



CITY OF SACRAMENTO

DEPARTMENT OF FINANCE

BUDGET DIVISION

February 19, 1986
FA:86084:JRC:KMF

Budget and Finance Committee
Sacramento, California

Honorable Members in Session:

SUBJECT: City Sales Tax Audit

SUMMARY

The City Finance Department recommends approval of a consultant services agreement with Municipal Resource Consultants (MRC) which is currently being prepared by the City Attorney's Office to perform sales tax consulting services to the City of Sacramento. Approval of the attached resolutions (2) is also recommended. The first resolution authorizes the City Manager to execute an agreement with Municipal Resource Consultants. The second resolution appoints Municipal Resource Consultants as the City's authorized representative to examine State Sales and Use Tax records of the Board of Equalization.

Respectfully submitted,

JACK R. CRIST
Director of Finance

RECOMMENDATION APPROVED:

SOLON WISHAM, JR.
Assistant City Manager

All Districts
February 25, 1986



CITY OF SACRAMENTO

DEPARTMENT OF FINANCE

BUDGET DIVISION

February 19, 1986
FA:86084:JRC:KMF

City Council
Sacramento, California

Honorable Members in Session:

SUBJECT: City Sales Tax Audit

SUMMARY

The City Finance Department recommends approval of a consultant services agreement with Municipal Resource Consultants (MRC) to perform sales tax consulting services to the City of Sacramento. Approval of the attached resolutions (2) are recommended.

BACKGROUND

Sales Tax revenue to the City of Sacramento in fiscal year 1985-86 is estimated to be \$29.5 million. This represents the City General Fund's largest single source of revenue or about 14.2% of total General Fund revenue. City Sales and Use Tax is based on a proportional one percent tax rate applied to all taxable sales within the City limits. The remaining portion of the 6 percent tax rate is divided between the State (4-3/4 percent) and the County Transportation Fund (1/4 percent). The major exemptions from the tax include food purchased for home consumption and services. The local Sales Tax is administered and collected by the State Board of Equalization and is authorized by the State Revenue and Taxation Code Sec. 6001 - 9273.

City staff has recently become aware of the consulting firm of Municipal Resource Consultants. This firm is unique in California in that they are experts in State Sales Tax who perform "Point of Distribution" audits. These audits assure that Sales Taxes are properly allocated within the County. The firm also assists the City staff by providing computer generated Sales Tax information. Municipal Resource Consultants have provided this unique service to other California cities such as Long Beach, Riverside, San Jose, Santa Ana, San Mateo and Bakersfield. They

consistently receive high marks from these other cities in terms of professionalism and results. In Long Beach, for example, annual Sales Tax revenues increased approximately \$500,000 as a result of the MRC services. Comparable figures in other cities were San Jose \$600,000, Santa Ana \$400,000 and San Mateo \$250,000. The MRC audit scope would encompass all City businesses and would thus be comprehensive in nature. Further, City staff (Internal Auditor) would also be involved so that on-going audit procedures can be established.,

FINANCIAL

MRC proposes to provide the services outlined in the attached proposal for a flat fee of \$17,000 for the first year sales tax information system plus 25% of any additional Sales Tax revenue obtained for the City. The 25% applies to any back quarters and the first four consecutive reporting quarters following completion of the MRC audit (and confirmation by the State). Below is a sample fee assuming \$400,000 in additional annual revenue.

1. Sales Tax Audit Fee:

Estimated Annual Additional Sales Tax	\$400,000
Income Rate	x 25%

\$100,000

2. Sales Tax Information System

17,000

Total Fee to MRC

\$117,000

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A consultant fee cap of \$250,000 is incorporated in the proposed agreement. If approved by the City Council, the estimated expenditures and related revenue would be included in the 1986-87 City Budget.

RECOMMENDATION

That the following two resolutions be approved by the City Council. The first resolution authorizes the City Manager to execute an agreement (currently being prepared by the City Attorney's office). The second resolution appoints Municipal Resource Consultant as the City's authorized representative to examine State Sales and Use Tax records of the Board of Equalization.

