



STAFF REPORT

DATE: June 20, 2017

TO: Ronald L. Olson, City Manager

FROM: Jonathan Locke, Executive Director of Finance

SUBJECT: MuniServices Sales Tax Compliance Review Agreement

BACKGROUND AND FINDINGS:

The General Fund is balanced on a three-legged stool: one leg represents ad valorem taxes, the second leg is sales tax, and the third leg comprises other revenue sources. Sales tax revenue represents 29% of General Fund revenues in FY 2017. Due to the heavy reliance on sales tax to enable the City to provide the necessary services to its citizens, it is imperative that the City ensures all sales tax revenues collected within the City of Killeen are properly remitted and allocated.

MuniServices's sales tax compliance review service is designed to assist the City with economic forecasting and in preserving and enhancing its sales and use tax revenues by detecting, documenting, and correcting sales tax misallocations thereby producing previously unrealized revenue for the City of Killeen while giving the City a more accurate sales tax base upon which to forecast its revenue.

In providing the sales tax compliance review, MuniServices shall:

- Meet with City of Killeen's finance staff to review service objectives, scope, procedures, coordination of effort, work plan schedule, public relations, and logistical matters.
- Establish an appropriate liaison with the City's coordinator and define logical checkpoints for reviewing progress.
- Perform a review of the City's businesses' sales/use tax remittances in an effort to ensure proper application of local sales/use tax law and achieve past and/or prospective compliance, as applicable.
- On behalf of the City, may also provide additional documentation to the Comptroller's office to request its assistance in gaining compliance from taxpayers as needed.

The initial term of the agreement is for a period of one year. The City will have the option to renew the agreement for two subsequent one-year terms.

THE ALTERNATIVES CONSIDERED:

1. MuniServices - 30% contingency fee. MuniServices currently provides hotel/occupancy tax administration and auditing for the City. MuniServices is highly respected within the governmental accounting industry.
2. Do nothing - no increase in sales tax revenues

Which alternative is recommended? Why?

The option recommended is to hire MuniServices to perform a sales tax compliance review on a contingency fee basis to ensure that all sales tax revenues due to the City of Killeen are collected.

CONFORMITY TO CITY POLICY:

City Charter Article VII, Section 70. Under the direction of the city manager, the director of finance shall have charge of the administration of the financial affairs of the city and to that end he shall have authority and shall be required to: (5) collect license fees and other revenues of the city or for whose collection the city is responsible and receive all money receivable by the city from state or federal government, or from any court, or from any office, department or agency of this city.

FINANCIAL IMPACT:**What is the amount of the expenditure in the current fiscal year? For future years?**

The consultant shall receive a 30% contingency fee. The fee applies to the sales and use tax revenue received by the City from correction of taxpayer reporting errors detected and documented by the sales tax compliance review. The contingency fee applies to both:

- ☐ Past compliance (as applicable) - sales and use tax revenues received by the City from prior periods; and
- ☐ Prospective compliance (as applicable) - incremental increase in sales and use tax revenues received for the first eight consecutive reporting quarters (24 months) following correction of the errors and confirmation of receipt of revenue by the City. An incremental increase is calculated as the current month's correct tax remittance less the monthly average of the prior 12 months immediately prior to the first month of the correct tax remittance.

There is no fiscal impact to the City unless a recovery is made.

Is this a one-time or recurring expenditure?

Recurring expenditure

Is this expenditure budgeted?

No

If not, where will the money come from?

All fees are paid on a contingency basis with the City receiving 70% of the total revenue recovered and the consultant receiving 30%.

Is there a sufficient amount in the budgeted line-item for this expenditure?

RECOMMENDATION:

Staff recommends that the City Council authorize the award of a professional services agreement with MuniServices, LLC to conduct a sales tax compliance review.

DEPARTMENTAL CLEARANCES:

Finance
Legal

ATTACHED SUPPORTING DOCUMENTS:

Agreement