

**DEPARTMENT OF REVENUE
FISCAL YEAR 2024 BUDGET TESTIMONY
MARCH 29, 2023**

INTRODUCTION

Good Morning, President Clarke and Members of City Council. I am Frank Breslin, Revenue Commissioner. Joining me today are Kathleen McColgan, First Deputy Revenue Commissioner, Susan Crosby, Deputy Revenue Commissioner for Water and members of my executive team. I am pleased to provide testimony on the Department of Revenue's Fiscal Year 2024 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, while providing excellent service to customers that is fair and efficient.

Plans for Fiscal Year 2024: In FY24, the Department of Revenue will make investments in technology and human capital to improve revenue collections and service delivery. We will continue to enhance our new, modernized tax system, creating an improved customer experience and improved revenue collections. The new system provides opportunities to improve eFile/ePay options, simplifying application processes, and better use data for enforcement tools. We also remain committed to employing a diverse workforce, bolstering our ability to serve diverse communities.

Expand continuous and process improvement; invest in human capital

- Launch on-boarding and training for new customer-facing employees to ensure preparedness for customer interactions and professional development.
- Develop a cross-training program to increase staffing resources available for assistance application processing to reduce processing time.

Leverage Technology for Increased Revenue Collections

- In partnership with OIT, Revenue will implement a new Cashiering system allowing for faster processing of payments and adaptability to changes in the payment industry.
- Leverage the new tax system to maximize call center functionality and refine audit and enforcement case selection to increase internal efficiencies, improve the customer experience and improve compliance.
- Continue to increase e-billing adoptions for taxes, fees, and water bills, through outreach and partnership with the e-pay vendor.
- Augment the large business audit program by participating in the intergovernmental tax agency Multistate Tax Commission Audit Program to stimulate greater voluntary compliance and increase revenue collection.

Department of Revenue

- Reduce water service disconnections by expanded opportunities for relief and additional payment agreements options through collection agencies to customers to resolve water debt.
- Improve tax and water data matching to expand the Sequestration and Consolidated actions programs.

Operate with a DEI Focus

- Due to previous success in working with minority owned contractors, we have increased our OEO participation goal from 46 percent in FY23 to 48 percent in FY24.
- Pursue multiple assistance program auto-enrollment projects, including auto-enrolling LIHWAP participants into TAP in collaboration with the Commonwealth, and auto-enrolling Medicaid participants into the Low-Income Senior Citizen Tax Freeze program, in collaboration with the Mayor's Office and Health and Human Services in the Managing Director's Office.

BUDGET SUMMARY & OTHER BUDGET DRIVERS

Staff Demographics Summary (as of December 2022)				
	Total	Minority	White	Female
Number of Full-Time Staff	492	400	92	361
Number of Exempt Staff	37	18	19	20
Number of Executive Staff (deputy level and above)	6	3	3	4
Average Salary, Full-Time Staff	\$57,846	\$55,413	\$68,424	\$55,293
Average Salary, Exempt Staff	\$97,339	\$91,895	\$102,496	\$89,422
Average Salary, Executive Staff	\$144,916	\$136,697	\$153,135	\$139,545
Median Salary, Full-Time Staff	\$49,004	\$48,744	\$59,637	\$48,804
Median Salary, Exempt Staff	\$86,000	\$83,000	\$96,171	\$78,259
Median Salary, Executive Staff	\$136,697	\$136,697	\$148,088	\$136,697

Employment Levels (as of December 2022)		
	Budgeted	Filled
Number of Full-Time Positions	621	492
Number of Part-Time Positions	N/A	N/A
Number of Exempt Positions	44	37
Number of Executive Positions (deputy level and above)	6	6
Average Salary of All Full-Time Positions	\$51,423	\$57,846
Median Salary of All Full-Time Positions	\$45,570	\$49,004

