



Memorandum

TO: PUBLIC SAFETY, FINANCE AND STRATEGIC SUPPORT COMMITTEE
FROM: Scott P. Johnson
SUBJECT: UPDATE ON FINANCE DEPARTMENT REVENUE COLLECTION ACTIVITIES
DATE: September 11, 2007

Approved

Kay Winer

Date

9/11/07

RECOMMENDATION

It is recommended that the Public Safety, Finance and Strategic Support Committee:

- 1) Accept this Report on the Finance Department's Revenue Collection Efforts;
- 2) Forward to the City Council for approval, Finance Department's request to issue a Request for Proposal for the services of Collection Agencies to increase the City's revenue and cash flows as a means of improving the City's strategy in resolving delinquent accounts, and;
- 3) Forward to the City Council for approval, an Amnesty Program, to collect on accounts that are over 365 days past due, as defined in this Report.

OUTCOME

To gain an understanding of the progress the Finance Department has made on revenue collection efforts; approval for issuance of a Request for Proposal to enhance the City's collection efforts with the result of awarding contracts from a pool of collection agencies; and to implement an amnesty program that will encourage customers to pay past due delinquent debts, which will decrease the City's outstanding receivables and increase one-time revenue.

EXECUTIVE SUMMARY

The Finance Department commenced the Revenue Collection Strategic Plan (RCSP) in January 2007 with the following implementations; restructured operations to maximize effectiveness of Investigators/Collectors; through the first six months of 2007, increased revenues by 119% when compared to the same time period last year; to improve collections in the future, would like to

expand use of collection agencies, implement an Accounts Receivable Amnesty Program, implement a Business Tax Outreach Program with PBCE, and maximize use of technology.

BACKGROUND

Over the past year, the Finance Department has strategically re-aligned the Revenue Management Division's (RM) work plan to reduce the level of delinquent accounts Citywide by 35% as demonstrated in Exhibits 1 through 4 below.

The RM Division is responsible for several tax and fee compliance programs in addition to the City's delinquency program. These programs are in place to guarantee that the City receives the maximum advantage to facilitate the delivery of City services provided by specific revenue and cash streams from Business Tax, Accounts Receivable and Revenue Compliance and Monitoring.

This report describes the City's delinquency management and revenue compliance programs implemented by the Finance Department and provides an overview of collection results experienced from the Pilot Program period (January 2007 through June 2007). This report also includes a section describing and suggesting alternative methods by which collection efforts may be further enhanced.

ANALYSIS

◆ COLLECTION RESULTS

The Finance Department-Revenue Management Division (RM) developed a Revenue Collection Strategic Plan (RCSP) which was implemented on January 6, 2007 for the purpose of improving its collection efforts and in optimizing staff resources so that revenue would be collected more effectively and efficiently. As evidenced by the chart below (Exhibit 1), increases in revenue are evident year-to-year comparing the results from January through June 2005-2006 to the same time period in 2006-2007.

Exhibit 1:

PERIOD	COLLECTION AMOUNTS	STAFF/CONSULTANT COST	\$ Return on Investment (ROI)*
Jan-June 06-07	5,276,942	314,813	16.76
Jan-June 05-06	2,413,000	502,182	4.81
INCREASE	2,863,942	N/A	11.95

