

Memorandum

TO: PUBLIC SAFETY, FINANCE AND STRATEGIC SUPPORT COMMITTEE
FROM: Scott P. Johnson
SUBJECT: FY 2008-09 SECOND QUARTER REVENUE COLLECTION STRATEGIC PLAN REPORT
DATE: February 05, 2009

Approved

Deane Johnson

Date

2/11/09

COUNCIL DISTRICT: City-Wide

RECOMMENDATION

Accept the Fiscal Year 2008-09 Second Quarter Revenue Collection Strategic Plan Report.

OUTCOME

Provide an update regarding the progress of the Finance Department's revenue collection efforts for the second quarter of Fiscal Year 2008-09.

EXECUTIVE SUMMARY

The Finance Department began the Revenue Collection Strategic Plan (RCSP) program in January 2007 when it restructured its operations to maximize the effectiveness of the time spent by Investigator-Collectors on collections. Through proactive collection efforts during the first full year of the RCSP program in Fiscal Year (FY) 2007-08, the Finance Department generated \$10,633,663 in revenue.

The RCSP targeted goal for FY 2008-09 is \$2,650,000. For the second quarter of FY 2008-09, staff collected \$1,921,239. The year-to-date (YTD) collections total \$4,286,903, which exceeds the annual collection target by 62%.

BACKGROUND

The Finance Department's Revenue Management Division is responsible for several tax and fee compliance programs in addition to the City's accounts receivable delinquency management program. The Business Tax, Accounts Receivable, and Revenue Compliance and Monitoring programs are in place to pro-actively monitor the revenue streams the City receives to facilitate the delivery of City services.

This report updates the collection results of the City's accounts receivable delinquency management and revenue compliance and monitoring programs through the second quarter of FY 2008-09.

ANALYSIS

Collection Results

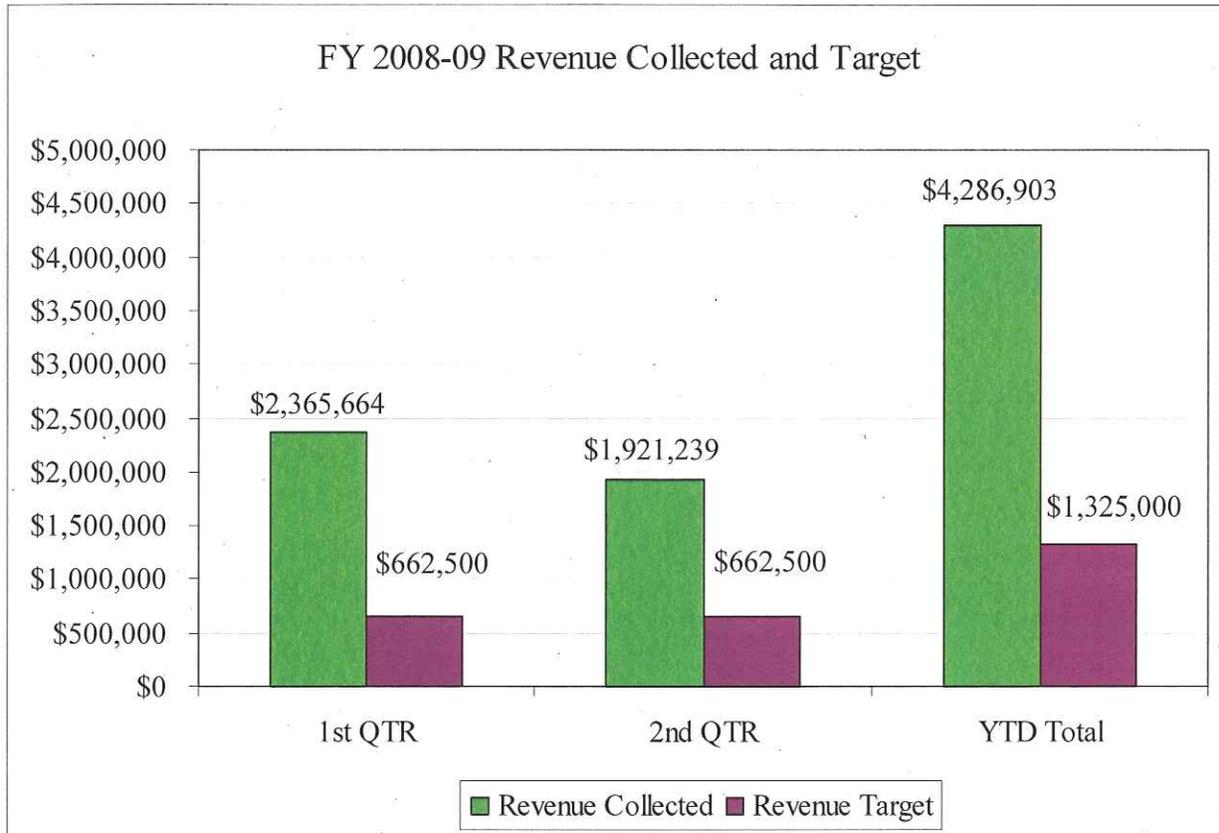
The Finance Department Revenue Management (RM) Division continues to implement the RCSP for the purpose of improving the City's collection efforts and optimizing staff resources. The collection results are summarized in the table below.

