

**DEPARTMENT OF REVENUE  
FISCAL YEAR 2020 BUDGET TESTIMONY  
MAY 8, 2019**

**INTRODUCTION**

Good morning, President Clarke and Members of City Council. I am Frank Breslin, Revenue Commissioner. Joining me today are Marisa Waxman, First Deputy Revenue Commissioner and Michelle Bethel, Deputy Revenue Commissioner. I am pleased to provide testimony on Revenue's Fiscal Year 2020 Operating Budget.

**DEPARTMENT MISSION & PLANS**

**Mission:** The Department of Revenue collects tax and non-tax revenue due to the City and tax revenue due to the School District of Philadelphia promptly and efficiently by increasing on-time payments and decreasing delinquency.

**Plans for Fiscal Year 2020:** The Department of Revenue collects over \$5 billion in taxes and fees each year to fund the operations of the City and School District of Philadelphia. The Department will expand, develop and implement the following plans in support of the Mayor's commitment to creating a stronger city through education investments, safer neighborhoods and economic growth. We will achieve this by leveraging technology to make it easier to pay on time, focusing on meaningful enforcement programs and continuing to make assistance and relief programs more accessible.

Leverage Technology to Increase On-Time Payments:

- Focus, in partnership with the Office of Innovation and Technology on the multiyear Integrated Tax System (ITS) implementation initiative to provide greater functionality and flexibility for taxpayers by replacing the Department's 35+-year-old system.
- Continue to upgrade communications and technology for electronic filing and payments which increases on-time collections, reduces processing time and improves efficiency.
- Implement eBilling and ePay options for residential and commercial water customers.
- Expand behavioral economic tactics and communication strategies to improve on-time payments, as well as enrollment in assistance and payment agreement programs, and delinquent collections.
- Expand staff training with a focus on trauma-informed customer service.
- Hire additional Continuous Improvement staff to identify opportunities to decrease costs and increase revenue.

Reduce Delinquency:

- Reduce tax delinquency through a combination of consistent, swift, meaningful enforcement, through programs like Sequestration, Commercial Activity License (CAL) Revocation, tax clearance, and foreclosure and a more robust safety net with programs like OOPA, Homestead and the new, flexible business tax payment plans.
- Focus on effective and efficient enforcement tactics for water and sewer collections; such as making phone calls, sending letters, placing liens on properties, and filing suit to reduce water and sewer delinquencies.
- Continue to maximize use of the data warehouse to identify debts and collect revenue.

Department of Revenue

Improve and Expand Outreach for Relief and Assistance Programs:

- Increase in-person neighborhood-based outreach to increase enrollment in assistance and relief programs.
- Reduce barriers to enrollment; such as language and lack of awareness of programs, by working with community partners.
- Continue to promote the Tiered Assistance Program (TAP) to increase enrollment.

**BUDGET SUMMARY & OTHER BUDGET DRIVERS**

<b>Staff Demographics Summary (as of November 2018): All Funds</b>				
	Total	Minority	White	Female
Number of Full-Time Staff	615	471	144	440
Number of Exempt Staff	74	35	39	47
Number of Executive Staff (deputy level and above)	8	3	5	5
Average Salary, Full-Time Staff	\$49,766	\$47,050	\$58,652	\$48,019
Average Salary, Exempt Staff	\$75,127	\$66,677	\$82,710	\$71,101
Average Salary, Executive Staff	\$130,681	\$123,600	\$134,930	\$128,750
Median Salary, Full-Time Staff	\$42,156	\$42,156	\$46,600	\$42,156
Median Salary, Exempt Staff	\$70,020	\$66,950	\$72,100	\$70,000
Median Salary, Executive Staff	\$123,600	\$123,600	\$133,900	\$123,600

<b>Employment Levels (as of November 2018): All Funds</b>		
	Budgeted in FY19	Filled as of the Increment Run (11/18)
Number of Full-Time Positions	669	615
Number of Exempt Positions	74	74
Number of Executive Positions (deputy level and above)	8	8
Average Salary of All Full-Time Positions	\$48,575	\$49,766
Median Salary of All Full-Time Positions	\$42,156	\$42,156