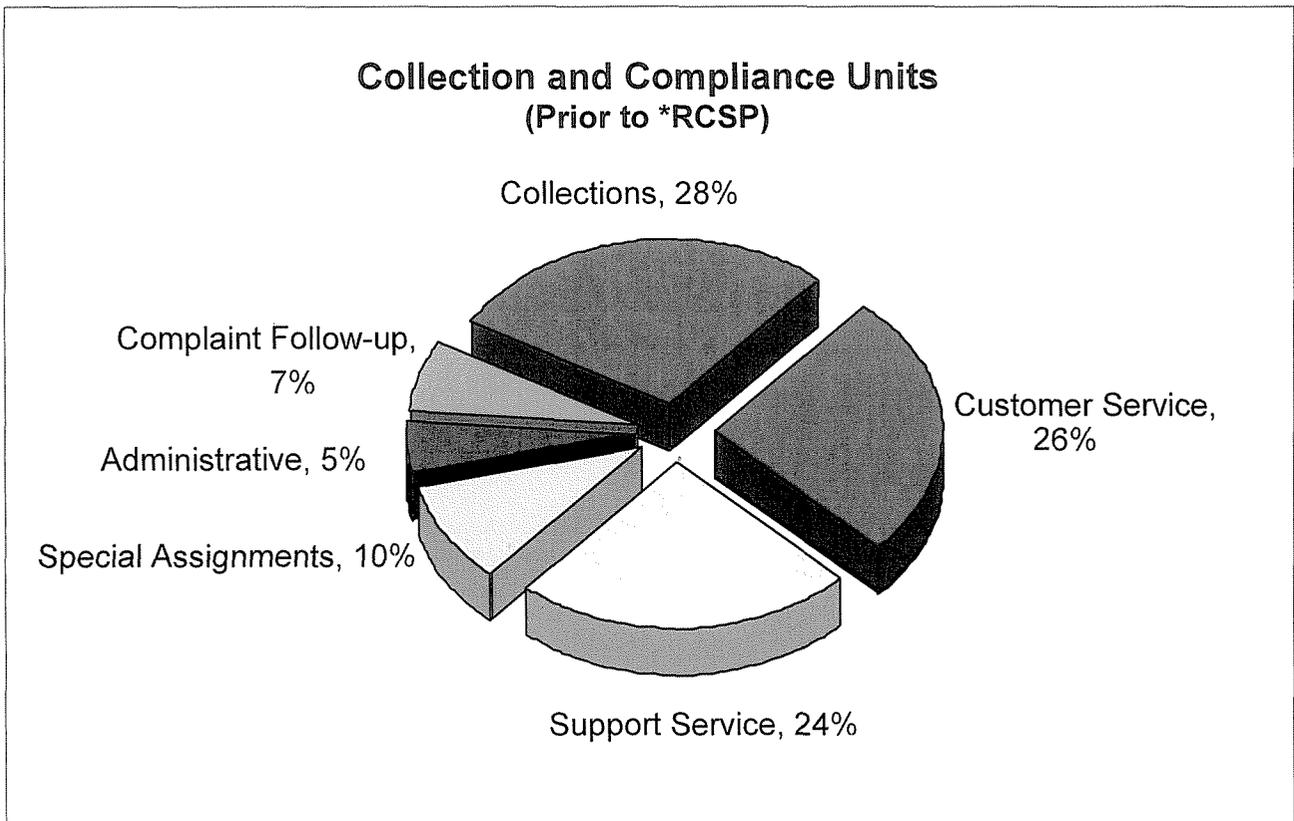
*ROI = Return on Investment resulting in \$ generated per \$1.00 in cost.

This analysis is a result of evaluations of staff resources and how it has benefited the collection efforts of Business Tax, Accounts Receivable, Revenue Compliance and various other collection strategies described in this RCSP. It should be noted that, as shown in Exhibit 1, that the cost only includes Investigators/Collectors' and Consultants' time. The costs do not include administrative staff, due to the Finance Department restructuring. Administrative staff were added to re-allocate the time of Investigator Collectors to improve efficiencies.

◆ STAFF TIME ALLOCATION EVALUATION

Exhibit 2 below demonstrates that prior to implementation of the RCSP Pilot Program, which was implemented in January 2007, how Investigators/Collectors (IC's) spent their time. This time allocation study showed that on an average, only 28% of an IC's time was spent dedicated to revenue collections. Additionally, IC's spent 26% of their time handling customer service functions such as responding to customer emails and mail inquiries as well as answering phone calls. Furthermore, about 24% of an IC's time was used for support service functions such as working the counter in the Small Business Service Center and processing business tax forms.

