



# Memorandum

**TO:** PUBLIC SAFETY, FINANCE AND STRATEGIC SUPPORT COMMITTEE  
**FROM:** Scott P. Johnson  
**SUBJECT:** 2007-08 THIRD QUARTER REVENUE COLLECTION STRATEGIC PLAN REPORT  
**DATE:** June 11, 2008

Approved

*Christine S. Shipley*

Date

*6-12-08*

## RECOMMENDATION

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

## OUTCOME

To update the progress of the Finance Department's Revenue Collection efforts for the third quarter, January 2008 through March 2008.

## 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. Staff's pro-active collection efforts during the first two quarters of FY 2007-08, generated \$7,024,379. The third quarter produced an additional \$1,685,734. The total for three quarters of FY 2007-08 generated \$8,710,113. This represents 329% of our target revenue forecasted in the FY 2007-2008 budget for the RCSP which is \$2,650,000.

## 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 pro-actively monitor the revenue streams the City receives 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 third quarter FY 2007-2008 (January 2008 through March 2008).

**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 January 2008 through March 2008.

**Exhibit 1:**

<b>PERIOD FY 07-08</b>	<b>COLLECTION AMOUNTS</b>	<b>STAFF/CONSULTANT COST</b>	<b>\$ Return on Investment (ROI)*</b>
Third Quarter	\$1, 685,734	\$250,698	\$6.73

\*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) summarize our revenue collection results for year to date by quarter (for the quarter ending March 31, 2008).

**◆ RCSP SUMMARY RESULTS**

The summary results break down the revenue, costs, and return on investments (as generated per \$1.00 in cost) for the third quarter period. Exhibit 2 details the two major components of the RCSP which are delinquency management and revenue compliance.

**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	\$424,120	\$76,419	5.55
Accounts Receivable Delinquencies	\$915,384	\$63,382	14.45
Revenue Compliance/ Monitoring	\$346,230	\$110,897	3.13
<b>TOTALS</b>	<b>\$1,685,734</b>	<b>\$250,698</b>	<b>6.73</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 third quarter, IC's recovered \$424,120 from delinquent and non-compliant BT accounts at a cost of \$76,419. This represented a \$5.55 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 950 notices per week. In addition to the continuation of notifying non-compliant businesses, the primary objective will be to notify 9,578 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.

Fiscal year to date, the BT section has collected a total of \$1,041,689 surpassing its revenue target goal of \$500,000 for this fiscal year.

Accounts Receivable Delinquencies (AR) and  
One Time Revenue Opportunity – Amnesty Program

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.

In addition, pursuant to Council action on December 4, 2007, the Finance Department has conducted an Accounts Receivable Amnesty Program that focused 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" beginning on day 61 from the date

of invoice. The amnesty period began on January 21, 2008 and ended March 21, 2008.

During the third quarter, the AR section collected \$915,384 in delinquent accounts receivables of which \$318,054 is attributed to the Amnesty Program. The cost for the AR section is \$63,382. This represents a \$14.45 return for every dollar spent on program costs.

#### 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. We anticipate having the collection agencies on board by July 2008. Staff is also currently working with the Office of Economic Development to collect on \$769,837 in delinquent loans which were made to small businesses through the City's Revolving Loan Fund program. In addition, the Finance Department is working in collaboration with the County Assessor's Office and the State Board of Equalization to conduct compliance verifications for unsecured property tax and sales tax in order to generate additional revenues for the City.

#### Revenue Compliance and Monitoring

The Revenue Compliance and Monitoring (RCM) Unit conducts compliance audits and reviews on utility providers and franchise holders. Revenues 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 (CSWF).

#### Compliance Audits and Sales Tax Reviews

During the third quarter, the RCM unit generated \$61,436 from Utility Users Tax (UUT) compliance reviews. Tow franchise fee audits in the third quarter contributed \$58,966 in findings. Furthermore, the City of San Jose receives a share of the sales tax collected by the State of California for sales transactions. The RCM section reviews sales and use tax on a quarterly basis to ensure the City's proper allocation of revenues. The Finance Department also monitors the City's consultant contract with MuniServices Company who assists the RCM unit with sales tax allocation reviews.

Contracting with MuniServices was developed as a strategy to complement the City's sales tax in-house compliance program. In the third quarter of 2007-2008, the total Sales and Use Tax revenues generated was \$225,828 as a result of this program.

In summary, the RCM audits have generated \$346,230 in additional revenue at a cost of \$110,897. This represented a \$3.13 return for every dollar spent in program costs.

### **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 and increase 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.

The RCSP includes streamlining, innovating, and simplifying City operations so that services can be delivered at a higher level of quality, with better flexibility, and at a lower cost. This program maximizes revenue generation and furthers the City's overall economic goals.

### **COST SUMMARY/IMPLICATIONS**

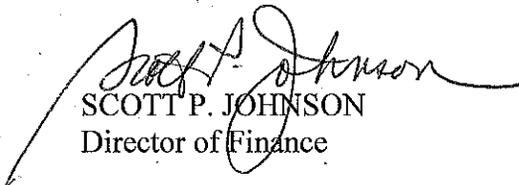
The budgeted target for the Revenue Collection Strategic Plan was to generate collections of at least \$2.65 million for FY 2007-2008. Our progress to date represents 329% of our budgeted target revenue for FY 2007-2008.

### **BUDGET REFERENCE**

N/A

### **CEQA**

Not a project.



SCOTT P. JOHNSON  
Director of Finance

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

**Table 1**

**Summary of Revenue Collection Strategic Plan Results  
For the Quarters Ending September 30, 2007, December 31, 2007 and March 31, 2008  
2007-2008 Year-to-Date Results and Targets**

Reporting Periods	Quarter Ended 9/30/07	Quarter Ended 12/31/07	Quarter Ended 3/31/08	2007-2008 Year -To-Date Results
Revenues Collected	\$ 3,464,744	\$ 3,559,635	\$ 1,685,734	\$ 8,710,113
Revenue Target	\$ 662,500	\$ 662,500	\$ 662,500	\$ 1,987,500

**Chart 1**  
**REVENUE COLLECTION AND TARGET**  
**QUARTERS ENDING 9/30/07, 12/31/07 and 3/31/08**

