



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Scott P. Johnson

**SUBJECT: PROPOSED ACCOUNTS
RECEIVABLE AMNESTY
PROGRAM**

DATE: November 13, 2007

Approved

Date

11/18/07

COUNCIL DISTRICT: Citywide

RECOMMENDATION

Approval of an ordinance authorizing an amnesty program for specified accounts receivable.

OUTCOME

To implement an amnesty program that will encourage debtors to pay past due delinquent debts, which will decrease the City's outstanding receivables and increase one-time revenue.

BACKGROUND

In August 2006, The Finance Department implemented a Business Tax Amnesty Program, which resulted in the collection of \$1.3 million in revenue. There were two components of the Program; new businesses that had not registered with the City and existing businesses that have paid the business tax in previous years but payments were not current. Of the \$1.3 million collected during the Amnesty Program, \$808,000 was generated by 3,066 businesses registering their business with the City and 2,187 delinquent businesses generated \$517,000 towards the program.

On September 20, 2007, The Finance Department presented a Revenue Collection Strategic Plan (the Plan) to the Council's Public Safety, Finance and Strategic Support Committee. The Committee forwarded the Plan to the City Council, which was approved on October 2, 2007. The Plan included a recommendation to implement an Accounts Receivable Amnesty Program during Fiscal Year 2007-2008. Council directed staff to draft an ordinance authorizing the Accounts Receivable Amnesty Program.

The Accounts Receivable Amnesty Program will focus on collecting on delinquent accounts that are past due 365 days or more. Generally an account is considered current within a 60 day period from the date of invoice. An account is considered "past due" beginning on day 61 from the date of invoice. The amnesty period will begin January 21, 2008 and end March 21, 2008 and authorize the Director of Finance to provide a 30% discount on the total amount due to the City (including the unpaid principal balance, penalties, and interest) of certain receivables that have been delinquent for 365 days or more before or during the amnesty period, and where the debtor pays the remaining balance in full during the amnesty period or pursuant to an installment payment plan. The eligible accounts will continue to accrue penalties and interest up to and including January 11th, 2008. Staff will send out notices to delinquent debtors that are eligible for the Program beginning January 12, 2008. Penalties and interest will not accrue from January 12, 2008 through March 21, 2008 for the eligible accounts where payment is made in full or a payment plan has been approved by the Director of Finance.

ANALYSIS

The Finance Department has developed a one-time, limited-period amnesty program for certain account receivables. The amnesty period would be from January 21, 2008 through March 21, 2008. Following is a description of the Amnesty Program and the reasons for the recommendation. Under the proposed Amnesty Program, the City would:

- Provide a 30% discount on the unpaid balance (including the principal amount due to the City and any applicable penalties and interest assessed up to and including January 11, 2008) on certain invoices that are delinquent 365 days or more at any time prior to or during the amnesty period and where the debtor pays 70% of the remaining unpaid balance during the amnesty period or enters into a payment plan with the City as approved by the Director of Finance.

The Amnesty Program would be limited to amounts due for the following account receivable categories:

- **Recycle Plus invoices(Unpaid utility bills)**
- **Administrative Citations (Unpaid citations; does not include Airport curfew violation citations)**
- **Reimbursement for Special Events/Parades (Charges related to city services)**
- **Return to maker checks (Checks returned unpaid by banks, including the principal amount of the check and any related fees)**
- **Auto Dismantler Permit fee (Permit issued by Code Enforcement)**
- **Animal Impound and Boarding fees (Cost recovery)**
- **Temporary Board-up Costs (Cost Recovery)**
- **Monthly Septic Tank Hauler fees (Waste dumping fee)**
- **Admissions (Unpaid admissions to Happy Hollow for special events)**

- **Photostats (Copies of photographs and reports provided by Police, primarily to insurance companies)**
- **Real Estate Rental (Rents due for use of city property)**
- **Police Disturbance Fee (Cost recovery)**
- **Mobile Home Mediation Fee (Cost recovered from mobile home park owner)**
- **Taxi Cab Stand Rental (Monthly fee)**
- **Landscape (Cost to replace trees/landscape)**
- **Side Install (Install a Wye cleanout)**
- **City Property Damage (Costs associated in replacing/repairing city property)**
- **Refuse Removal (City costs associated with private property clean-up)**
- **Use of Off Duty Officers (Costs for officers appearing in court)**

The City's delinquent account receivables (past due 365 days or greater) in the categories noted above are approximately \$8 million as of October 1, 2007. Staff estimates that approximately 10,000 to 15,000 invoices will be eligible for the Amnesty Program based on the above criteria. Accounts that would otherwise meet the above requirements will not be eligible to participate in the Amnesty Program if the Department has already filed a collection action in small claims court, has had a property lien or has referred the invoice to the City Attorney's Office for legal action.