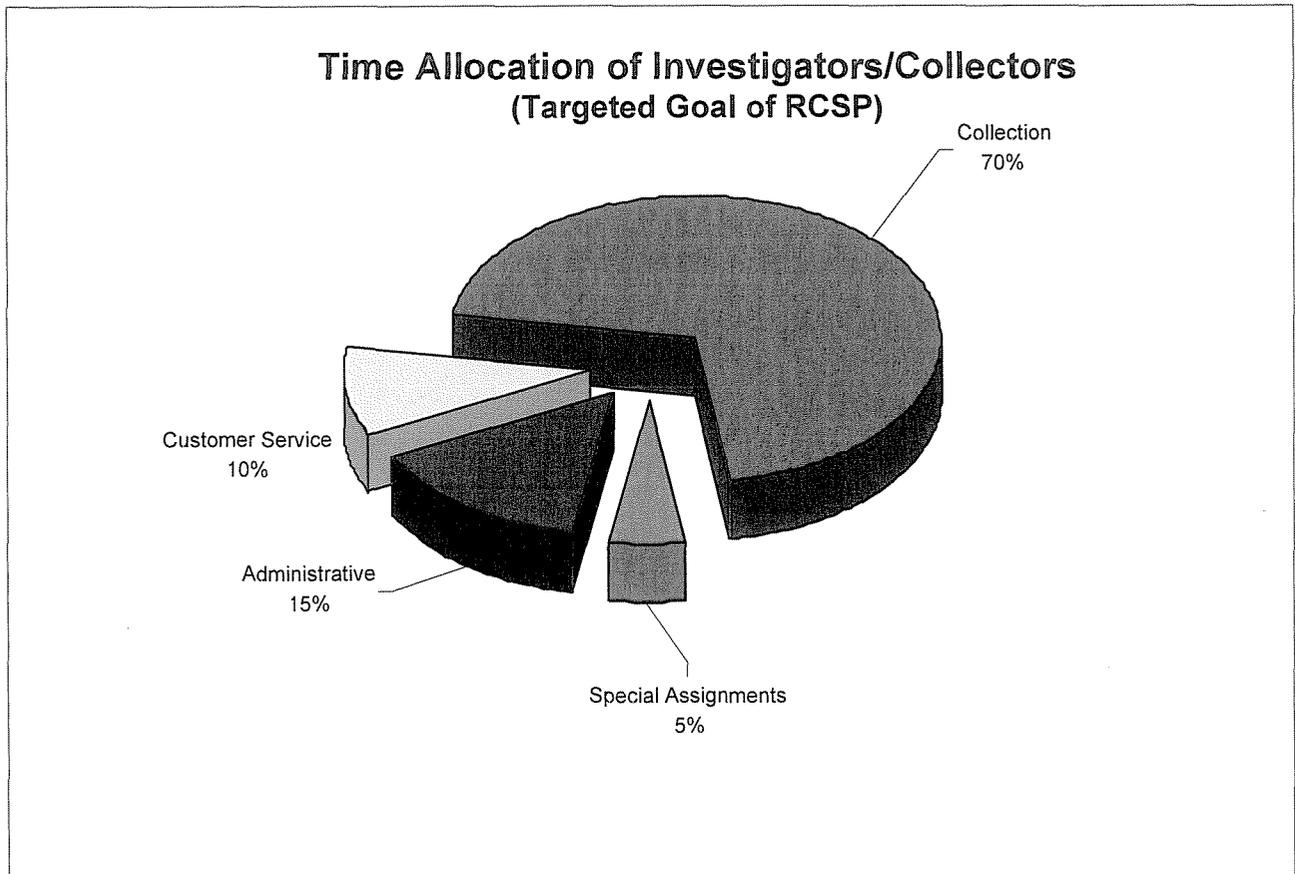
Exhibit 2:



*RCSP-Revenue Collection Strategic Plan

Exhibit 3 below provides a breakdown of how Investigators/Collectors (IC's) spent their time, during implementation of the RCSP Pilot Program, which was implemented in January 2007. During the RCSP Pilot Program, the Finance Department re-aligned revenue collection staff so as to return the focus to collection efforts and hired five temporary support staff to perform the administrative duties. This pilot program was designed to allow IC's to dedicate up to 70% of their daily time on collections (as noted in Exhibit 3 below).