<b>General Fund Financial Summary by Class</b>						
	FY18 Original Appropriations	FY18 Actual Obligations	FY19 Original Appropriations	FY19 Estimated Obligations	FY20 Proposed Appropriations	Difference: FY20-FY19
Class 100 - Employee Compensation	\$22,231,193	\$21,536,327	\$22,156,816	\$22,700,766	\$23,934,508	\$1,233,742
Class 200 - Purchase of Services	\$7,350,349	\$7,104,902	\$7,630,749	\$7,630,749	\$7,755,749	\$125,000
Class 300/400 - Materials, Supplies & Equipment	\$910,976	\$663,662	\$919,976	\$919,976	\$1,188,976	\$269,000
Class 500 - Contributions	\$0	\$3,250	\$0	\$0	\$0	\$0
	<b>\$30,492,518</b>	<b>\$29,308,141</b>	<b>\$30,707,541</b>	<b>\$31,251,491</b>	<b>\$32,879,233</b>	<b>\$1,627,742</b>

<b>Contracts Summary (Professional Services only)</b>						
	FY14	FY15	FY16	FY17	FY18	FY19 YTD (Q1 & Q2)
Total amount of contracts	\$30,710,421	\$24,630,191	\$23,194,941	\$17,237,680	\$31,858,532	\$22,253,000
Total amount to M/W/DSBE	\$17,202,201	\$10,852,058	\$5,954,900	\$5,530,688	\$14,262,700	\$11,629,565
Participation Rate	56%	44%	26%	32%	45%	52%

<b>Total M/W/DSBE Contract Participation Goal (Public Works; Services, Supplies &amp; Equipment; and Professional Services combined)</b>			
	FY18	FY19	FY20
M/W/DSBE Contract Participation Goal	46%	46%	46%

## PROPOSED BUDGET OVERVIEW

### Proposed Funding Request:

**General Fund:** The proposed Fiscal Year 2020 General Fund budget totals \$32,879,233, an increase of \$1,627,742 over Fiscal Year 2019 estimated obligation levels. This increase is primarily due to \$1,233,742 in salary increases for District Council #47, Non-Represented, and Exempt staff and for the additional twenty-one (21) positions for the Integrated Tax System (ITS) and Commercial Activity Revocation (CAL) program. Additional funding of \$394,000 is proposed to increase support to the ITS Initiative and the CAL program.

The proposed budget includes:

- \$23,934,508 in Class 100, a \$1,233,742 increase over FY19. This funding will support the payroll costs for the Department's 458 budgeted positions including temporary positions needed during peak operational periods throughout the year. The proposed increase will support salary increases for District Council #47, Non-Represented, and Exempt staff.
- \$7,755,749 in Class 200, a \$125,000 increase over FY19. This funding is for the Purchase of Services in support of delinquent collections, modernization of revenue collection processes with eFile/ePay options and free tax preparation services and tax relief assistance to homeowners. The increase will fund the professional services and maintenance for the Integrated Tax System (ITS) and the Commercial Activity Revocation (CAL) program.
- \$1,188,976 in Class 300/400, a \$269,000 increase over FY19. This funding will allow the Department to procure office supplies and services, equipment, and furniture in support of Department programs and initiatives. The increase will fund the purchase of supplies, furniture, and equipment for the ITS Initiative and the CAL program.

**Water Fund:** The proposed Fiscal Year 2020 Water Fund budget totals \$17,472,616, an increase of \$620,209 over Fiscal Year 2019 estimated obligation levels. This increase is primarily due to \$514,209 in salary increases for District Council #47, Non-Represented, and Exempt staff. Additional funding of \$106,000 is proposed to fund a postage increase in January 2019.

- \$10,873,116 in Class 100, a \$514,209 increase over FY19. This funding will support the payroll costs of 232 budgeted positions. The proposed increase will support salary increases for District Council #47, Non-Represented, and Exempt staff.
- \$5,165,000 in Class 200, a \$106,000 increase over FY19. This increase will support a postage cost increase implemented by USPS in January 2019.
- \$1,429,500 in Class 300/400, level with FY19 estimated obligations levels.
- \$5,000 in Class 500, level with FY19.