Respectfully submitted,



JACK R. CRIST

Director of Finance

RECOMMENDATION APPROVED:

WALTER J. SLIPE
City Manager

RESOLUTION NO.

ADOPTED BY THE SACRAMENTO CITY COUNCIL ON DATE OF

RESOLUTION OF THE CITY OF SACRAMENTO AUTHORIZING EXECUTION OF AN AGREEMENT WITH MUNICIAPL RESOURCE CONSULTANTS (MRC)

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SACRAMENTO, that the City Manager is hereby authorized to execute an agreement (incorporated herein by reference) with Municipal Resource Consultants (MRC) to provide Sales Tax Audit and Information Services.

MAYOR

ATTEST:

CITY CLERK

RESOLUTION NO.

ADOPTED BY THE SACRAMENTO CITY COUNCIL ON DATE OF

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SACRAMENTO DESIGNATING A CITY CONSULTANT AS THE AUTHORIZED CITY REPRESENTATIVE TO EXAMINE SALES AND USE TAX RECORDS

A. RECITALS.

(i) Pursuant to California Revenue and Taxation Code Section 7200, et seq., the City of Sacramento has adopted a sales and use tax ordinance which imposes a tax and provides a measure therefore that can be administered and collected by the State Board of Equalization along the same and existing statutory and administrative procedures followed by the State Board of Equalization in administering and collecting the California State Sales and Use Taxes.

(ii) Pursuant to California Revenue and Taxation Code Section 7056, the City of Sacramento, by resolution, may designate any officer, employee or any other person to examine all of the sales and use tax records of the Board pertaining to sales and use taxes collected for the City.

(iii) The City of Sacramento has entered into an agreement for sales tax audit and information services with the firm of Municipal Resource Consultant, a partnership of John Austin and Allen Charkow, to designate John Austin and Allen Charkow of Municipal Resources Consultant as authorized City representatives to examine such sales tax records maintained by the Board on behalf of the City of Sacramento.

(iv) All legal prerequisites prior to the adoption of this Resolution has occurred.

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SACRAMENTO, as follows:

Section 1

In all respects as set forth in the Recitals, Part A of this Resolution.

Section 2

The City Council of the City of Sacramento hereby certified to the State Board of Equalization that John Austin and Allen Charkow of Municipal Resource Consultants are the designated representatives of the City of Sacramento to examine all of the sales and use tax records of the Board pertaining to sales and use taxes collected by the Board on behalf of the City of Sacramento.

Section 3

Pursuant to California Revenue and Taxation Section 7056(b), this Council hereby certifies that Municipal Resource Consultants, a partnership of John Austin and Allen Charkow (hereinafter referred to as "Consultant") meets all of the following conditions:

- a. Consultant has an existing contract with the City to examine sales tax records;
- b. Consultant is required by that contract to disclose information contained in, or derived from, those sales tax records only to an officer or employee of the City who is authorized by resolution to examine the information;
- c. Consultant is prohibited by the contract from performing consulting services for a retailer during the term of the contract; and,
- d. Consultant is prohibited by the contract from retaining the information contained in, or derived from, those sales tax records after the contracts have expired.

Section 4

The City Clerk shall certify to the adoption of this Resolution.

Approved and Adopted this ____ day of _____, 1986.

MAYOR

ATTEST:

CITY CLERK

MUNICIPAL RESOURCE CONSULTANTS

..... Sales Tax Specialists

32107 W. Lindero Canyon Rd.
Suite 121
Westlake Village, CA 91361
(818) 991-5220

1533 W. Locust Ave.
Fresno, CA 93711

September 9, 1985

Mr. Jack R. Crist
Director of Finance
City of Sacramento
915 I Street, #112
Sacramento, CA 95814

Dear Mr. Crist:

Pursuant to our recent conversation, Municipal Resource Consultants (MRC) is pleased to submit the accompanying proposal to provide sales tax services to the City of Sacramento.

