



CITY OF HOUSTON

Finance Department

Interoffice

Correspondence

To: Budget and Fiscal Affairs
Committee

From: Kelly Dowe, Director 
Finance Department

Date: November 7, 2011

Subject: Sales Tax Audit Services

The Finance Department is recommending that the City enter into an agreement with MuniServices LLP to provide Sales/Use Tax Audit and Sales/Use Tax Analysis and Reporting Services to the City.

The purpose of the Sales Tax audits is to ensure that the City is not being underpaid sales tax by taxpayers or that the Texas Comptroller of Public Accounts is not misallocating funds due the City. The contract will cover two types of audits – Boundary Audits and Misallocation of Sales Tax Payments.

Boundary audits ensure the Texas Comptroller is not unintentionally sending some or all of the City's Sales Tax to other taxing jurisdictions or not collecting the Sales Tax for the City at all. Errors such as these generally occur when businesses incorrectly report the taxing jurisdiction in which they are located. These audits are already performed by the City using State records cross-referenced with the City's boundaries through our Geographical Information System (GIS). The Contractor will only perform a boundary audit when approved by the City, and these audits will occur on zip codes that have recently been audited by the City. The Contractor will only be paid a contingency fee on errors they discover.

Misallocation of Sales Tax Payments audits include verifying that taxpayers located within the corporate limits of the City are paying the proper Sales Tax to the City in compliance with laws and regulations. The Contractor will review the City's Sales Tax ordinances for included provisions, coverage and classification definitions. If errors are found, the City will pay the Contractor contingency fees only for the incremental gain in Sales Tax attributable to the audit activities.

After the Contractor identifies the underpayment of Sales Tax, the Contractor will file a claim with the Texas Comptroller of Public Accounts for correction of the error and payment of sales tax due to the City. All claims must be reviewed and approved by the City prior to filing the claim. If a claim is approved by the Texas Comptroller and the City receives funds for the claims, the Contractor is paid a contingency fee on the claim. If the claim is subsequently found to be in error by the Comptroller, the Contractor will refund contingency fees back to the City.

The fee will be 25% of the recovered amount in the first year of the contract and 30% thereafter. The contractor is paid the contingency fee on an approved claim for eight consecutive quarters. The FY2012 fees are estimated at \$93,750 with the total estimated fees over the maximum four-year contract period of \$637,500.

The Sales/Use Tax Analysis and Reporting Services will provide analysis and reporting of sales tax revenue to the City. The Contractor will be paid a fee of \$44,000 annually with the total estimated fees over the maximum contract period of \$212,500. These analysis and reporting services will supplement the forecasting services currently provided by Dr. Barton Smith and provide another source of information useful to the City in budgeting and forecasting Sales Tax. The City has historically had two sources of Sales Tax forecasting, but only recently has relied solely on Dr. Smith's forecasts.

MuniServices provides similar services to the Metropolitan Transit Authority of Harris County, so they have a special knowledge of the area's boundaries and taxpayers. They also provide services to Dallas, Garland, Detroit, San Diego, San Francisco, San Antonio VIA (Transit System), and many other counties and special districts.

The contract term is for two years with two option years. The contract can be terminated by the Finance Director or City Attorney by giving 30 days written notice of such termination to the Contractor. The maximum contract amount for all services is \$850,000. If the contractor submits claims for approval that would result in more audit recovery revenue to the City than currently anticipated in this contract (and the Contractor would subsequently get more in fees than there is funding in this contract), an amended contract will be brought back to Council to increase the maximum contract amount.