Exhibit 3:



Given the success of the RCSP Pilot Program, two of the five administrative positions were made permanent as part of the 2007-2008 budget process assuming that a minimum of an additional \$1.15 million would be generated from the RCSP in 2007-2008. The remaining three positions will be recommended to be made permanent in 2007-2008 if the RCSP meets its goal of generating an additional \$500,000 for each of the three temporary positions, which would bring total additional collections to \$2.65 million. Based on the success of the Pilot Program, it is anticipated that the RCSP will meet or exceed this revenue goal for 2007-2008.

◆ **PILOT PROGRAM SUMMARY RESULTS**

The breakdown of revenue, costs, and return on investments (as generated per \$1.00 in cost), during the Pilot Program Period, as shown in Exhibit 4, details the delinquency management and compliance programs currently established.

Exhibit 4:

PROGRAM	ADDITIONAL REVENUE AND/OR CASH FLOW	STAFF/ CONSULTANT COST	\$ GENERATED / TOTAL COST (*ROI)
Business Tax	\$ 543,139	\$191,511	\$ 2.84
Accounts Receivables	\$3,584,591	\$ 59,330	\$60.42
Revenue Compliance/Monitoring (Storm/Sewer & Sales Tax Audits)	\$1,149,212	\$ 63,972	\$17.96
TOTALS¹	\$5,276,942	\$314,813	*\$16.76

*ROI = Return on Investment resulting in \$ generated per \$1.00 in cost.

(1) Pilot Program Period. (January 6, 2007-June 30, 2007)

During the first 180 days of the RCSP, collection efforts generated \$5,276,942, representing an increase of 119% compared to collections generated in the same period last year (\$2,413,000).

◆ **COLLECTION PERFORMANCE BREAKDOWN**

Business Tax

Payment of the City's business tax is required of any individual or entity evidenced as being engaged in business within the City of San Jose as defined in San Jose Municipal Code Section 4.76.050. Historically, there is a 20% business turnover rate in the City each year. Due to the high turnover rate, it becomes vital for Revenue Management staff, specifically Investigator Collectors (IC's), to interact directly with the business community to assure the highest level of business tax compliance. Staff uses an assortment of techniques to investigate and generate potential business leads.

As noted in Exhibit 4, during the Pilot Program, IC's recovered \$543,139 from delinquent and non-compliant Business Tax accounts at a cost of \$191,511. This represented a \$2.84 return for every dollar spent on staff resources.

Business License Information Program (BLIP)

Beginning in July 2007, the Finance Department entered into a collaborative agreement, currently at no cost to the City, with Thaddeus Systems, Inc., a San Jose based company, to create a Business License Information Program (BLIP) software application. Thaddeus Systems, Inc. has developed a web-based system, the first of its kind available on the market today, that allows cities and government agencies to securely control sensitive and critical data without the need for third-party intervention. This program will replace the Business Inventory Management System (BIMS) that had an annual cost of approximately \$80,000.

Once fully developed, BLIP will not only enable the City to re-deploy valuable human resources, but will also provide an unmatched identification system that will undoubtedly help the City to significantly increase the revenue going into the City's General Fund. The system is expected to be fully implemented by November 30, 2007. However, it should be noted that the future cost of the BLIP system, beginning in 2008-2009, will cost the City \$10,000 per year.