The proposed service is designed to provide the City with essential information for monitoring, analyzing and forecasting its sales tax income plus a sales tax audit for realizing additional income many times greater than the amount invested for our service.

Much of the taskwork to develop the Sales Tax Analysis and Reporting System (STARS) reports for the Sales Tax Information phase is common to that required to conduct our Sales Tax Audit. Accordingly, our fee structure reflects that saving by reducing the contingency incentive fee for the Sales Tax Audit to 25% of the recovered revenue for the first 4 quarters, should the City decide to have MRC provide the Sales Tax Information phase of the service for at least one year.

Our fee for providing the Sales Tax Audit exclusive of the Sales Tax Information is 35% of the recovered revenue for the first 6 quarters.

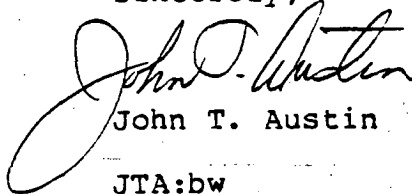
Mr. Jack R. Crist
City of Sacramento
September 9, 1985
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As the qualifications attached to our proposal indicate, MRC has established a reputation as the undisputed leader in providing sales tax services to California municipalities, based on a proven track record of consistently impressive results.

The uniqueness of our service and significant results achieved are directly attributable to our employing proprietary techniques borne out of 15 years' experience.

Allen Charkow and I thank you for considering MRC for this important assignment and look forward to the prospect of undertaking it in the near future.

Sincerely,



John T. Austin

JTA:bw

Enclosure

MUNICIPAL RESOURCE CONSULTANTS

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September 9, 1985

Mr. Jack R. Crist
Director of Finance
City of Sacramento
915 I Street, #112
Sacramento, CA 95814

Dear Mr. Crist:

Municipal Resource Consultants (MRC) hereby proposes to provide a professional service to the City of Sacramento. The objectives, scope of service, output, timing and charges are set forth as follows:

1. FOREWORD

The City of Sacramento, together with most of the other cities in California, has been materially affected in recent years by Proposition 13, the recessionary economy and the State and Federal cutbacks. With few prospects for new revenue sources, it is vitally important that cities maximize existing sources of revenue. Clearly, these fiscal changes have made sales tax the most important revenue source for almost all California cities. For example, 1983-84 sales tax revenue for the City of Sacramento comprised approximately 25% of total General Fund revenue (per Annual Report of Financial Transactions, State of California, 1983-84).

Sales tax revenue has generally been taken for granted with cities simply accepting payments from the State without question. The complex reporting format and distribution process are largely responsible for this condition.

Today it is essential that the City know more about who produces its sales tax income and how to forecast its growth or shortfall in future years. It is also essential that the sales tax resource be audited to determine whether the City is receiving all of the sales tax income to which it is entitled.

Mr. Jack R. Crist
City of Sacramento
September 9, 1985
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2. OBJECTIVES

Accordingly, we propose to provide a Sales Tax Information, Audit and Corollary Consulting service designed to achieve the following objectives:

Sales Tax Information

Computerize the City's sales tax data utilizing MRC's Sales Tax Analysis & Reporting System (STARS) to readily facilitate the City's monitoring, analysis and forecasting of its sales tax revenue.

Sales Tax Audit

Conduct an initial and ongoing sales tax audit in order to identify and correct point of sale distribution errors and thereby generate new sales tax income for the City. It should be emphasized that MRC's proposed sales tax audit encompasses all City businesses and not just the major firms.

Corollary Consulting

As an outgrowth of our sales tax information and audit services, we will be able to identify additional opportunities for the City and/or MRC to enhance the City's revenue base in areas such as sales tax, property tax, business license tax, transient occupancy tax, utility tax and defined economic development goals.