Department of Revenue

General Fund Financial Summary by Class						
	FY22 Original Appropriations	FY22 Actual Obligations	FY23 Original Appropriations	FY23 Estimated Obligations	FY24 Proposed Appropriations	Difference: FY24-FY23
Class 100 - Employee Compensation	\$20,380,549	\$20,432,060	\$21,927,194	\$21,951,596	\$22,626,664	\$675,068
Class 200 - Purchase of Services	\$5,787,749	\$1,536,515	\$5,106,407	\$4,875,231	\$5,158,798	\$283,567
Class 300/400 - Materials, Supplies & Equipment	\$774,976	\$702,300	\$774,976	\$1,006,152	\$1,069,045	\$62,893
Class 500 - Contributions	\$0	\$6,489	\$0	\$0	\$0	\$0
	\$26,943,274	\$22,677,364	\$27,808,577	\$27,832,979	\$28,854,507	\$1,021,528

Contracts Summary (Professional Services only)						
	FY20	FY21	FY22	FY23	FY23 YTD (Q1 & Q2)	FY24 Projected
Total amount of contracts	\$23,633,005	\$6,906,000	\$18,375,000	\$20,635,210	\$19,353,000	\$19,650,000
Total amount to M/W/DSBE	\$14,340,565	\$3,041,000	\$9,843,500	\$10,387,401	\$10,311,850	\$9,432,000
Participation Rate	61%	44%	54%	50%	53%	48%

Total M/W/DSBE Contract Participation Goal (Public Works; Services, Supplies & Equipment; and Professional Services combined)			
	FY22	FY23	FY24 Projected
M/W/DSBE Contract Participation Goal	46%	46%	48%

PROPOSED BUDGET OVERVIEW

Proposed Funding Request:

The proposed Fiscal Year 2024 General Fund budget totals \$28,854,507 an increase of \$1,021,528 over Fiscal Year 2023 estimated obligation levels. This increase is primarily due to DC33/DC47/Non represented and Exempt staff wage increases, the new Multistate Tax Commission Audit Program; and operational supplies.

The proposed Fiscal Year 2024 Water Fund budget totals \$18,030,838 an increase of \$794,158 over Fiscal Year 2023 estimated obligation levels. This increase is primarily due to DC33/DC47/Non represented and Exempt staff wage increases. The proposed Fiscal Year 2024 Grants Fund budget totals \$19,650,000 and there is no change from the Fiscal Year 2023 estimated obligation levels.

The proposed budget includes:

- Class 100:
 - \$22,626,664 in General Fund Class 100, a \$675,068 increase FY23. This funding will support payroll costs for 401 budgeted positions.
 - \$10,791,338 in Water Fund Class 100, a \$154,158 increase from FY23. This funding will support payroll costs for 221 budgeted positions.
- Class 200:
 - \$5,158,798 in General Fund Class 200, a \$283,567 increase from FY23. This funding will support the new Multistate Tax Commission Audit Program and other professional services.
 - \$5,154,000 in Water Fund Class 200, a \$1,006,000 increase from FY23. This funding is an internal transfer back from class 300.
 - \$19,650,000 in Grants Class 200. No change from FY23. This funding is for the Professional Services contracts for delinquent tax and water collections contracts.
- Class 300/400:
 - \$1,069,045 in General Fund Class 300/400, a \$62,893 net increase from FY23. This funding will support the purchase of supplies needed to send out tax billings.
 - \$2,085,500 in Water Fund Class 300/400, a \$366,000 net decrease from FY23. The decrease is a result of delaying department renovations and the transfer of funds back to class 200 for the FY23 mid-year transfer to purchase envelopes.

STAFFING LEVELS

The department is requesting 622 budgeted positions for FY24, an increase of 1 from FY23.

The increase is attributed to the hiring of a Tax Collections Coordinator.






