



# Memorandum

**TO:** PUBLIC SAFETY, FINANCE AND  
STRATEGIC SUPPORT COMMITTEE

**FROM:** Scott P. Johnson

**SUBJECT:** FY 2008-09 FOURTH QUARTER  
REVENUE COLLECTION  
STRATEGIC PLAN REPORT

**DATE:** August 6, 2009

Approved

Date

8/10/09

**COUNCIL DISTRICT:** City-Wide

## RECOMMENDATION

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

## OUTCOME

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

## EXECUTIVE SUMMARY

Although the Finance Department has historically focused on collecting funds due to the City along with targeted proactive collection programs, the Finance Department began a broader strategic approach through the Revenue Collection Strategic Plan (RCSP) program. The RCSP began in January 2007 when the Finance Department restructured its Revenue Management operations to maximize the effectiveness of the time spent by the City's Investigator-Collectors on revenue collection efforts.

Through proactive collection efforts during the first full year of the RCSP program in Fiscal Year (FY) 2007-08, the Finance Department collected \$10,805,301 representing 408% above the collection target of \$2,650,000. The RCSP collection target for FY 2008-09 was \$2,650,000. Fourth quarter FY 2008-09, staff collected \$2,733,707. The year-to-date (YTD) collections associated with the RCSP efforts total \$11,221,254, which exceed the annual total collection target by 323%. Without the proactive collection of these delinquencies, the City would be required to increase its reserve for uncollectible accounts, which would negatively affect budgeted revenues.

**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 proactively monitor and collect on the revenue streams the City receives to facilitate the delivery of City services. The RCSP focuses on the City's accounts receivable delinquency management and revenue compliance and monitoring programs.

**ANALYSIS****Collection Results**

The Finance Department Revenue Management Division continues to implement the RCSP for the purpose of improving the City's collection efforts by optimizing staff resources utilizing billing and collection tools and implementing new collection initiatives. The collection results for the fourth quarter and fiscal year-to-date, compared to FY 2007-08 are summarized in the table below.