3. SCOPE OF SERVICE

The scope of our proposed service includes, but is not limited to, performing the following tasks:

Sales Tax Information

- o Procure a computer tape of sales tax permit records from the State Board of Equalization (only the City can order this tape which costs about \$500).
- o Establish master file in STARS from tape data provided in previous task.
- o Input data from sales tax distribution reports provided by State Board of Equalization for most recent 5 consecutive quarters.
- o Prepare and submit initial set of reports for the City.
- o Receive and process registration control record information monthly.
- o Receive and process sales tax distribution reports quarterly.
- o Prepare and submit STARS reports on a quarterly basis principally focusing on the major sales tax producers. Major sales tax producers are defined as those businesses meeting or exceeding a specified quarterly revenue threshold and comprising in aggregate 80% or more of the sales tax revenue generated from businesses located in the City.

All major sales tax producers and business categories are monitored and analyzed quarterly based on reports to include the following:

- Major (and Top 100) Sales Tax Producers. Ranks in descending order according to level of sales tax produced.
- Business Classification. Groups and ranks major producers by business classification according to level of sales tax produced.
- Comparison Report. Compares City with other jurisdictions (based on published information) according to business category, performance and trends. City can select specific jurisdictions for comparison.

Mr. Jack R. Crist
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September 9, 1985
Page 4

- Sales Tax Trend Reports. Indicates growth and decline comparisons by category:
 - . By business category by amount
 - . By business category, by relative percentage to total
 - . Change indicator by category, by amount, by percentage
- Projections. For budgetary purposes, provides sales tax projections based on optimistic, pessimistic and most likely economic conditions for major business categories.
- Executive Summary. Based on our analysis and evaluation of the STARS reports and other data, our quarterly report is to include an Executive Summary, which presents our findings, conclusions and recommendations in a condensed format.

Sales Tax Audit

- o Develop a target list of potential point of sale distribution errors based on a review of each business in the City of Sacramento using guidelines established by MRC, formulated through expert knowledge of corporate mergers and acquisitions, sales vs. use tax, business marketing organization and methods, commercial sales tax reporting practices, and other conditions contributing to reporting errors.
- o Contact each target business to determine whether a point of sale distribution error exists.

Note: This is accomplished with the highest regard to discretion and professional conduct, as evidenced by the fact that MRC's sales tax audits have involved more than 40,000 direct contacts with taxpayer businesses without a single complaint. Our sales tax audits are predicated on a constructive public relations approach which emphasizes the importance of each business to the City and the mutual benefits of correcting reporting errors.

- o Provide to the City, for submission to the local office of the State Board of Equalization, reports addressing each point of sale distribution error individually, including the business name, address, telephone number, California sales tax permit number, individuals contacted, date(s) of contact, nature of business, reason(s) for error, recommended corrective procedure and, if available, estimated sales tax income which should be forthcoming to the City of Sacramento. This report is accompanied by our suggested language for letters to be sent to the taxpayers directly from the City urging cooperation in promptly correcting the distribution error.
- o Coordinate with the taxpayer and State Board of Equalization to make the necessary corrections and collect backquarters amounts.
- o On a quarterly basis, monitor and analyze STARS reports with audit focus on the following:
 - Those accounts with previously reported point of sale distribution errors to ensure that the corrections are made for current quarters and all eligible backquarters.
 - Those major accounts comprising approximately 80% of the City's total sales tax revenue to identify any irregularities (e.g., funds transfers, significant increases, decreases, etc.) and ensure that the City is not getting less than it is entitled.
 - Those accounts having a use tax designation to ascertain why the tax is being classified as use tax rather than sales tax.