**Grants Revenue Fund:** The proposed Fiscal Year 2020 Grants Revenue Fund budget is \$26,425,000 (all in Class 200). This is level with Fiscal Year 2019 estimated obligations levels.

**STAFFING LEVELS**

The department is requesting 690 All Funds budgeted positions for FY20, an increase of twenty-one (21) General Fund positions over FY19.

The increase is attributed to the addition of twenty-one (21) positions needed to provide support to the Integrated Tax System Initiative (ITS) and the Commercial Activity Program (CAL).

**NEW HIRES**

New Hires (from 7/1/2018 to 11/25/18)						
	Total Number of New Hires	Spanish	French	Hindi	Malayalam	Gujarati
Black or African American	10					
Asian	3		1	2	1	1
Hispanic or Latino	1	1				
White	7					
Other	5					
Total	26	1	1	2	1	1

Since the increment run, the Revenue Department has hired 27 employees. Of these, there were 17 Black or African American employees, 2 Asian employees (one who speaks Hindi and one who speaks Gujarati), 3 Hispanic or Latino employees (all of whom speak Spanish), 4 White employees, and 1 employee that identifies as Other.

**PERFORMANCE, CHALLENGES, AND INITIATIVES**

**POLICY, ANALYSIS, EXECUTIVE DIRECTION AND ADMINISTRATION PROGRAM**

FY20 Strategic Goals				
<ul style="list-style-type: none"> <li>Select vendor and finalize contract for new Integrated Tax System.</li> <li>Upgrade online and traditional communications to taxpayers and water customers.</li> <li>Maximize use of the data warehouse to identify debts and collect revenue.</li> </ul>				
FY20 Performance Measures				
Measure	FY18 Actual	FY19 YTD (Q1 + Q2)	FY19 Target	FY20 Target
Percent of budgeted positions filled	91.8%	92.0%	95.0%	95.0%

**WATER BILLING, ACCOUNTING AND CUSTOMER SERVICE PROGRAM**

FY20 Strategic Goals				
<ul style="list-style-type: none"> <li>Increase the number of customers receiving eBills.</li> <li>Increase the number of customers with automated monthly payments.</li> </ul>				
FY20 Performance Measures				
Measure	FY18 Actual	FY19 YTD (Q1 + Q2)	FY19 Target	FY20 Target
Percent of water bills paid in 90 days	87.1%	88.7%	87.0%	88.0%
Dollar amount of water bills collected	\$652.0M	\$331.3M	\$645.8M	\$642.9M

**WATER ASSISTANCE PROGRAMS**

FY20 Strategic Goals				
<ul style="list-style-type: none"> <li>Increase enrollment in TAP.</li> <li>Increase enrollment in the Senior Water Discount.</li> </ul>				
FY20 Performance Measures				
Measure	FY18 Actual	FY19 YTD (Q1 + Q2)	FY19 Target	FY20 Target
Percent of applications reviewed within 30 days	28.5%	92.0%	100.0%	100.0%

**WATER COLLECTIONS PROGRAM**

FY20 Strategic Goals				
<ul style="list-style-type: none"> <li>Evaluate the benefits and negative impacts of maintaining a winter moratorium on residential water shut-offs.</li> <li>Increase number of court filings for foreclosures on commercial water accounts.</li> </ul>				
FY20 Performance Measures				
Measure	FY18 Actual	FY19 YTD (Q1 + Q2)	FY19 Target	FY20 Target
Percent change in delinquent principal outstanding (excludes current charges not yet overdue/delinquent and city bills) <sup>1</sup>	0.7%	N/A	0.0%	-1.0%
Percent of Delinquent Water Accounts in Payment Agreements or TAP <sup>1</sup>	10.0%	N/A	12.0%	13.0%

<sup>1</sup> This is an annual measure, and FY19 data will be available at year-end.