Currently, the Finance Department is implementing an aggressive revenue collection campaign intended to increase the Business Tax revenue base and to reduce the average number of days the active accounts remain past due. The campaign is part of BLIP, which is designed not only to provide education and outreach, but also to foster a voluntary compliance in order to avoid additional tax assessments. The primary objective of BLIP is to utilize the data provided by the California Franchise Tax Board and other data providers. The Finance Department will notify thousands of non-compliant businesses that have never paid for a City Business License to come into compliance with the City's business tax requirement. Equally important, the program provides the opportunity to notify delinquent businesses that their failure to respond to the final demand notices may result in the transfer of their account to a private collection agency. Due to the volume of non-compliant businesses and limited staff resources, the campaign will be divided into two phases.

The initial phase consists of sending an estimated 2,300 notices per week for a 12-week period. There are approximately 9 (nine) dedicated staff that are solely responsible for customer service inquiries; such as phone calls, emails, faxes, and other tax related inquiries. In addition, there are three staff members assigned to work at the Customer Service Center to open new accounts and provide general assistance to new and current business owners. The second phase, similar to the first, will be implemented at the end of the 12-week period.

The second phase will be implemented on November 8, 2007. This phase consists of sending an estimated 1,800 notices per week for 8 weeks. In addition to the continuation of notifying non-compliant businesses, the primary objective of the second phase will be to notify 13,128 delinquent businesses to pay their business tax or to notify the City that they are no longer in business. We will inform them that their failure to respond to the notice may result in the transfer of their account to a collection agency.

Staff projected that the estimated revenue to be generated at the conclusion of this project will meet the \$500,000 performance target, as noted above.

Planning/Business Tax Outreach Program

The Finance Department is currently working with the Planning, Building and Code Enforcement Department (PBCE) on establishing a Business Tax Outreach Program which will accelerate and consolidate many steps in the processing of Building Permits thus improving customer service and streamlining the process in obtaining a business tax certificate.

The Business Tax Outreach Program is projected to be established in November 2007 when the new integrated cashing system at City Hall is implemented.

Accounts Receivable (AR)

The AR Unit proactively collects on citations issued by Code Enforcement and the Fire Department on administrative citations, reimbursement for sidewalk repairs on damages to city property, and miscellaneous delinquent accounts from various City departments. IC's uses skip tracing tools to track down debtors and recover outstanding delinquencies due to the City. Successful management of delinquencies increases cash flow for both investments and use of funds as required for payment of City programs. This strategy, aimed to reduce aging AR accounts which may otherwise be subject to future write-offs, has proven to be very successful. During the Pilot Program, IC's have collected \$3,584,591 in receivables (over 180 days delinquent) compared to \$1,854,173 in the same period last year, January through June 2006. This represented a \$60.42 return for every dollar spent on staff resources.

One Time Revenue Opportunity – Proposed Amnesty Program

The Finance Department recommends an Amnesty program to collect on accounts that are over 365 days past due beginning January 21, 2008 and ending March 21, 2008. The Amnesty would authorize the Director of Finance to waive penalties and interest for delinquent accounts during the amnesty period. This program will encourage customers to pay past due delinquent debts, which will decrease the City's outstanding receivables and increase one-time revenue.

Considering the current outstanding balance of \$11.4 million, staff expects to generate approximately \$685,000 in additional revenue based on the historical collection percentage of 6% for this group of delinquent accounts. Potential programs for the proposed Amnesty Program include administrative citations and the City's general accounts receivables which include billings for Public Works Department staff charges, airport ground citations, sewer charges and fees and other receivables. Prior to implementing the Amnesty Program, the Finance Department will coordinate with the affected departments.

However, in such cases where the Department of Finance has filed a small claims collection action or has referred the delinquent account to the Office of the City Attorney, the Amnesty Program will not apply.