The Amnesty Program will include an education, outreach and marketing plan in which eligible debtors will be notified by mail of the Amnesty Program and explained the benefits and parameters to participate in the Program. Staff estimates that the Amnesty Program could generate between \$450,000 and \$750,000 that might not otherwise be collected. The incidental additional costs for implementing the Amnesty Program are estimated at \$16,000. This will be used to fund postage, invoices and advertising.

The Department believes that a 30% discount is sufficient to meet the goals of the Amnesty Program. This is a significant discount and should motivate delinquent debtors to take advantage of the Program. If the debtor of a qualified Amnesty account is unable to pay the required amount due in one payment, an installment agreement may be entered into subject to the approval of the Director of Finance or his designee. Otherwise the sum due under the Amnesty Program shall be paid in full at the time the request for Amnesty is made.

To qualify for the Installment Payment Plan, the total amount due (after the 30% discount is factored) shall be no less than \$500. An initial payment, of (1) the amount equal to one-sixth (1/6) of the required Amnesty Payment and (2) a fee to the City in the amount of Fifty Dollars (\$50) to reimburse the City for its costs of administering the Installment Payment Plan shall be paid at the time the Amnesty is requested. The remainder of the required Amnesty Payment shall be paid in a maximum of five (5) equal installments. The first installment payment shall be due thirty (30) days from the date the Request for Amnesty is made and the remaining payments shall be paid every 30 days from the previous payment date. If the debtor fails to maintain and meet the obligations under the payment plan, the 30% discount will not apply and the debtor will

owe 100% of the original amount plus penalties and interest minus any payments made under the payment plan.

EVALUATION AND FOLLOW-UP

The Finance Department will continue implementing the initiatives in the Revenue Collection Strategic Plan as approved by Council. The Finance Department will be reporting the results of the Amnesty Program on June 19, 2008 to the Public Safety, Finance and Strategic Support Committee as part of the Revenue Collection Strategic Plan Third Quarter Report.

PUBLIC OUTREACH/INTEREST

- Criterion 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
- Criterion 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- Criterion 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

While the recommended Amnesty Program does not meet the criteria listed above, this memorandum is posted on the City's web site for the December 4, 2007 Council meeting. In addition, potential participants with delinquent account receivables that meet the criteria for the Amnesty Program will receive a letter advising them of the program.

COORDINATION

This report has been prepared in coordination with the City Manager's Budget Office; Offices of Economic Development and Convention, Arts, and Entertainment; the City Attorney's Office; and the Departments of Planning, Building, and Code Enforcement; Transportation; Parks, Recreation and Neighborhood Services; Airport; Public Works; Environmental Services; Police; Fire; Human Resources and the Redevelopment Agency.

FISCAL/POLICY ALIGNMENT

The Proposed Accounts Receivable Amnesty Program is consistent with the budget balancing strategy principle to focus on improving employee productivity and continuously improving business practices, including streamlining, innovating, and simplifying City operations so that services can be delivered at a higher quality level, with better flexibility, and lower cost. This program maximizes revenue generation, which furthers the City's overall economic goals.

COST SUMMARY/IMPLICATIONS

As discussed above, it is estimated that the Amnesty Program could generate between \$450,000 and \$750,000. Existing staff will be used to administer the program, resulting in a minimal impact to administer the Program. Approximately \$16,000 in expenditures is estimated to fund postage, invoices and advertising. If the Finance Department does not have sufficient non-personal savings to cover these additional costs, a transfer from the Department's personal services budget (which should have sufficient savings in 2007-2008 due to staff vacancy savings) will be recommended during the 2007-2008 Mid-Year Budget Review.

BUDGET REFERENCE

Not applicable.

CEQA:

Not a project.


SCOTT P. JOHNSON
Director, Finance

For questions, please contact David McPherson, Deputy Director of Finance at (408) 535-7091.