## TAX BILLING, ACCOUNTING, AND CUSTOMER SERVICE PROGRAM

FY20 Strategic Goals				
<ul style="list-style-type: none"> <li>• Increase percent of Real Estate Taxes paid on-time.</li> <li>• Increase percentage of electronic tax filings.</li> <li>• Increase percentage of electronic payments.</li> </ul>				
FY20 Performance Measures				
Measure	FY18 Actual	FY19 YTD (Q1 + Q2)	FY19 Target	FY20 Target
Percent of real estate tax collected within calendar year <sup>1</sup>	96.1%	N/A	96.1%	96.5%
Total dollar amount collected (General Fund) <sup>2</sup>	\$3.9B	\$1.3B	\$3.9B	\$4.1B
Total dollar amount collected (School District) <sup>3</sup>	\$1.101B	\$212.5M	\$1.116B	TBD

<sup>1</sup> This is an annual measure, and FY19 data will be available at year-end. The FY18 year-end figure represents Calendar Year 2017, which is the most recent year for which 12 months of data is available.

<sup>2</sup> This includes real estate, BIRT and all wage taxes. Wage taxes include the PICA tax.

<sup>3</sup> School District amounts are from their budget. This includes Payment In Lieu of Taxes (PILOT) revenue. The FY20 target will be available when the District releases their budget later in FY19.

## TAXPAYER ASSISTANCE AND CREDIT PROGRAMS

FY20 Strategic Goals				
<ul style="list-style-type: none"> <li>• Increase enrollment in Real Estate Tax assistance programs.</li> <li>• Process all applications in a timely manner.</li> </ul>				
FY20 Performance Measures				
Measure	FY18 Actual	FY19 YTD (Q1 + Q2)	FY19 Target	FY20 Target
Percent of homeowners receiving relief <sup>1</sup>	78.0%	N/A	79.0%	80.0%
Number of free Federal Tax Returns prepared to support the Earned Income Tax Credit (EITC) <sup>2</sup>	26,222	N/A	25,600	25,600

<sup>1</sup> This is an annual measure, and FY19 data will be available at year-end. During FY18, the Department of Revenue's Audit Unit conducted a compliance initiative to identify and revoke Homestead and LOOP from accounts no longer entitled to the program; so while the rate of enrollment has not had a net increase, Revenue is pleased that those enrolled are entitled to the relief.

<sup>2</sup> This is an annual measure, and FY19 data will be available at year-end. The contracts are funded on a per return basis, capped at 25,600 based on the available funds – but sometimes the vendor is able to prepare more.

## DELINQUENT TAX COLLECTION PROGRAM

FY20 Strategic Goals				
<ul style="list-style-type: none"> <li>• Reduce delinquent, active principal for Real Estate and business taxes.</li> <li>• Increase the percentage of accounts under payment agreement.</li> </ul>				
FY20 Performance Measures				
Measure	FY18 Actual	FY19 YTD (Q1 + Q2)	FY19 Target	FY20 Target
Percent change in delinquent principal outstanding <sup>1</sup>	-10.6%	N/A	-10.0%	-10.0%
Percent delinquent real estate tax accounts in payment agreements <sup>2</sup>	24.1%	N/A	25.5%	25.5%

<sup>1</sup> This is an annual measure, and FY19 data will be available at year-end. This includes both business and real estate taxes for active periods. Active periods being defined as the last 10 years for real estate and the last 6 years for business taxes.

<sup>2</sup> This is an annual measure, and FY19 data will be available at year-end. This measure consists of active periods. Active periods being defined as the last 10 years for real estate and the last 6 years for business taxes. With the dramatic reduction in the total number of delinquent accounts due to increased enforcement and on-time payments, the ones that remain are more difficult to collect from and less likely to enter into an agreement.

**OTHER BUDGETARY IMPACTS**

**Federal and State (Where Applicable)**

The Federal Tax Cuts and Jobs Act passed by Congress in December 2017 continues to create uncertainty for City revenue. A number of provisions contained in the bill could affect local revenue collections, increase the volatility of collections, and make revenue estimates much more difficult to predict. For example, the law doubles immediate expensing from \$500,000 to \$1 million, which could reduce net income for businesses that is taxable in Philadelphia.