NEW HIRES

New Hires (from 7/1/2021 to December 2022)	
	Total Number of New Hires
Black or African American	11
Asian	1
Hispanic or Latino	2
White	5
Total	19

Detail for new hires since December 2022, if applicable:		
	Total Number of New Hires	Spanish
Black or African American	20	
Hispanic or Latino	2	1
White	4	
Total	26	1

PERFORMANCE, CHALLENGES, AND INITIATIVES







POLICY, ANALYSIS, EXECUTIVE DIRECTION AND ADMINISTRATION

Measure	 FY22 ACTUAL	 FY23 TARGET	 FY24 TARGET	 MAYORAL PRIORITY
Percent of budgeted positions filled	85%	90%	90%	

FY24 Strategic Goals

- Continue refining internal departmental processes using Revenue’s new tax system, such as internal tax administration, on-boarding new employees, cross-training existing employees, and streamlining research and data requests. Harness new data sources in Revenue’s tax system to improve reporting, collections, and compliance efforts.
- Continue to expand and develop the Department’s DEI Plan, which includes increasing the OEO participation goal from 46 percent to 48 percent, developing a racial equity resource hub for employees, training with a DEI focus, and partnering with stakeholders to make tax and water assistance programs more accessible.

WATER BILLING, ACCOUNTING, AND CUSTOMER SERVICE

Measure	 FY22 ACTUAL	 FY23 TARGET	 FY24 TARGET	 MAYORAL PRIORITY
Percent of water bills paid in 90 days	83.1%	84.0%	84.0%	
Dollar amount of water bills collected	\$725.3M	\$767.5M	\$845.0M	





FY24 Strategic Goals

- Revenue will refer delinquent accounts to third-party collection agencies before scheduling customers to receive shutoff notices. This shift in collection strategy will provide customers with greater opportunity to resolve debt and reduce service disconnections.

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- The Department will leverage data from the Department of Licenses and Inspections to better identify and protect tenant-occupied properties from service disconnections.
- Revenue will continue to increase paperless billing and e-pay adoption through direct outreach, with a focus on current customers using an outdated automated bill payment vendor.







WATER ASSISTANCE

Measure	 FY22 ACTUAL	 FY23 TARGET	 FY24 TARGET	 MAYORAL PRIORITY
Percent of applications reviewed within 30 days	100%	100%	100%	

FY24 Strategic Goals

- In collaboration with the Commonwealth, launch a TAP auto-enrollment program for LIHWAP recipients. The Department will auto-enroll approximately 5,500 LIHWAP grant recipients into TAP.
- Simplify TAP application requirements and further reduce barriers to enrollment. This will reduce application denials and increase relief to eligible customers.








WATER COLLECTIONS

Measure	 FY22 ACTUAL	 FY23 TARGET	 FY24 TARGET	 MAYORAL PRIORITY
Percent change in delinquent principal outstanding (excludes current charges not yet overdue/ delinquent and city bills)	6.0%	0.0%	0.0%	
Percent of Delinquent Water Accounts in Payment Agreements or TAP	5.0%	11.0%	12.0%	

FY24 Strategic Goals

- In partnership with OIT and third-party collection agencies, Revenue will revise programming and billing practices to comply with the amendments to the Fair Debt Collection Practices Act.
- The Department will continue to utilize Consolidated Actions and Sequestration to bring delinquent landlords into compliance.
- Resume and increase Sheriff Sales and court filings against high dollar delinquent commercial customers.






TAX BILLING, ACCOUNTING, AND CUSTOMER SERVICE

Measure	 FY22 ACTUAL	 FY23 TARGET	 FY24 TARGET	 MAYORAL PRIORITY
Percent of real estate tax collected within calendar year	91.6%	95.1%	95%	
Total dollar amount collected (General Fund)	\$4.65B	\$4.58B	\$4.41B	
Total dollar amount projected revenues (School District)	\$1,20B	\$1.17B	\$1.15B	

FY24 Strategic Goals

- The Department, in partnership with OIT, will implement a new Cashiering system to post payments faster, integrate with the new tax system, and better configure changes that align with the ever-changing payment industry.
- Continue leveraging the new tax system and Call Center functionality to increase internal efficiencies and improve the customer experience.
- Continue to increase e-billing adoption for all taxes and fees through customer outreach and partnership with the e-pay vendor.