Corollary Consulting

- o Make specific recommendations (for City staff and/or MRC) to further enhance the City's revenue base in areas such as sales tax, property tax, business license tax, transient occupancy tax, utility tax and defined economic development goals.
- o Provide City employees with post audit sales tax orientation:
 - Conduct technical seminar on California's local sales tax distribution process.
 - Train staff in the fundamentals of sales tax auditing should the City desire to assume responsibility for future maintenance of local retail accounts internally.
- o Analyze list of City's major sales tax producers in order to assist the City in developing a public relations program to prevent the loss of these important businesses.
- o Profile for Economic Development/Community Redevelopment and Chamber of Commerce personnel the most economically desirable/undesirable types of developments/business users and the reasons why.
- o Provide a list of businesses located in the City that are not presently producing sales tax to the City of Sacramento, but could be through constructive changes in marketing procedures.
- o If economics warrant, recommend a program be implemented to capture the 1% sales tax on City purchases from vendors reporting as use tax and/or having non-city points of sales.
- o Assist in defining specific geographic areas for which the City would have an interest in knowing the sales tax produced (e.g., within Community Redevelopment Agency boundaries).

4. TIMING

We are prepared to commence the proposed service immediately upon receipt of the following:

- o City Council contract authorization and resolution designating MRC as the authorized City contractor to examine sales and use tax records (see Exhibit B);
- o Updated computer tape of sales tax permit records ordered by City from State Board of Equalization to ensure that all current sales tax permits are properly recorded; and
- o State Board of Equalization quarterly distribution reports for most recent five (5) consecutive quarters.

Sales Tax Information. The initial STARS reports are to be provided to the City within forty-five (45) working days following receipt of the above and for each quarter thereafter, within thirty (30) working days following receipt of the quarterly distribution report.

Sales Tax Audit. The initial report identifying point of sale distribution errors is normally provided sixty (60) working days following receipt of the above.

Corollary Consulting. Any time after delivery of the initial STARS reports and/or completion of the Sales Tax Audit.

5. QUALIFICATIONS

Municipal Resource Consultants (MRC) specializes in providing sales, use, excise and property tax consulting services to California municipalities. Each service provided is designed to produce an economic return that is many times greater than the amount invested for the service.

As the qualifications attached under Exhibit A indicate, MRC has specialized in conducting sales tax audits for California municipalities since 1978. During that time, we have succeeded in generating more than \$5 million annually in new revenue for the clients we have served. The uniqueness of our service and significant results achieved are directly attributable to our employing proprietary techniques borne out of the principals' combined 22 years of experience.

MRC's proposed service is to be provided by its principals, John Austin and Allen Charkow.

6. PERIOD COVERED & CHARGES

Our fee for the proposed service provides for a flat amount for the Sales Tax Information and Corollary Consulting segments of the service plus an incentive or contingent fee for the Sales Tax Audit, further described as follows:

Sales Tax Information & Collateral Consulting

MRC is to provide the proposed Sales Tax Information and Corollary Consulting segments of the service for a flat fee of \$17,000 for the first year, payable in four equal quarterly installments of \$4,250 each. Invoices are to be submitted together with our quarterly reports and are due and payable upon receipt.

Sales Tax Audit

MRC's fee for the proposed Sales Tax Audit is entirely predicated and contingent upon MRC's ability to produce new sales tax income for the City. MRC's total fee for the Sales Tax Audit is twenty-five percent (25%) of new sales tax income realized by the City as a result of MRC identifying and correcting the related point of sale distribution error. Said 25% applies to each correction for any backquarters fund transfers and the first four consecutive reporting quarters following completion of the audit by MRC and confirmation of corrections by the State Board of Equalization.

Sales Tax Audit invoices are submitted quarterly after the City has received the revenue from the correction and quarterly distribution report confirming it. Each invoice is to include the business name, permit number, local allocation amount received by the City and amount due MRC.

It should be emphasized that under our flat fee and contingency fee arrangements all expenses are absorbed by MRC. These expenses include items such as travel, meals, lodging, keypunching, computer processing, clerical, communications (e.g., personal meetings, telephone, mail, etc.) photocopying, overhead and miscellaneous out of pockets for consumable supplies and research materials such as maps, directories, etc.

7. CERTIFICATION OF CONFIDENTIALITY

Section 7056 of the State of California Revenue and Taxation code specifically limits the disclosure of confidential taxpayer information contained in the records of the State Board of Equalization. This section specifies the conditions under which a City may authorize persons other than City officers and employees to examine State Sales and Use Tax records (see sample resolution attached as Exhibit B).

