



CITY OF PHILADELPHIA

DEPARTMENT OF REVENUE
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FRANK BRESLIN, CPA
Revenue Commissioner
Chief Collections Officer

June 4, 2018

The Honorable Darrell L. Clarke
City Council President
City Hall, Room 494
Philadelphia, PA 19102

Dear Council President Clarke:

This letter is in response to questions raised at the May 8, 2018 hearing before the Committee of the Whole on the Fiscal Year 2019 proposed budget for the Department of Revenue. At this hearing, the following questions were asked:

Council President Clarke: Provide 1. the number of registered hotel taxpayers; and 2. the number of units.

In 2017, there were 118 taxpayers paying the Hotel Tax; this includes traditional hotels/motels, booking agents that facilitate short-term rentals for multiple properties owners, and individual property owners engaged in short-term rentals.

The Department of Revenue does not collect the number of units (hotel rooms, individual operators using a booking agent) as it is not required for administration of the tax. Certain short-term residential rentals require a rental license (those that rent space for more than 180 nights a year if it is the primary residence of the operator or over 90 nights a year if it is not the primary residence of the operator); however, those are not tracked separately from other rental licenses by the Department of Licenses and Inspections.

Although the Department of Revenue does not collect unit data to administer the tax, we have recently acquired software on the recommendation of another jurisdiction that will allow us to scrape the websites of booking agents to identify properties listed for short-term rentals to assist with our compliance efforts. We expect to have preliminary data from that software in two to three weeks and will share our findings when we have them. Non-governmental groups have done similar analysis and found 7,367 properties listed on AirBnB in July of 2017. That data can be accessed at: <http://tomslee.net/airbnb-data-collection-get-the-data>.

Councilwoman Parker: For the two firms hired to collect on delinquent taxes, what are their collection rates?

Table 1 – Delinquent Real Estate Tax Collections by Linebarger, Fiscal Years 2015, 2016, & 2017

Delinquent Real Estate Tax Collection Rate	FY 15	FY 16	FY 17
Fiscal Year Collections (a)	\$15,507,620	\$16,405,646	\$13,683,921
Fiscal Year Ending Delinquent Balance (b)	\$139,119,935	\$124,651,821	\$124,728,302
Fiscal Year Collection Rate (a)/(a + b)	10.0%	11.6%	9.9%

Table 2 – Delinquent Real Estate Tax Collections by Goehring Rutter & Boehm (GRB), Fiscal Years 2015, 2016, & 2017

Delinquent Real Estate Tax Collection Rate	FY 15	FY 16	FY 17
Fiscal Year Collections (a)	\$28,353,287	\$28,202,001	\$25,089,540
Fiscal Year Ending Delinquent Balance (b)	\$133,351,589	\$117,915,239	\$97,674,802
Fiscal Year Collection Rate (a)/(a + b)	17.5%	19.3%	20.4%

Table 3 – Delinquent Real Estate Tax Collections by the Revenue Department, Fiscal Years 2015, 2016, & 2017

Delinquent Real Estate Tax Collection Rate	FY 15	FY 16	FY 17
Fiscal Year Collections (a)	\$58,475,126	\$71,540,680	\$60,810,384
Fiscal Year Ending Delinquent Balance (b)	\$235,487,663	\$216,215,533	\$196,614,244
Fiscal Year Collection Rate (a)/(a + b)	19.9%	24.9%	23.6%

Please note that because each year new delinquencies are assigned to the collection firm with prior delinquencies for that property, and because Linebarger services the debts on behalf of US Bank still outstanding from the 1997 lien sale, their portfolio can be assumed to have older, harder to collect debts which may account for some of the differential in collection rates.

Councilwoman Parker: How long would it take to collect on delinquent properties at the 6% Law Department rate as opposed to the 18% outside vendor rate?