TAXPAYER ASSISTANCE AND CREDIT

Measure	 FY22 ACTUAL	 FY23 TARGET	 FY24 TARGET	 MAYORAL PRIORITY
Percent of eligible homeowners receiving relief	77.7%	80.0%	80.0%	

FY24 Strategic Goals

- Create a departmental cross-training program to increase staffing resources available for application processing, which will decrease processing times.
- Collaborate with external stakeholders and City Council to proactively communicate with households that are potentially eligible for Real Estate Tax assistance programs. This targeted outreach will increase program awareness and enrollment, which is especially important in vulnerable communities.
- With a recently expanded outreach and communications capacity, Revenue will continue its immigrant outreach strategy. Originally led by a VISTA fellow, the Department is internalizing this strategy and will continue to implement outreach projects in vulnerable communities where English is not a first language. Part of these initiatives includes the Spanish translation of online applications launched in the second phase of the Philadelphia Tax Center implementation.

DELINQUENT TAX COLLECTION

Measure	 FY22 ACTUAL	 FY23 TARGET	 FY24 TARGET	 MAYORAL PRIORITY
Percent change in delinquent principal outstanding - Real Estate Tax	10.8%	0.0%	0.0%	
Percent delinquent Real Estate Tax accounts in payment agreements	22.4%	25.0%	25.0%	

FY24 Strategic Goals

- Utilize the enhanced reporting capabilities of the new tax system to refine audit and enforcement case selection. This will allow the Department to improve the allocation of resources to initiatives that further Revenue’s compliance and collection strategies.
- In collaboration with the Sheriff’s Office, Revenue will resume Sheriff Sales for delinquent real estate tax.

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- Participate in the Multistate Tax Commission (MTC) Audit Program. The MTC is an intergovernmental tax agency with a mission to promote consistent tax policy across jurisdictions, and to help taxpayers become tax compliant. Currently, 27 states participate in the MTC's joint audit program. Revenue will join the program to augment the Department's large business audit presence and stimulate greater voluntary compliance to increase revenue collection.

OTHER BUDGETARY IMPACTS

Federal and State (Where Applicable)

We continue to monitor policies at the federal, state, and local levels. Recently enacted or proposed federal and Pennsylvania legislation could potentially affect the City's finances:

- Federal Inflation Reduction Act – Imposes a 15% corporate alternative minimum tax based on financial statement income. To the extent large corporations restructure to minimize their federal income tax obligations, this could have a potential impact on Philadelphia business taxes. The estimated budget impact is unknown at this time.
- Governor Shapiro's 2023-24 budget proposal would exclude mobile telecommunication services from Pennsylvania sales and use tax. This would likely result in a minimal loss of revenue for Philadelphia.
- Governor Shapiro's 2023-24 budget proposal contemplates that the minimum wage will increase from the current federal minimum of \$7.25 per hour to \$15 per hour on January 1, 2024. Any increase in the minimum wage would increase Philadelphia's Wage Tax base and result in increased Wage Tax revenue. The estimated budget impact is unknown at this time.
- PA legislators are reviewing the operation of Philadelphia's "super-credit," which requires local taxing jurisdictions to credit their residents for taxes paid to Philadelphia on income earned in the city. Under debate is Philadelphia's ability to keep Wage Tax collected from non-residents, rather than crediting it back to the taxpayer's home location. Revenue estimates Philadelphia could potentially incur a \$190 million reduction in Wage Tax revenue if the city were required to remit such tax revenue to local taxing jurisdictions (to the extent of the local EIT rate).
- Philadelphia City Council passed Bill 220485 in FY22 to implement market-based sourcing. However, the City requires authorization from the PA General Assembly to put the bill into effect. This change promotes fairness and makes Philadelphia business taxes consistent with Pennsylvania corporate income tax rules. Additionally, the change will create a more accurate reflection of a business' taxable income in Philadelphia and a level playing field for Philadelphia-based service providers. The proposal is expected to be revenue-neutral.