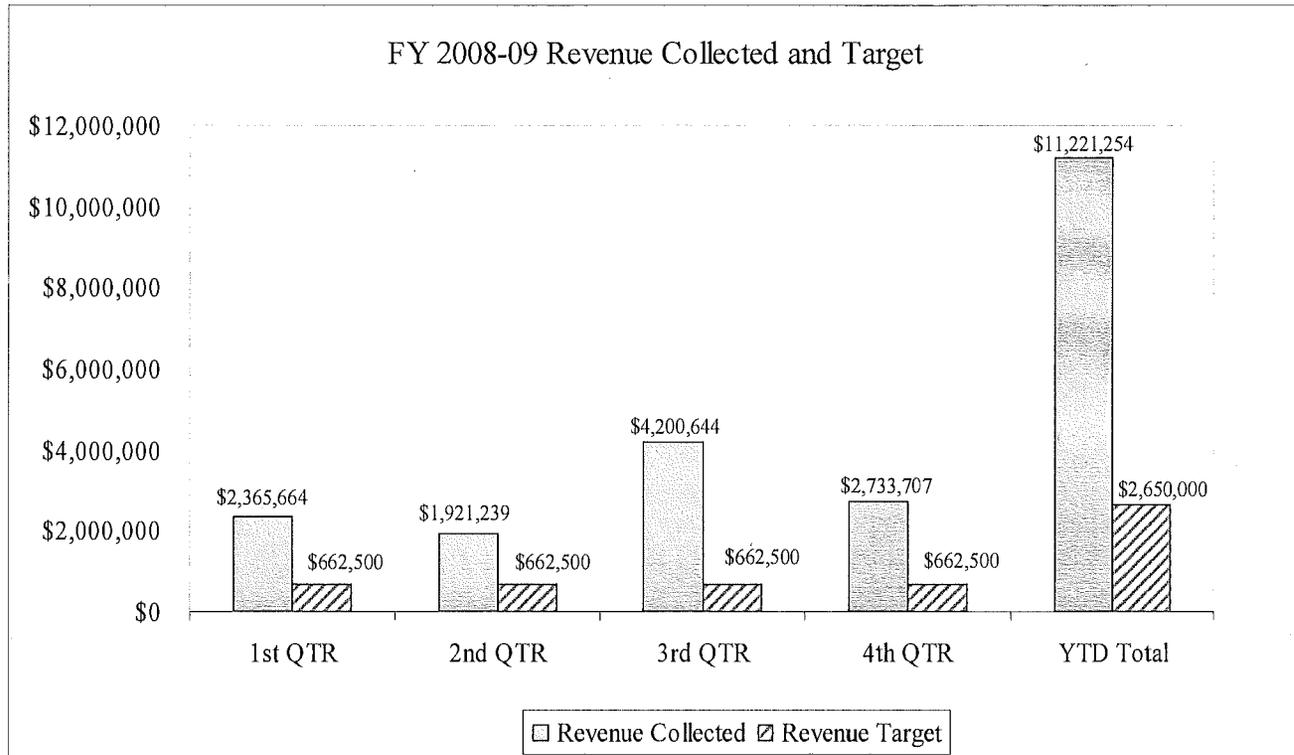
<b>Finance Department Revenue Collection Strategic Plan Collection Results</b>			
	<b>FY 2008-09</b>		<b>FY 2007-08</b>
	<b><u>4<sup>th</sup> Quarter</u></b>	<b><u>Year-to-Date</u></b>	<b><u>Totals</u></b>
<b>Program Collections <sup>(1)</sup></b>			
Business Tax Delinquencies	\$ 441,960	\$ 1,859,794	\$2,339,478
Accounts Receivable Delinquencies	1,119,253	6,291,195	6,300,801
Revenue Compliance/Monitoring	<u>1,172,495</u>	<u>3,070,265</u>	<u>2,165,022</u>
<b>Total Program Collections</b>	<b>\$2,733,707</b>	<b>\$11,221,254</b>	<b>\$10,805,301</b>
<b>Program Cost <sup>(2)</sup></b>			
Business Tax Delinquencies	\$ 121,708	\$ 458,841	\$ 372,721
Accounts Receivable Delinquencies	45,104	220,601	303,118
Revenue Compliance/Monitoring	<u>248,664</u>	<u>613,588</u>	<u>502,775</u>
<b>Total Program Cost</b>	<b>\$ 415,477</b>	<b>\$1,293,031</b>	<b>\$1,178,614</b>
<b>Return on Investment (ROI) <sup>(3)</sup></b>			
Business Tax Delinquencies	\$ 3.63	\$ 4.05	\$ 6.28
Accounts Receivable Delinquencies	24.81	28.52	20.79
Revenue Compliance/Monitoring	<u>4.72</u>	<u>5.00</u>	<u>4.31</u>
<b>Total ROI</b>	<b>\$ 6.58</b>	<b>\$ 8.68</b>	<b>\$ 9.17</b>

<sup>(1)</sup> Includes "new" revenue as well as cash collected for revenue previously recognized but not yet collected.

<sup>(2)</sup> Includes staff (Investigator-Collectors only, including salary/fringe benefits/retirement) and consultant costs.

<sup>(3)</sup> 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 June 30, 2009, 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 Revenue Management staff, specifically the Investigator-Collectors, to interact directly with the business community to assure the highest level of business tax compliance.
- Business License Information Program (BLIP) – BLIP is a program that generates business tax leads by cross checking various databases to identify entities that may not have a business tax with the City. The Finance Department continues to work on an aggressive revenue collection and BT compliance campaign. This program is intended to reach out and to educate new and continuing businesses in San Jose of the City’s business tax requirements. Furthermore, the program increases the BT revenue base and reduces 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. Staff anticipates an average of 1,000 BLIP notices will be mailed out per week.