The following conditions specified in Section 7056 (b),(1) of the State of California Revenue and Taxation Code are hereby made part of this contractual agreement entered into between the City of Sacramento and Municipal Resource Consultants (Contractor).

A. Contractor is authorized by this agreement to examine sales and use tax records of the Board of Equalization provided to City pursuant to contract under the Bradley-Burns Uniform Sales and Use Tax Law.

B. Contractor is required to disclose information contained in, or derived from, those sales and use tax records only to an officer or employee of the City who is authorized by resolution to examine the information.

C. Contractor is prohibited from performing consulting services for a retailer during the term of this agreement.

D. Contractor is prohibited from retaining the information contained in, or derived from, those sales and use tax records, after this agreement has expired.

Information obtained by examination of Board records shall be used only for purposes related to collection of local sales and use tax or for other governmental functions of the City as set forth by resolution adopted pursuant to Section 7056 (b) of the Revenue and Taxation Code. The resolution shall designate the Contractor as a person authorized to examine sales and use tax records and certify that this agreement meets the requirements set forth above and in Section 7056 (b),(1) of the Revenue and Taxation Code.

Contractor hereby certifies that any and all information utilized in the conduct of work performed is to be utilized only for those purposes authorized by the City and by the Bradley-Burns Uniform Local Sales and Use Tax Law.

Mr. Jack R. Crist
City of Sacramento
September 9, 1985
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8. CONCLUSION

The proposed service is designed to provide the City with the essential Sales Tax Information for monitoring, analyzing and forecasting its sales tax revenue and Sales Tax Audit for realizing additional revenue many times greater than the amount invested for our service.

Should you have any questions regarding the proposed services or our charges, we are prepared to respond promptly.

Should the City decide to use this proposal as the contract or contract attachment, please indicate acceptance by noting the services desired and returning an executed copy to my attention. The original is for your records.

	<u>YES</u>	<u>NO</u>
Sales Tax Information and Corollary Consulting	_____	_____
Sales Tax Audit	_____	_____

ACCEPTED FOR
CITY OF SACRAMENTO

By: _____

Title: _____

Date: _____

ACCEPTED FOR
MUNICIPAL RESOURCE CONSULTANTS

By: John T. Austin
John T. Austin

Title: _____

Date: September 9, 1985

MUNICIPAL RESOURCE CONSULTANTS
QUALIFICATIONS, STAFFING & REFERENCES

GENERAL QUALIFICATIONS

Municipal Resource Consultants (MRC) specializes in providing sales, use, excise and property tax consulting services to California municipalities. Each service provided is designed to produce an economic return that is many times greater than the amount invested for the service.

PROFESSIONAL STAFF

JOHN T. AUSTIN - Mr. Austin has been a valuation and tax consultant to the public sector for more than fifteen years. He is a specialist in state and local sales, use and property tax and Federal income tax as it relates to corporate mergers and acquisitions. He is a graduate of the University of Southern California where he majored in business economics.

ALLEN W. CHARKOW - Mr. Charkow has been in municipal finance for the past fifteen years of which thirteen were in the capacity of Director. He has served in the California cities of Fresno, Garden Grove, Cypress and Sunnyvale. He is a graduate of the University of Santa Clara in the field of business management. Mr. Charkow pioneered sales tax audit and computerized information systems for sales tax analysis, on behalf of California cities. He has also applied sales tax expertise to enhance economic development projects as a key member of City economic development teams.

PARTIAL LIST OF MAJOR CLIENTS

Since 1978, MRC has conducted sales tax audits that have produced in aggregate more than \$5 million annually in recovered sales tax for California municipalities. A partial list of clients served includes:

City of Bakersfield
City of Long Beach
City of Riverside
City of San Jose
City of San Mateo
City of Santa Ana
City of Tustin

Additional references are available on request.