In addition, the debtor's account must be 365 or more days past due at some point during the Amnesty Period. To receive the benefits of the Amnesty Program, the obligation of the debtor must be an eligible delinquent account. The debtor must meet the conditions stipulated in the Amnesty Ordinance.

On November 20, 2007, the Finance Department will be submitting a recommendation to the City Council to adopt an Amnesty Program Ordinance. This Ordinance will allow the forgiveness of up to 30 percent of the Total Obligation that remains owing as of the Amnesty Period. Upon the debtor's payment of 70% of the total underlying amount, the City will consider the delinquent account as paid in full.

Past Amnesty Programs conducted by the City of San Jose have shown that customers are more willing to voluntarily pay outstanding debts during an amnesty period when the amount of debt is reduced by not assessing penalties and interest.

Expanded Use of Collection Agencies and Revenue Consultants

In prior years, the City of San Jose has contracted with collection agencies, which, at times, is more cost-effective to use than to have City staff directly involved in the collection process. During the period of July 2003 through April 2005, collection agencies under contract with the City generated over \$35,000 in collections for outstanding receivables due the City. The limited success of the collection agencies was due to the number of accounts assigned to them and the low dollar amount attributed to each delinquency.

To increase the collection of delinquent receivables and potentially take advantage of technological updates and new collection methodologies, staff plans to issue a Request for Proposal during 2007-2008. Staff plans to use a diversified pool of collection agencies, based on the collection agencies respective expertise. A memo is scheduled for City Council approval at the October 2, 2007 Council meeting for authorization to issue the RFP.

Technology Efficiency Opportunities

The City uses various technology systems and database platforms to perform billing and AR activities for services provided to customers. In 2006-2007 improvements were made to the City's AR system (Revenue Plus). The improvements include current updates and additions to the intercept and credit report modules. There is also a current team of staff from IT and Finance who are responsible for improving different areas within the system.

Finance staff has collaborated with multiple City departments to increase the collection efforts and complete the system migration of the administrative citation program. Finance and IT staff are working in cooperation with other governmental agencies and businesses such as the Franchise Tax Board, Thaddeus Systems, Inc. and Title Companies. Additionally, the City is collaborating with the Department of Motor Vehicles (DMV) to improve skip tracing efforts in collecting on delinquent accounts.

Collaboration with Other City Departments on Revenue Compliance

The Finance Department is proactive in providing other City departments with collection and compliance assistance as it relates to program objectives. Recent successful examples of this effort include the compliance reviews conducted for the City's towing contractors and assistance provided to the Fire Department for collections on delinquent permit accounts.

Revenue Compliance and Monitoring

The Revenue Compliance (RC) Unit conducts compliance audits and reviews on utility providers and franchise fee holders. These include: Utility Users Tax (UUT), Franchise Fees (FF), Transient Occupancy Tax (TOT), Emergency Communications System Support Fee (ECSS), City Tow Franchises, and Commercial Solid Waste Fees and up-to-date geographical information. The UUT is levied at 5% of charges on electric, gas, water, telephone, and wireless services. The City collects FF for use of the public right-of-way to provide a specific service (i.e. 2% for electricity & gas, and 5% for cable television). In addition, designated businesses with whom the City contracts for specific services (i.e. towing franchises are levied at \$50 per tow and \$5 per dispatch). The TOT is levied at 10% of gross rents and the ECSS fee is levied at \$1.75 per line and \$13.13 per trunk line.

Compliance Audits

As a result from the RC audits and reviews during the Pilot Program, Transient Occupancy Tax audits generated \$86,110 and Utility Users Tax (gas) audits generated \$42,818 in additional revenues to the City. The Finance Department also conducted a Storm & Sewer Audit which resulted in generating \$663,524 in additional revenue.

Sales Tax Reviews

The City of San Jose receives a specified share of the sales tax collected by the State of California for sales transactions. At the present time, the Finance Department holds a contract with MBIA Municipal Services Company to assist with sales tax allocation reviews. MBIA's services were developed as a "backstop" program to compliment the City's sales tax compliance program. In the first Quarter of 2007-2008, the RM Division inherited a sales tax compliance program, due to restructure, which was previously conducted by the City Auditor's Office.