Proposed state legislation altering the Sterling Act to require that non-resident Wage Taxes be remitted back to the home jurisdiction of the commuter working in Philadelphia could have a negative impact estimated at \$180 million annually if passed and surrounding jurisdictions all implemented a 1% Earned Income Tax. Additionally, proposed state legislation to bar the taxation of the distribution of sweetened beverages would create a dramatic revenue loss.

**CONTRACTING EXPERIENCE**

M/W/DSBE Participation on Large Professional Services Contracts with For-Profit Vendors											
Top Five Largest Contracts over \$34,000 for FY19											
Vendor Name	Brief Description of Service Provided	Dollar Amount of Contract	RFP Issue Date	Contract Start Date	Ranges in RFP	% of M/W/DSBE Participation Achieved	\$ Value of M/W/DSBE Participation	Total % Participation - All DSBES	Total \$ Value Participation - All DSBES	Is This a Local Business? (principal place of business located within City limits) [yes / no]	Does the Vendor Have a Waiver for Living Wage Compliance? [yes / no]
Goehring, Rutter & Boehm	Real Estate Delinquent Tax Collections	\$6,000,000	6/30/2016	1/1/2017	MBE: 17% – 22%	15%	\$900,000	18%	\$1,080,000	No	No
					WBE: 3% - 7%	3%	\$180,000				
					DSBE: Best Efforts	0%	\$0				
Linebarger, Goggan, Blair & Sampson, LLP	Real Estate Delinquent Tax Collections	\$6,000,000	6/30/2016	1/1/2017	MBE: 17% - 22%	100%	\$5,986,200	100%	\$6,000,000	Yes	No
					WBE: 3% - 7%	0%	\$13,800				
					DSBE: Best Efforts	0%	\$0				
Revenue Collection Bureau, Inc.	Discovery & Delinquent Tax Collections	\$3,650,000	7/13/2016	12/1/2017	MBE: 12% - 16%	100%	\$3,650,000	100%	\$3,650,000	Yes	No
					WBE: 10% - 15%	0%	\$0				
					DSBE: Best Efforts	0%	\$0				
Pioneer Credit Recovery, Inc.	Discovery & Delinquent Tax Collections	\$2,400,000	7/13/2016	7/1/2017	MBE: 12% -16%	4%	\$96,000	22%	\$528,000	No	No
					WBE: 10% - 15%	18%	\$432,000				
					DSBE: Best Efforts	0%	\$0				
AllianceOne Receivables	Tax Information Certificates	\$450,000	7/13/16	7/1/17	MBE: 12% – 16%	5%	\$22,500	0%	\$0	No	No
					WBE: 10% - 15%	1%	\$4,500				
					DSBE: Best Efforts	0%	\$0				

Department of Revenue

<b>Non-Profit Vendor Demographics</b>		
<b>Campaign for Working Families</b>	<b>Minority %</b>	<b>Female %</b>
Workforce	50%	38%
Executive	50%	38%
Board	43%	43%
<b>LaSalle University</b>	<b>Minority %</b>	<b>Female %</b>
Workforce	24%	57%
Executive	20%	30%
Board	.05%	25%
<b>PathWays, PA, Inc.</b>	<b>Minority %</b>	<b>Female %</b>
Workforce	74%	92%
Executive	50%	80%
Board	20%	87%