CONTRACTING EXPERIENCE

M/W/DSBE Participation on Large Professional Services Contracts											
Top Five Largest Contracts, FY23											
Vendor Name	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	Local Business (principal place of business located within City limits) [yes / no]	Waiver for Living Wage Compliance? [yes / no]
Goehring, Rutter & Boehm	Real Estate Tax Collection	\$4,500,000	6/30/2020	10/1/2022	MBE: 16 -19%	16%	\$720,000	28%	\$1,260,000		
					WBE: 12 - 15%	12%	\$540,000				
					DSBE: 0%	0%	\$0				
Linebarger Goggan Blair & Sampson, LLP	Real Estate Tax Collection	\$4,500,000	6/30/2020	10/1/2022	MBE: 16 - 19%	100%	\$4,495,500	100%	\$4,500,000		
					WBE: 12 - 15%	0%	\$4,500				
					DSBE: 0%	0%	\$0				
Pioneer Credit Recovery, Inc.	Discovery & Delinquent Collections	\$2,750,000	4/9/2021	7/1/2022	MBE: 13 -16%	13%	\$357,500	25%	\$687,500		
					WBE: 12 - 15%	12%	\$330,000				
					DSBE: 0%	0%	\$0				
Revenue Collection Bureau, Inc.	Discovery & Delinquent Collections	\$2,700,000	4/9/2021	7/1/2022	MBE: 13 -16%	88%	\$2,376,000	100%	\$2,700,000		
					WBE: 12 - 15%	12%	\$324,000				
					DSBE: 0%	0%	\$0				
Goehring, Rutter & Boehm	Discovery & Delinquent Collections	\$1,300,000	4/9/2021	7/1/2022	MBE: 13 -16%	13%	\$169,000	25%	\$325,000		
					WBE: 12 - 15%	12%	\$156,000				
					DSBE: 0%	0%	\$0				

Non-Profit Vendor Demographics:

N/A

EMPLOYEE DATA

Staff Demographics (as of December 2022)					
Full-Time Staff			Executive Staff		
	Male	Female		Male	Female
	African-American	African-American		African-American	African-American
<i>Total</i>	69	261	<i>Total</i>	0	1
<i>% of Total</i>	14%	53%	<i>% of Total</i>	0%	17%
<i>Average Salary</i>	\$57,063	\$53,245	<i>Average Salary</i>	N/A	\$136,697
<i>Median Salary</i>	\$47,696	\$47,896	<i>Median Salary</i>	N/A	\$136,697
	White	White		White	White
<i>Total</i>	34	58	<i>Total</i>	1	2
<i>% of Total</i>	7%	12%	<i>% of Total</i>	17%	33%
<i>Average Salary</i>	\$75,657	\$62,079	<i>Average Salary</i>	\$174,620	\$142,392
<i>Median Salary</i>	\$73,481	\$51,882	<i>Median Salary</i>	\$174,620	\$142,392
	Hispanic	Hispanic		Hispanic	Hispanic
<i>Total</i>	6	22	<i>Total</i>	1	1
<i>% of Total</i>	1%	4%	<i>% of Total</i>	17%	17%
<i>Average Salary</i>	\$72,285	\$56,963	<i>Average Salary</i>	\$136,697	\$136,697
<i>Median Salary</i>	\$63,753	\$46,536	<i>Median Salary</i>	\$136,697	\$136,697
	Asian	Asian		Asian	Asian
<i>Total</i>	18	16	<i>Total</i>	0	0
<i>% of Total</i>	4%	3%	<i>% of Total</i>	0%	0%
<i>Average Salary</i>	\$68,508	\$59,059	<i>Average Salary</i>	N/A	N/A
<i>Median Salary</i>	\$73,470	\$53,127	<i>Median Salary</i>	N/A	N/A
	Other	Other		Other	Other
<i>Total</i>	4	4	<i>Total</i>	0	0
<i>% of Total</i>	1%	1%	<i>% of Total</i>	0%	0%
<i>Average Salary</i>	\$55,633	\$54,572	<i>Average Salary</i>	N/A	N/A
<i>Median Salary</i>	\$53,224	\$48,506	<i>Median Salary</i>	N/A	N/A
	Bilingual	Bilingual		Bilingual	Bilingual
<i>Total</i>	10	22	<i>Total</i>	1	0
<i>% of Total</i>	2%	4%	<i>% of Total</i>	17%	0%
<i>Average Salary</i>	\$82,426	\$51,421	<i>Average Salary</i>	\$136,697	N/A
<i>Median Salary</i>	\$68,912	\$45,576	<i>Median Salary</i>	\$136,697	N/A
	Male	Female		Male	Female
<i>Total</i>	131	361	<i>Total</i>	2	4
<i>% of Total</i>	27%	73%	<i>% of Total</i>	33%	67%
<i>Average Salary</i>	\$64,881	\$55,293	<i>Average Salary</i>	\$155,680	\$139,545
<i>Median Salary</i>	\$57,289	\$47,496	<i>Median Salary</i>	\$155,680	\$136,697