In summary, the UUT, FF, TOT and Storm & Sewer Audits along with the Sales Tax Audits have generated \$1,149,212 in additional revenue at a cost of \$63,972. This represented a \$17.96 return for every dollar spent on staff resources.

EVALUATION AND FOLLOW-UP

A memo seeking authorization from the City Council to direct staff to issue a Request for Proposal (RFP) for revenue collection services to enhance the City's collection efforts is scheduled for the October 2, 2007 Council meeting. In addition, the Finance Department will also take appropriate steps to execute an Amnesty Program for delinquent accounts. Furthermore, staff in the Revenue Management Division of the Finance Department will continue implementing its successful collection efforts as demonstrated during the RCSP Pilot Program in order to reduce the City's outstanding delinquencies and generate additional cash flow for the City's operations.

The Finance Department will continue to manage existing revenue compliance review programs and continue to explore additional opportunities to implement programs for other taxes and fees collected Citywide. Other methods and/or programs will also be reviewed to decrease delinquent receivables so as to achieve a more consistent and increased cash flow for the City.

POLICY ALTERNATIVES

N/A

PUBLIC OUTREACH/INTEREST

- Criteria 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
- Criteria 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)**
- Criteria 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)**

COORDINATION

This memorandum has been coordinated with the City Manager's Budget Office, the City Attorney's Office and the Planning, Building and Code Enforcement Department.

FISCAL/POLICY ALIGNMENT

The Revenue Collection Strategic Plan 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

For 2007-2008, the Finance Department does not anticipate any additional cost to implement this program. However, beginning in 2008-2009, the continued use of the BLIP software will have an annual cost of \$10,000 per year.

For the five positions approved in the 2007-2008 budget, two of the five administrative positions were made permanent as part of the 2007-2008 budget process assuming that a minimum of an additional \$1.15 million would be generated from the RCSP in 2007-2008. The remaining three positions will be recommended to be made permanent in 2007-2008 if the RCSP meets its goal of generating an additional \$500,000 for each of the three temporary positions, which would bring total additional collections to \$2.65 million.

With the success of the RCSP Pilot Program in 2006-2007, it is anticipated that this program will generate additional collections of at least \$2.65 million in 2007-2008. To maximize collections, an Accounts Receivable Amnesty Program is proposed from January through March 2008. This program is expected to generate an additional \$685,000 in collections from past due accounts. The use of a collections agency is also proposed for 2007-2008 to supplement the efforts of the Finance Department staff. The Finance Department plans to issue a Request for Proposal for these services. It is anticipated that this contract would result in a net revenue gain for the City.

BUDGET REFERENCE

N/A

PSF&SS COMMITTEE

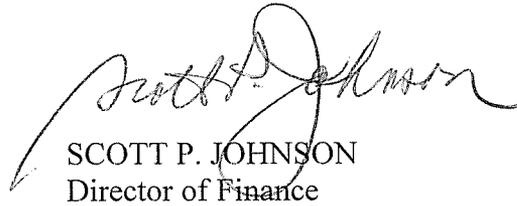
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Subject: Update on Finance Department Revenue Collection Activities

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CEQA

Not a project.



SCOTT P. JOHNSON
Director of Finance

For questions, please contact Scott P. Johnson, Director of Finance at (408) 535-7000.