There is no difference in how long it takes the Law Department or outside counsel to foreclose on properties. The difference in the attorney fee rate reflects the fact that outside counsel needs to be compensated for their overhead expenses and for working on accounts – particularly Owner-Occupied Payment Agreements – where they receive little or no fees and often do not even recover their out of pocket expenses for title work, posting and advertising.

Councilman Jones: Provide a copy of the letter that was sent to constituents regarding the delinquent tax collection pilot program.

The text of the letter from PA 202nd is attached. PA 202nd staff worked with PA 7th staff to generate their mailing, but the PA 7th did not share the text of their final version with the Philadelphia Department of Revenue. In both instances, the letters were drafted and mailed by the elected official and sent on their letterhead.

Councilman Jones: How many letters were sent to constituents in the fourth district regarding the delinquent tax collection pilot program?

The Department of Revenue provided the PA 7th with a list of the 1,557 properties that were delinquent as of December 31, 2017 and believed to be owner-occupied. The count of letters mailed by the PA 7th was not reported to the Philadelphia Department of Revenue, but our understanding is that they intended to contact all of them.

Councilwoman Reynolds Brown: How much of the \$426M delinquent figure is for properties in bankruptcy? How much is for nonprofits and exempt entities?

Of the \$161.8 million in delinquent, active principal due (10 years or younger) as of March 31, 2018, \$4.9 million is in bankruptcy. The Department uses the delinquent, active principal as the most meaningful measure of Real Estate Tax delinquency when assessing collection potential. Of the entire \$414 million Real Estate delinquency (all ages, including interest, penalty, and other charges as of March 31, 2018), \$8.8 million is in bankruptcy.

There should not be any delinquency on properties used for an exempt purpose by a non-profit or otherwise exempt entity. In practice, there may be some properties entitled to exemption that show a delinquency, typically because whether a property is entitled to that exemption is in dispute, the entity has not sought an exemption from the Office of Property Assessment, or the delinquency pre- or post-dates the use of the property for an exempt purpose by an exempt entity. The Department of Revenue works with property owners, the Office of Property Assessment, and other stakeholders when cases arise where a non-profit has not applied or been approved for an exemption to resolve the issue.

Councilwoman Reynolds Brown: Please provide a flowchart to explain when properties go into delinquency, and explain the 1/3 of delinquent properties that stay with the Law Department.

Please see attached flowchart.

Councilwoman Quinones-Sanchez: When auto-enrollment into the homestead exemption was implemented in August for Senior Tax Freeze and OOPA recipients, did existing Senior Tax Freeze and OOPA recipients get enrolled retroactively in the homestead exemption?

In August 2017, 3,654 OOPA households were enrolled for Homestead beginning Tax Year 2018 resulting in savings of \$1.5 million. Senior Tax Freeze households have been auto enrolled into Homestead every year since 2016. Auto enrollment is for the current and future years. The Department of Revenue has the authority to retroactively approve enrollment when the taxpayer can demonstrate a reason for the untimely application, and has used this authority in individual cases.

Councilwoman Gym: Provide a calculator that will enable the user to toggle between incremental changes if the total property tax rate is held constant.

Please see the attached spreadsheet titled "School District Millage Calculator." Cell H2 enables the user to enter an amount of Real Estate Tax revenue (in thousands) to transfer from the City to the School District in FY19. Once the amount is entered, the new millage rates for the City and School District that would be needed to produce this shift in revenue are calculated in cell E18. Table II-B, beginning on row 25, then shows the following for FY19-23: the lost revenue to the City resulting from this millage shift, the increased revenue to the School District resulting from this millage shift, and the total increased funding to the School District if

revenue from the millage shift was provided in lieu of a property tax increase but in addition to the other elements of the current proposed funding package for the School District (which include a \$20 million annual increase in the City's contribution to the School District, slowing the planned reductions in the wage tax, and Council's recently introduced legislation increasing the Real Estate Transfer Tax to 3.278% to offset the cost of increasing the homestead exemption to \$40,000). Line 39 shows the amount that would be generated by current proposed funding package.