LANGUAGE ACCESS

- 1. Provide the name of your language access coordinator, the date of your last department training, and a link to the posting of your language access plan.**

Christian Crespo-Ortiz, Manager Communications & Outreach

[Language Access Plans | Office of Immigrant Affairs | City of Philadelphia](#)

- 2. Breakdown new hires and existing staff by race and language. Breakdown how many front-line personnel are trained to provide language access services.**

All front-line staff members are trained on language access procedures, such as using the language line phone system. A number of staff were accepted to participate in the Mayor’s Office of Immigrant Affairs translation certification program, however the program was put on hold because of the COVID pandemic.

	Spanish	Hindi	Malayalam / Tamil	Indonesian	Korean	Vietnamese	Amharic	ASL	Arabic	Italian	Armenian	Danish	Russian
American Indian or Alaska Native (Not Hispanic or Latino)		1											
Asian (Not Hispanic or Latino)	1	2	3	1	2	1							
Black or African American (Not Hispanic or Latino)							1	1	1				
Hispanic or Latino	14												

White – Any White Background											1	1	1	1
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3. How many requests for language access services did your department receive in the past year? How many language access services were delivered by staff? Breakdown language access services provided, by language, including but not limited to the language line, translation of public notices and documents, website language services, and advertisement/publication services.

In calendar year 2022, the Department received 648 language requests and translated 13 documents through our vendors. Employees with the capacity to speak other languages may have provided assistance to individuals with limited English proficiency and not be recorded in the dashboard. The Department also regularly posts articles to its blog. In the past year, we published Spanish versions of six of 28 blog posts.

Interpretations by Language	
Spanish	86.69%
Chinese Mandarin	9.08%
Vietnamese	1.06%
Russian	0.91%
Chinese Cantonese	0.45%
French	0.3%
Haitian Creole	0.3%
Arabic	0.3%
Chinese (Simplified)	0.15%
Albanian	0.15%

Amharic	0.15%
Indonesian (Bahasa)	0.15%
Korean	0.15%
Portuguese	0.15%

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

In the past year, Revenue added a native-Spanish bilingual Communications Manager to its team and launched the final phase of its public-facing tax website, the Philadelphia Tax Center. The Department has fully translated first phase into Spanish and is in the process of translating the new functionality. Once translation is completed, the Philadelphia Tax Center will be one of the few jurisdictions in the US with a public tax interface completely available in a language other than English without an automated translation engine. The latest phase of the Tax Center now features all City taxes and fees and improves the customer service options for taxpayers like applying for relief, payment agreements, refunds, and filing and paying electronically. In addition, the Department published 6 multi-lingual blog posts, 3 multi-lingual videos in the past year, and multi-lingual versions of all its assistance programs' promotional flyers and applications.

CLIMATE CHANGE

1. How has climate change affected your department's provision of services?

At this time, climate change has not affected Revenue's provision of services.

2. How might worsening climate change increase costs and demands for your department?

Like all departments, climate change increases the likelihood of disruptive severe weather events and poor air quality (and higher incidents of asthma related illness), which would affect productivity of department staff.

3. How does your department intend to mitigate and adapt to climate change?

We will comply with City's policies and efforts to mitigate and adapt to climate change.