



# Memorandum

**TO:** PUBLIC SAFETY, FINANCE AND STRATEGIC SUPPORT COMMITTEE  
**FROM:** Scott P. Johnson  
**SUBJECT:** 2007-08 FIRST QUARTER REVENUE COLLECTION STRATEGIC PLAN REPORT  
**DATE:** December 6, 2007

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Approved *Ray Whisen* Date *12/6/07*

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## RECOMMENDATION

It is recommended that the Public Safety, Finance and Strategic Support Committee accept this report on the Finance Department's first quarter of FY 2007-2008 Revenue Collection efforts.

## OUTCOME

To update the progress of the Finance Department's Revenue Collection efforts for the first quarter, July 2007 through September 2007.

## EXECUTIVE SUMMARY

The Finance Department began the Revenue Collection Strategic Plan (RCSP) in January 2007 with the restructure of operations to maximize effectiveness of the Investigators/Collectors time spent on collections. The first quarter July 1, 2007 – September 30, 2007, has produced 131% of our yearly targeted revenue goal for FY 2007-2008.

## BACKGROUND

The Revenue Management Division (RM) 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 amount due to facilitate the delivery of City services provided by specific revenue and cash streams from Business Tax (BT), Accounts Receivable (AR) and Revenue Compliance and Monitoring (RCM).

This report updates the collection results of the City's delinquency management and revenue compliance programs for the first quarter FY 2007-2008 (July 2007 through September 2007).

**ANALYSIS****◆ COLLECTION RESULTS**

The Finance Department Revenue Management Division (RM) continues to implement the Revenue Collection Strategic Plan (RCSP) which began on January 6, 2007 for the purpose of improving its collection efforts and optimizing staff resources. Exhibit 1 below shows the results from July 2007 through September 2007.

**Exhibit 1:**

<b>PERIOD FY 07-08</b>	<b>COLLECTION AMOUNTS</b>	<b>STAFF/CONSULTANT COST</b>	<b>\$ Return on Investment (ROI)*</b>
First Quarter	\$3,464,744	\$313,149	\$11.06

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

This analysis is a result of an evaluation 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, the costs represent those that were incurred directly related to the program, which only include Investigators/Collectors' and Consultants' time. Table 1 and Chart 1 (see attached) summarizes our revenue collection results for quarter ending September 30, 2007.

**◆ RCSP SUMMARY RESULTS**

The breakdown of revenue, costs, and return on investments (as generated per \$1.00 in cost), during the first quarter period, as shown in Exhibit 2, detailing the two major components of the RCSP; delinquency management and compliance programs.

**Exhibit 2:**

<b>PROGRAM</b>	<b>ADDITIONAL REVENUE AND/OR CASH FLOW</b>	<b>STAFF/ CONSULTANT COST</b>	<b>\$ GENERATED / TOTAL COST (*ROI)</b>
Business Tax Delinquencies	\$799,883	\$132,308	6.05
Accounts Receivable Delinquencies	\$2,098,418	\$90,000	23.32
Revenue Compliance/ Monitoring	\$566,443	\$90,841	6.24
<b>TOTALS</b>	<b>\$3,464,744</b>	<b>\$313,149</b>	<b>11.06</b>

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

◆ **COLLECTION PERFORMANCE BREAKDOWN**

Business Tax Delinquencies (BT)

Business Tax has historically shown a 20% business turnover rate in the City each year. Due to the high turnover rate, it becomes vital for RM staff, specifically the Investigator/Collectors (IC's), to interact directly with the business community to assure the highest level of business tax compliance.

As noted in Exhibit 2, during the first quarter, IC's recovered \$799,883 from delinquent and non-compliant BT accounts at a cost of \$132,308. This represented a \$6.05 return for every dollar spent on staff resources.

Business License Information Program (BLIP)

Currently, the Finance Department is working on an aggressive revenue collection campaign intended to increase the BT revenue base and to reduce the average number of days the active accounts remain past due. The Finance Department continues to notify thousands of non-compliant businesses that have never paid for a City Business Tax Certificate to come into compliance with the City's BT requirement. Staff continues to send an estimated 1,800 notices per week. In addition to the continuation of notifying non-compliant businesses, the primary objective will be to notify 13,128 delinquent businesses to pay their BT or to notify the City that they are no longer in business. Business owners will be informed that their failure to respond to the notice may result in the transfer of their account to a collection agency. Furthermore, the Finance Department continues to work with Thaddeus Systems, Inc., a San Jose based company, to create a Business License Information Program (BLIP).