Finance Department Revenue Collection Strategic Plan Collection Results			
	<u>1st Quarter</u>	<u>2nd Quarter</u>	<u>Year-to-Date</u>
Program Collections ⁽¹⁾			
Business Tax Delinquencies	\$ 467,901	\$ 539,251	\$1,007,152
Accounts Receivable Delinquencies	1,214,599	568,679	1,783,278
Revenue Compliance/Monitoring	<u>683,164</u>	<u>813,309</u>	<u>1,496,473</u>
Total Program Collections	\$2,365,664	\$1,921,239	\$4,286,903
Program Cost ⁽²⁾			
Business Tax Delinquencies	\$ 111,758	\$ 110,873	\$ 222,631
Accounts Receivable Delinquencies	58,492	54,014	112,506
Revenue Compliance/Monitoring	<u>107,684</u>	<u>130,378</u>	<u>238,062</u>
Total Program Cost	\$ 277,934	\$ 295,265	\$ 573,199
Return on Investment (ROI) ⁽³⁾			
Business Tax Delinquencies	\$ 4.19	\$ 4.86	\$ 4.52
Accounts Receivable Delinquencies	20.77	10.53	15.85
Revenue Compliance/Monitoring	<u>6.34</u>	<u>6.24</u>	<u>6.29</u>
Total ROI	\$ 8.51	\$ 6.51	\$ 7.48

⁽¹⁾ Includes "new" revenue as well as cash collected for revenue previously recognized but not yet collected.
⁽²⁾ Includes staff (Investigator-Collectors only, including salary/fringe benefits/retirement) and consultant costs.
⁽³⁾ ROI is defined by revenue/cost.

The table above highlights how the restructuring of staff resources has benefited the collection efforts of Business Tax, Accounts Receivable, Revenue Compliance and various other collection

strategies described in this RCSP report. The chart below summarizes the revenue collection results for FY 2008-09 through December 31, 2008 compared to the budgeted revenue targets.



Collection Performance Breakdown

- Business Tax Delinquencies
 - Business Tax (BT) Turnover – BT 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.
 - Business License Information Program (BLIP) – The Finance Department continues to work 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 not been in compliance with the City's BT requirements. Mailings of BLIP notices were reduced from an average of 1,650 to 865 per week during the second quarter due to the holiday closure and training staff on the new BT billing system that went live on

December 8, 2008. Staff anticipates increasing the mailing of BLIP notices to an average of 2,000 per week during the remainder of the FY.

- Business Discovery Program (BDP) – This program, previously known as the Field Inspection Program, performs enforcement to increase the City's BT and help ensure that the self-reported tax amount accurately reflects the true amounts owed to the City. In addition, the BDP verifies that businesses are properly allocating sales tax to the City and are paying unsecured property tax to the County of which the City receives a portion of the revenue. Furthermore, the BDP verifies that sewer and storm rates are properly coded for commercial business properties.
- Business Tax ROI – As noted in the table on page 2, the IC's recovered \$539,251 from delinquent and non-compliant BT accounts at a cost of \$110,873 during the second quarter. This represents a \$4.86 return for every dollar spent on program costs.
- Accounts Receivable Delinquencies
 - Accounts Receivable (AR) Delinquency Management – The AR Unit proactively collects on citations issued by various departments including Environmental Services, Fire, General Services, Planning, Building and Code Enforcement, Police and Transportation. Additionally, RM collects on invoices as a result of damage to City property and other miscellaneous delinquent accounts from various City departments. IC's use skip tracing tools to locate debtors and recover outstanding amounts owed the City. The successful management of delinquent accounts increases cash flow for both investments and use of funds to pay for City programs. This strategy is aimed at reducing the City's aging of delinquent AR accounts, which may otherwise be subject to future write-offs as uncollectable debts owed the City.
 - Collaboration with other City Departments and Public Agencies – The Finance Department proactively works with other City departments and Public Agencies to collect revenues due the City. RM staff members are working collaboratively with the County Assessor's Office and the State Board of Equalization to conduct compliance verifications for unsecured property tax and sales tax revenues. In addition, Finance has contracted with two collection agencies to assist with the collection of delinquent accounts. As of December 10, 2008, staff submitted 15,000 delinquent accounts totaling \$2,092,545 to the collection agencies. The collection agencies will work on these accounts in phases over the next four months.