**EMPLOYEE DATA**

<b>Staff Demographics (as of November 2018)</b>					
<b>Full-Time Staff</b>			<b>Executive Staff</b>		
	Male	Female		Male	Female
	African-American	African-American		African-American	African-American
<i>Total</i>	83	304	<i>Total</i>	0	2
<i>% of Total</i>	13%	49%	<i>% of Total</i>	0%	25%
<i>Average Salary</i>	\$48,314	\$45,740	<i>Average Salary</i>	N/A	\$123,600
<i>Median Salary</i>	\$42,156	\$42,156	<i>Median Salary</i>	N/A	\$123,600
	White	White		White	White
<i>Total</i>	56	88	<i>Total</i>	2	3
<i>% of Total</i>	9%	14%	<i>% of Total</i>	25%	38%
<i>Average Salary</i>	\$63,989	\$55,256	<i>Average Salary</i>	\$139,050	\$132,183
<i>Median Salary</i>	\$53,346	\$44,533	<i>Median Salary</i>	\$139,050	\$133,900
	Hispanic	Hispanic		Hispanic	Hispanic
<i>Total</i>	7	23	<i>Total</i>	1	0
<i>% of Total</i>	1%	4%	<i>% of Total</i>	13%	0%
<i>Average Salary</i>	\$53,857	\$50,584	<i>Average Salary</i>	\$123,600	N/A
<i>Median Salary</i>	\$42,156	\$43,331	<i>Median Salary</i>	\$123,600	N/A
	Asian	Asian		Asian	Asian
<i>Total</i>	23	17	<i>Total</i>	0	0
<i>% of Total</i>	4%	3%	<i>% of Total</i>	0%	0%
<i>Average Salary</i>	\$53,665	\$51,055	<i>Average Salary</i>	N/A	N/A
<i>Median Salary</i>	\$52,535	\$47,783	<i>Median Salary</i>	N/A	N/A
	Other	Other		Other	Other
<i>Total</i>	6	8	<i>Total</i>	0	0
<i>% of Total</i>	1%	1%	<i>% of Total</i>	0%	0%
<i>Average Salary</i>	\$45,535	\$41,203	<i>Average Salary</i>	N/A	N/A
<i>Median Salary</i>	\$43,826	\$36,309	<i>Median Salary</i>	N/A	N/A
	Bilingual	Bilingual		Bilingual	Bilingual
<i>Total</i>	39	32	<i>Total</i>	1	0
<i>% of Total</i>	6%	5%	<i>% of Total</i>	13%	0%
<i>Average Salary</i>	\$57,243	\$48,619	<i>Average Salary</i>	\$123,600	N/A
<i>Median Salary</i>	\$50,962	\$43,331	<i>Median Salary</i>	\$123,600	N/A
	Male	Female		Male	Female
<i>Total</i>	175	440	<i>Total</i>	3	5
<i>% of Total</i>	28%	72%	<i>% of Total</i>	38%	63%
<i>Average Salary</i>	\$54,160	\$48,019	<i>Average Salary</i>	\$133,900	\$128,750
<i>Median Salary</i>	\$44,533	\$42,156	<i>Median Salary</i>	\$123,600	\$123,600

## LANGUAGE ACCESS

**1. Has your leadership received language access training?**

Yes, March 19, 2018.

**2. Do you currently have a language access coordinator?**

Yes, Rebecca Lopez Kriss, Senior Policy Analyst & Director of Strategic Outreach.

**3. Has your department written a language access plan and is it posted online?**

Yes, the department has written and posted the plan online at: <https://www.phila.gov/documents/language-access-plans/>.

**4. Explain what your department has done to improve language access services over the past year.**

The Department goes above and beyond fulfilling the City's language access obligations. In the last year, we published 11 Spanish-language blogs and eight multi-lingual videos with information about Real Estate Tax obligations, tax and water assistance programs, and the Earned Income Tax Credit. Importantly, we created a series of videos that outline our language access services and how taxpayers can use them. These videos are published on YouTube in Spanish, Mandarin, Cantonese, and Russian (Vietnamese is coming). We have also translated some of our most important social media posts into Spanish, Mandarin, French, and Russian. The Low-Income Senior Citizen Tax Freeze application and Homestead Exemption applications are translated into Spanish and all of our promotional flyers are translated into Spanish.

The City's Earned Income Tax Credit campaign includes content in eight languages across digital and print media, including translation for the kick-off press conference, Spanish-language video, and multi-lingual flyers. We enhanced that content with Spanish and Mandarin ad placement in local bi-lingual newspapers.

We are also currently in the process of adding Spanish and Mandarin to our intake kiosk system in the Municipal Services Building.