals Received	Three

³ Tax and Fee Consulting Services Request for Proposal posted on PlanetBids:
<https://pbsystem.planetbids.com/portal/25569/bo/bo-detail/102065>

Table #1: Summary of Request for Proposal³

Proposal Price Range	\$111,800 to \$1,292,300
Public Link to Solicitation	https://pbsystem.planetbids.com/portal/25569/bo/bo-detail/102065 ⁴

A committee was formed that included staff from the Treasury Division and Revenue Collections Divisions in ASD, the Information Technology Department and the City Manager's Office to evaluate the three proposals submitted to the City, based on criteria outlined in the RFP. Proposals were first evaluated and then an interview and demonstration of each firm's platform was conducted. The heaviest weighed criteria were quality of the proposal, effectiveness of services and website portal, and firm experience. Based on the evaluation committee review, MuniServices and HdL CC were selected. Both MuniServices and HdL CC were the firms who submitted the lowest cost proposals for the services offered by the firm.

Table 2 compares fees for the new contract and previous contract with MuniServices; changes are noted in bold/italic. The new five-year contract with Avenu totals \$1,161,550 (includes \$50,000 of additional services), a \$461,550 increase compared to the previous contract, driven primarily by fees for collection and administration of the business tax. The one-time set up fee for the business tax is \$30,000. Ongoing costs will be an annual flat fee of \$10,000, with a \$13 per participant annual fee (increased annually by CPI). The per participant cost over five years totals \$668,050, which ranges between \$120,000 and \$147,000 annually, assuming the maximum 5% CPI adjustment. Estimated generated revenue for the business tax assumed 1,210 commercial properties in the City. There are approximately 1,600 businesses in the BRC and approximately 7,000 sales tax payors. The annual participant cost was calculated assuming 9,300 business tax and fee participants within the City (25% above the number of sales tax payors) to account for business that are subject to the business tax but do not pay sales tax. This count of businesses will be refined after the first year of collection.

Table #2: MuniServices Comparison of Previous and New Contract

TAX AREA	SERVICE	PREVIOUS	NEW
BUSINESS TAX & FEES	Collection & Administration	\$12/initial registry; \$3.75 filing per transaction	<i>BT Set-up fee: \$30,000</i> <i>Annual flat fee: \$10,000</i> <i>Annual \$13/participant fee</i>
	Discovery and Audit (if City elects)	Discovery: 35% contingency; if City decides to waive collection, MuniServices shall be entitled to ½ of the fee for the waived portion of the deficiency.	Discovery: Minimum annual fee: \$7,500 35% contingency <i>Audit: \$100/hour</i>

⁴ PlanetBids, RFP 187298 – Tax and Fee Consulting Services:

<https://pbsystem.planetbids.com/portal/25569/bo/bo-detail/102065>

SALES & USE TAX	Reporting Services	\$4,000 annually	\$4,000 annually
	Audit & Discovery	15% contingency	15% contingency
TOT	Collection & Administration	\$150/lodging property annually; One-time set up: \$2,500	\$150/lodging property annually
	Audit	Analysis phases total \$54,000; 30% contingency fee, with on-site auditing services	Analysis phases total \$40,000
TUT	Collection & Administration	\$2.95 filing per transaction One-time set up: \$1,000	\$2.95 filing per transaction
	Compliance	30% contingency fee	30% contingency fee

Staff Resources

Modifying the BRC portal for the business tax is planned for summer 2023, in anticipation that the portal will be available for taxpayers to register in fall 2023. The implementation calendar can be found on the City's website⁵. Collection and administration of the business tax portal will be done by MuniServices, however staff resources are required to manage the program. These functions include overseeing collection, reporting, and auditing functions performed by the consultant; in-house tax administrator support (as defined by the business tax ordinance); tax analysis and review beyond the consultant's scope of work; and customer service and support for the City's business community. Staff recommends the addition of one full-time Management Analyst position and one full-time Accounting Specialist (approximately \$186,000 and \$124,000 ongoing salary and benefit costs, respectively), totaling \$310,000. Staff recommends that the salary and benefit costs totaling \$232,500 be added to the FY 2024 Adopted Budget. A formal action to adjust the Table of Organization will be forth coming in a future budget process as staff continue to assess needs through the implementation process versus ongoing administration. Adjustments to the FY 2024 budget for staff resources is included the budget adoption staff report, presented to City Council on June 19, 2023 (CMR 2303-1162).

FISCAL/RESOURCE IMPACT

During the development of the business tax, preliminary administrative cost estimates ranged between \$0.5 million to \$1.0 million. As noted in the FY 2024 Proposed Operating Budget

⁵ www.cityofpaloalto.org/business-tax

Transmittal Letter, Attachment C⁶, recommended resources were reviewed and staff presents both revenues and resource needs via this report. The attached contract with MuniServices results in economies of scale from integrating three programs (business registry, business improvement district, and business tax) into one platform.

The cost to implement and begin collection of the business tax is estimated at \$409,400 (\$176,900 in consultant costs and \$232,500 in staff costs). These administrative costs are partially offset by \$50,000 already included in ASD's budget for BRC collection and administration; the net total appropriation is \$359,400. Business tax revenue, net of administrative expense, will be allocated each year as part of the City Council's annual budgeting process, per the Advisory Spending Guidelines for Business Tax Proceeds that were adopted by Council on August 22, 2022⁷.

The remainder of the consultant services (sales tax, TOT, TUT, and property tax services) are included in the ASD budget.

Staff recommends adding two full time positions to support the business tax program, totaling \$310,000 in estimated ongoing costs. The \$232,500 net appropriation assumes approximately three months recruitment time. In FY 2024 overstrength staff will be funded through this recommended action. Staffing adjustments to the Table of Organization will be formalized as part of the budget process.

STAKEHOLDER ENGAGEMENT

Staff worked closely with staff from ASD and the City Manager's Office to evaluate and select the two firms and recommended contract award for these services.

ENVIRONMENTAL REVIEW

This activity is not a project under California Environmental Quality Act (CEQA) as defined in CEQA Guidelines, section 15378(b)(4) (government fiscal activities which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment).

ATTACHMENTS

Attachment A: Contract No. C23187298A with MuniServices, LLC for Tax and Fee Consulting Services

⁶ City of Palo Alto FY 2024 Proposed Operating Budget, p. XXXIV:

https://www.cityofpaloalto.org/files/assets/public/administrative-services/city-budgets/fy-2024-city-budget/proposed/city-of-palo-alto-proposed-operating-budget_final.pdf#page=35

⁷ City Council, August 22, 2022, Item #AA1: <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/agendas-minutes/city-council-agendas-minutes/2022/20220822/20220822pccsm-amended-redacted-linked.pdf#page=313>

Attachment B: Contract No. C23187298B with HdL Coren & Cone for Property Tax Consulting Services

APPROVED BY:

Kiely Nose, Assistant City Manager