As of December 31, 2008, the outstanding amount of AR that was over 90 days past due was approximately \$14.6 million. Staff will continue their proactive collections efforts. The City's aging accounts receivable balances (including fire, administrative citations and miscellaneous) for the current and prior fiscal years are summarized in the table on page 5.

City of San José
Accounts Receivable Balance ⁽¹⁾

	FY 2008-09		FY 2007-08
	1 st Quarter as of 9/30/08	2 nd Quarter as of 12/31/08	2 nd Quarter as of 12/31/07
Current Receivables ⁽²⁾			
0 – 30	\$5,850,228	\$2,038,122	\$4,255,633
31 – 60	391,625	667,711	608,979
61 – 90	<u>335,334</u>	<u>646,433</u>	<u>303,550</u>
Total Current Receivables	\$6,577,187	\$3,352,266	\$5,168,161
Delinquent Receivables ⁽³⁾			
91 – 120	5,299,311	5,594,816	5,063,014
121 – 365	1,190,014	1,347,453	710,450
366 – 730	665,088	594,816	792,158
731 – 999	<u>7,177,122</u>	<u>7,092,955</u>	<u>9,664,996</u>
Total Delinquent Receivables	\$14,331,535	\$14,630,040	\$16,230,618
Total Accounts Receivables	\$20,908,722	\$17,982,306	\$21,398,779

⁽¹⁾ Includes fire, administrative citations and miscellaneous AR.

⁽²⁾ Current = 90 days or less.

⁽³⁾ Delinquent = 91 days or more.

- Accounts Receivable ROI – As noted in the table on page 2, the IC's collected \$568,679 in delinquent accounts receivables at a cost of \$54,014 during the second quarter. This represents a \$10.53 return for every dollar spent on program costs.
- Revenue Compliance and Monitoring
 - Revenue Compliance Efforts – The Revenue Compliance and Monitoring (RCM) Unit conducts compliance audits and reviews of businesses required to collect taxes and fees, and franchise holders. Revenues in this category include Sales and Use Tax, Utility Users Tax, Franchise Fees, Transient Occupancy Tax, Emergency Communications System Support Fee, Unclaimed Property, City Tow Franchises and Commercial Solid Waste Fees.
 - Compliance Audits and Sales Tax Reviews – During the second quarter, the RCM unit generated \$248,503 from Transient Occupancy Tax audits. Revenues from

Sales Tax audits totaled \$515,627. The Unclaimed Property funds recovered from the State Controller's Office generated an additional \$49,179 in revenue.

- Revenue Compliance ROI – As noted in the table on page 2, the RCM audits have generated \$813,309 in additional revenue at a cost of \$130,378 during the second quarter. This represents a \$6.24 return for every dollar spent on 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 RCSP 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 RCSP program maximizes revenue generation and furthers the City's overall economic goals.

COST SUMMARY/IMPLICATIONS

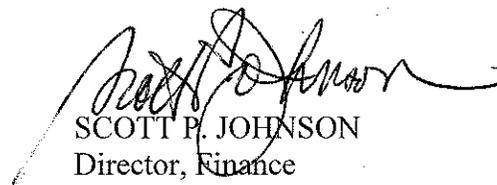
The goal for the RCSP in FY 2008-09 is to generate collections of at least \$2,650,000. Total RCSP efforts through December 31, 2008 resulted in the collection of \$4,286,903, which represents 162% of the Finance Department's annual targeted goal for FY 2008-09.

BUDGET REFERENCE

N/A

CEQA

Not a project.



SCOTT P. JOHNSON
Director, Finance

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