Councilman Henon: When tools like skip tracers are used, what is the service rate?

Revenue has a contract for skip tracing, roughly \$0.30 per look up.

Additionally, the Department of Revenue places delinquent and overdue accounts with multiple outside collection agencies, and co-counselors. Those firms conduct skip tracing as part of their outreach process on returned mail. Accounts with social security numbers are normally 90% successful in obtaining a new address, and accounts without social security numbers are about 5-10% successful. When skip tracing is unsuccessful, a debtor is placed in an alert status designed to locate them during any financial transaction or registration with any public database. This alert status process continues until the account is pulled back by the Department.

The agencies recoup those costs and other costs associated with their collection efforts as a percentage of what is ultimately collected. There are variable rates paid, based on the type of debt being collected, the characteristics of the debt (i.e.: is the property vacant, has another collection agency already tried to collect, how much is the debt, is litigation required) and whether the taxpayer makes the payment to the City directly or through the collection agency. Those rates range from 9% to 20%.

If you have any additional questions, please feel free to contact my office.

Very truly yours,

A handwritten signature in blue ink, appearing to read "Frank Breslin".

Commissioner Frank Breslin, CPA
Chief Collections Officer

FB/mnm

Accounts the City services internally

Once the City has selected accounts for in-house collection efforts, we use a variety of tools to collect delinquent Real Estate Taxes

We start by sending a series of delinquent bills and warning letters. City and State legislation has also enabled us to use other tools, such as Sequestration or the ability to place liens on property anywhere in Pennsylvania because of Real Estate debt on property in Philadelphia (Act 93).

As a last resort, we will start the Sheriff Sale process. In FY17, the City ordered over 12,000 Tax Information Certificates, with just under 4,000 actually sold.

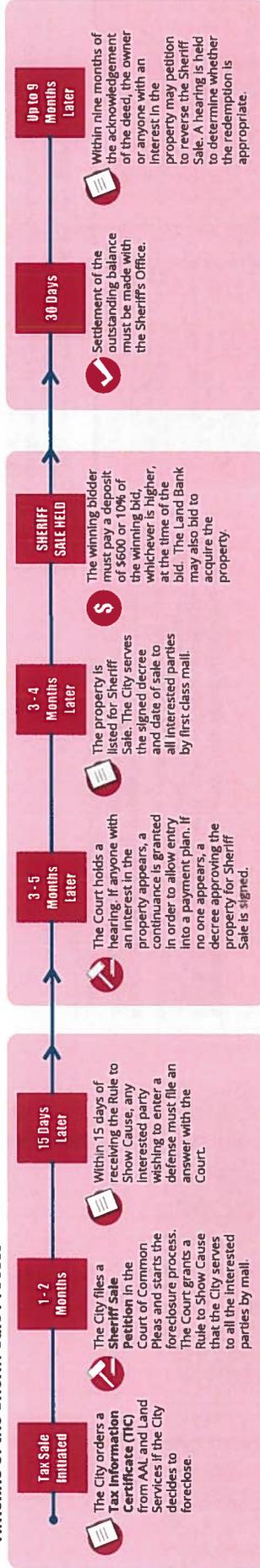
Not all accounts go to Sheriff Sale at the same time. Because the City has a finite number of slots available with the court to file a Sheriff Sale Petition, we prioritize accounts that are eligible for sale (properties not in bankruptcy, a payment agreement or under appeal) by the amount owed. We also prioritize based on requests from the Land Bank and L & I.

Most delinquent taxpayers pay in full or enter into an agreement before an auction.

Being selected for Sheriff Sale also does not mean that an auction is inevitable, particularly for homeowners. Homeowners can stop the foreclosure process at any time before the Tax Sale.