- Business Discovery Program (BDP) – This program, previously known as the Field Inspection Program, performs enforcement to increase the City's BT and helps 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 within the City.
- Business Tax Program ROI – As noted in the table on page 2, the City recovered \$441,960 from delinquent and non-compliant BT accounts at a cost of \$121,708 during the fourth quarter. This represents a \$3.63 return for every dollar spent on program costs.
- ***Accounts Receivable Delinquencies***
  - Accounts Receivable Delinquency Management – The Accounts Receivable 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. Investigator Collectors use skip tracing tools to locate debtors and recover outstanding amounts owed the City. The successful management of delinquent accounts increases the City's 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 accounts receivable 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 to the City. Revenue Management 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 June 30, 2009, the collection agencies have collected \$60,944 at the end of the fourth quarter at a cost of \$12,609. This represents a \$4.83 return on every dollar spent on program costs.

The outstanding amount of Accounts Receivable that was over 90 days past due was reduced from \$15.95 million (ending balance at the end of fourth quarter June 30, 2008) to \$11.52 million by the end of the fourth quarter as of June 30, 2009. 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 below.

**City of San José**  
**Accounts Receivable Balance <sup>(1)</sup>**

	<b><u>FY 2008-09</u></b> <b><u>4th Quarter</u></b>	<b><u>FY 2007-08</u></b> <b><u>4th Quarter</u></b>
<b><u>Current Receivables <sup>(2)</sup></u></b>		
0 – 30	\$ 2,957,580	\$ 2,190,936
31 – 60	901,541	2,465,113
61 – 90	<u>959,417</u>	<u>918,540</u>
<b>Total Current Receivables</b>	<b>\$ 4,818,538</b>	<b>\$ 5,574,588</b>
<b><u>Delinquent Receivables <sup>(3)</sup></u></b>		
91 – 120	\$ 1,211,190	\$ 3,500,118
121 – 365	1,904,015	2,737,040
366 – 730	1,752,482	742,064
731 – 999	<u>6,657,274</u>	<u>8,969,688</u>
<b>Total Delinquent Receivables</b>	<b>\$11,524,961</b>	<b>\$15,948,910</b>
<b>Total Accounts Receivables</b>	<b><u>\$16,343,499</u></b>	<b><u>\$21,523,498</u></b>

<sup>(1)</sup> Includes fire, administrative citations and miscellaneous accounts receivables.

<sup>(2)</sup> Current = 90 days or less.

<sup>(3)</sup> Delinquent = 91 days or more.

- Accounts Receivable ROI – As noted in the table on page 2, the investigator-collectors collected \$1,119,253 in delinquent accounts receivables at a cost of \$45,104 during the fourth quarter. This represents a \$24.81 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 to collect taxes and fees. Revenues in this category include Sales and Use Tax, Utility Users Tax, Telephone Utility Tax (TUT), Telephone Line Tax (TLT), 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 fourth quarter, revenue compliance staff continues to work with the City Attorney’s Office on telecommunication users tax and telephone line tax related issues as well as pending utility users tax compliance findings.

- Revenue Compliance ROI – As noted in the table on page 2, the revenue compliance and monitoring audits have generated \$1,172,495 in additional revenue at a cost of \$248,664 during the fourth quarter. This represents a \$4.72 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

August 6, 2009

**Subject: FY 2008-09 Fourth Quarter Revenue Collection Strategic Plan Report**

Page 7

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 budgeted target for the RCSP in FY 2008-09 was to generate collections of at least \$2,650,000. Total year end RCSP efforts through June 30, 2009, resulted in the collection of \$11,221,254, which exceed the annual Finance Department's target for FY 2008-09 by 323%.

### **BUDGET REFERENCE**

N/A

### **CEQA**

Not a project.

  
SCOTT P. JOHNSON  
Director, Finance

For questions, please contact David McPherson, Revenue Division Manager, Finance Department at (408) 535-7091.