The BT section has already exceeded the revenue target by 62% surpassing the goal of \$500,000 for this fiscal year.

Accounts Receivable Delinquencies (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 use skip tracing tools to track down debtors and recover outstanding delinquencies due to the City. The 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.

During the first quarter, IC's have collected \$2,098,418 in delinquent accounts receivables at a cost of \$90,000. This represents a \$23.32 return for every dollar spent on staff resources.

One Time Revenue Opportunity – Amnesty Program

Pursuant to Council action on December 4, 2007, the Finance Department is coordinating an Accounts Receivable Amnesty Program that will focus on collecting 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” begins 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. Staff expects to generate approximately \$450,000 in additional revenue based on the historical collection percentage rate of 6% for this group of delinquent accounts.

Collaboration with Other City Departments and other Agencies

The Finance Department is proactive in working with other City departments and Agencies to collect revenues due the City. In prior years, the City of San Jose has contracted with collection agencies in the collection process. The Finance Department plans on expanding the use of collection agencies to augment the overall collection efforts for this FY. In addition to these measures, the Finance Department has worked with the Controllers Office of the State of California for unclaimed property, (the unclaimed property search with the state of California will garner between \$50,000-\$85,000 of funds due the City held by the State). Staff is also working with the Department of Motor Vehicles for skip tracing to assist them in expediting collection efforts. In addition, Finance is working in collaboration with the City Auditor’s Office, for performing vendor audits which has the potential of generating \$300,000 to \$500,000 based on preliminary analysis. The Finance Department is currently working with the City Managers Budget Office and the City Attorney’s Office on the appropriations and language for the contract which we will be recommending be awarded to AuditSolutions LLC., a San José Company who successfully won the bid through the RFP process.

Revenue Compliance and Monitoring

The Revenue Compliance and Monitoring Unit (RCM) conducts compliance audits and reviews on utility providers and franchise holders. Revenue in this category

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.

### Compliance Audits and Sales Tax Reviews

Resulting from the RCM audits and reviews during the first quarter, landfill and solid waste audits generated \$46,443. The City of San Jose receives a share of the sales tax collected by the State of California for sales transactions. The RCM section audits sales and use tax on a quarterly basis to ensure the city's proper allocation of revenues. The Finance Department monitors 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 Sales and Use Tax program generated \$520,000.

In summary, the RCM audits have generated \$566,443 in additional revenue at a cost of \$90,841. This represented a \$6.24 return for every dollar spent on staff resources.

### EVALUATION AND FOLLOW-UP

The Finance Department will continue to manage existing revenue compliance review programs and continue to explore additional opportunities to implement programs for collecting taxes and fees due to the city. Other methods and 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, and the City Attorney's Office.

### 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 at lower cost. This program maximizes revenue generation, which furthers the City's overall economic goals.

### COST SUMMARY/IMPLICATIONS

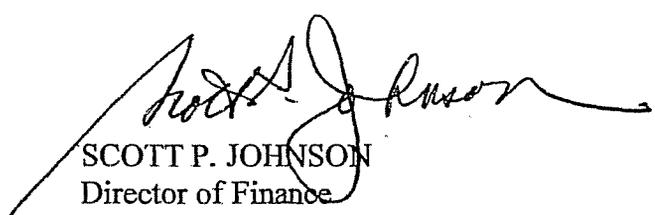
The budgeted target for the Revenue Collection Strategic Plan was to generate collections of at least \$2.65 million for FY 2007-2008. However, based on our current collections program to date, and our progress on revenue collections overall, we anticipate our total collection efforts to generate \$5.1 million.

### BUDGET REFERENCE

N/A

### CEOA

Not a project.

  
SCOTT P. JOHNSON  
Director of Finance

PSF&SS COMMITTEE

12-6-07

**Subject: 2007-08 First Quarter Revenue Collection Strategic Plan Report.**

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



**Table 1**

**Summary of Revenue Collection Audit Results  
For The Quarter Ended September 30, 2007  
2007-2008 Year-To-Date Results and Targets**

Reporting Periods	Quarter Ended 9/30/07	2007-2008 Year -To-Date Results
Revenues Collected	\$ 3,464,744	\$ 3,464,744
Revenue Target	\$ 662,500	\$ 662,500

Chart 1

**REVENUE COLLECTION AND TARGET  
QUARTER ENDED 9/30/07**