Update On Finance Department Revenue Collection Activities

Revenue Collection Strategic Plan (RCSP)
(January thru June 2007)

Finance Department



Development of the Pilot Program

- Strategic Re-Alignment of the Revenue Management Division Work Plan
- Maximize Collections for Business Tax, Accounts Receivables, and Compliance and Monitoring Programs

Finance Department



Revenue Collection Strategic Plan (RCSP)

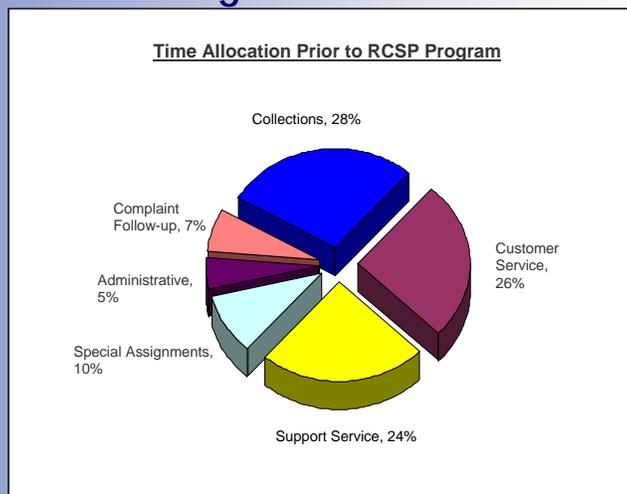
- Currently Implementing:
 - Improve Collection Efforts
 - Optimize Resources for Effective and Efficient Collections
 - Improve Customer Service
 - Implement Business License Information Program (BLIP) for Business Tax Collection

- Next Steps:
 - Business Tax Outreach Program
 - Develop an Amnesty Program for Accounts Receivable
 - Execute Contracts with Various Collection Agencies

Finance Department



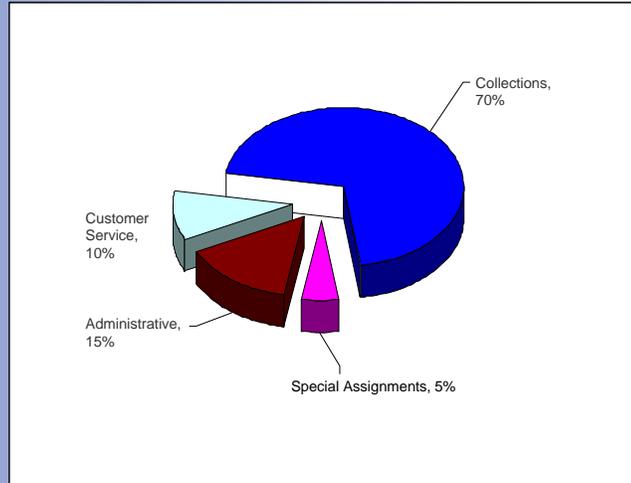
Strategic Re-Alignment of Revenue Management Division



Finance Department



RCSP Program Target Time Allocation



Finance Department



Collection Results

Pilot Program Summary Results

Program	Additional Revenue and/or Cash Flow	Staff/Consultant Cost	\$ Generated/Total Cost (*ROI)
Business Tax	\$543,139	\$191,511	\$2.84
Accounts Receivables	\$3,584,591	\$59,330	\$60.42
Revenue Compliance/Monitoring (Storm/Sewer & Sales Tax Audits)	\$1,149,212	\$63,972	\$17.96
TOTALS¹	\$5,276,942	\$314,813	*\$16.76

Comparison of same period FY 05-06 vs. 06-07

Period	Collection Amounts	Staff/Consultant Cost	\$ Return on Investment (ROI)
Jan-June FY 06-07	5,276,942	314,813	16.76
Jan-June FY 05-06	2,413,000	502,182	4.81
Increase	2,863,942	N/A	11.95

*ROI = Return on Investment Resulting in \$ generated per \$1 in cost.
(1) Pilot RCSP Program period: January 6, 2007-June 30, 2007.

Finance Department



Recommendations

- Accept this Report on the Finance Department's Revenue Collection Efforts
- Forward Collection Agency Services Request for Proposal (RFP) to the City Council for Approval
- Forward the Accounts Receivable Amnesty Program to the City Council for Approval

Finance Department