After a Tax Sale petition is filed with the Court, the City notifies all interested parties by mail and by posting a notice on the property. If an owner, tenant, or a representative of the property owner appears at the mandated court hearing, the City will never ask the court to issue an order to sell the property. Once the City obtains an order to sell the property, we send notice to all parties by first-class mail, and the Sheriff also posts a handbill of sale on the property. At this point, interested parties still have time to avoid Tax Sale if they get into a payment agreement or pay their delinquent taxes.

Timeline of the Sheriff Sale Process

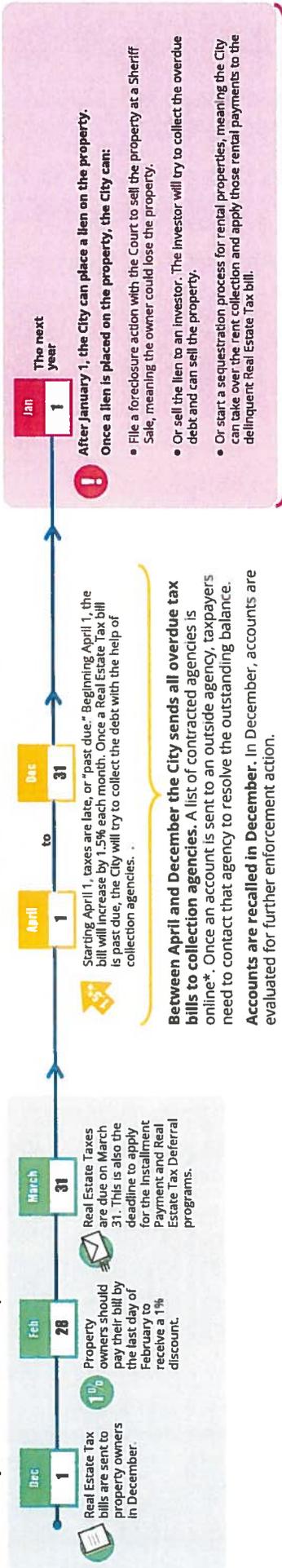


Understanding the Philadelphia Real Estate Tax Process

After Jan 1 of the following year, the account is "delinquent." Accounts are evaluated for further collections.

After April 1, the account is "past due," and sent to collection agencies. Accounts are recalled in December.

What to expect, and when to expect it—First Year



* beta.phila.gov/services/payments-assistance-taxes/debt-collection/debt-collection-agencies/

For the accounts that are actionable, these accounts are kept for in-house collection efforts or sent to our co-counsel, partner law firms GRB and Linebarger. The City's co-counsel is authorized to take delinquent properties to Sheriff Sale on our behalf.

To determine how accounts are assigned, we first check if the property has previous years of delinquency. Properties that already have multiple years of delinquency are re-assigned to the firm that is handling the delinquent account already.

Remaining delinquent accounts from the most recent tax year are evaluated for further action based on the following criteria:

- The City keeps properties that we believe are more likely to pay.
- We also exclude those accounts that can be collected through tools, like sequestration.
- The City splits the remaining accounts equally between GRB and Linebarger.

John Q. Public
123 Street
Philadelphia, PA 19111

January 20, 2018

Re: Saving your home from foreclosure

Dear Jay H Blum,

Keeping residents like you in their home is one of my highest priorities as your State Representative. My staff and I are here to help you in any way we can.

We noticed when looking at City records that you are in danger of losing your home because you are behind on your city property taxes.

We can help prevent this from happening. There are great programs available for residents like you to help relieve this stress from your life. You can save your home from foreclosure for as little as \$25 a month!

Please call us at 215-342-6340 or stop by our office at 7012 Castor Avenue to talk with me or a member of my team about how we can help you.

We look forward to hearing from you and helping you resolve this important issue.

Sincerely,

A handwritten signature in black ink, appearing to read 'Jared Solomon', with a stylized flourish at the end.

Jared Solomon
Member, Pennsylvania House of Representatives
202nd Legislative District