

**DEPARTMENT OF REVENUE  
FISCAL YEAR 2025 BUDGET TESTIMONY  
MARCH 27, 2024**

**INTRODUCTION**

Good Morning President Johnson and Members of City Council. I am Kathleen McColgan, Revenue Commissioner. Joining me today are Delores Davis, First Deputy Revenue Commissioner and Rebecca Lopez Kriss, Deputy Revenue Commissioner for Policy, Outreach and Taxpayer Assistance Programs, as well as other members of my executive team. I am pleased to provide testimony on the Department of Revenue’s Fiscal Year 2025 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 while providing service to customers that is fair and efficient and ensuring that the City provides services that that residents can see, touch, and feel. Revenue’s collections enable the Administration to invest in the Mayor’s strategic priorities, including housing, education, and making Philadelphia the safest, cleanest, and greenest big city in the nation with economic opportunity for everyone.

**Plans for Fiscal Year 2025:** The Department of Revenue is dedicated to utilizing technology and enhancing staff knowledge to streamline internal processes, improve customer service, and maximize revenue collection. Upgrades to the modernized Philadelphia Tax System will incorporate improved communication and search features, enhancing functionality and reporting options for enforcement and compliance purposes. In alignment with a sustained commitment to Diversity, Equity, and Inclusion, the Department will continue to implement training programs to recruit and retain a diverse workforce. Additionally, Revenue will continue to partner with various stakeholders to increase assistance program enrollment.

**Invest in workforce development to improve processes and employee competencies**

- Continue the six-week new hire onboarding training program to ensure preparedness for permanent assignments and customer interactions.
- Continue the LinkedIn self-paced learning program which is available to all Revenue employees and allows them to build skills and competencies for professional development.
- Initiate the first of two renovation phases to modernize the concourse-level of the Municipal Services Building. This renovation to Revenue’s Taxpayer Services area will create an effective work environment while demonstrating respect for Revenue’s workforce and taxpayers.

### **Leverage technology to increase revenue collections and provide an efficient customer service experience**

- Continue to increase paperless billing and AutoPay adoption for tax and water bills.
- Secure a planning vendor to gather business requirements in the first phase of the replacement of the water billing system, Basis2.
- Implement a cloud-based phone system in the Tax Refund and the Tax Clearance Units for better reporting and functionality to respond to customers faster.
- Utilize tools available in the Philadelphia Tax Center to improve tax and water data matching to identify landlords with multiple property delinquencies for sequestration and consolidated actions.
- Continue to enhance self-service functionality in the Philadelphia Tax Center providing taxpayers with additional online options to get into compliance.
- Continue to participate in the intergovernmental tax agency Multistate Tax Audit Program to augment the Department's large business audit program and stimulate greater voluntary compliance.
- Replace an end-of-life high-speed sorter in the Outgoing Mail Center to maximize Postal Service processing discounts and ensure operational efficiencies. The new sorter will maximize Postal Service discounts that will result in recurring postage savings to offset the one-time cost of the new sorter.

### **Focus on Relief Programs and DEI Initiatives**

- Continue to partner with the Office of Integrated Data for Evidence & Action (IDEA) and other stakeholders to increase tax and water customer enrollment into assistance programs through data sharing and auto and cross-enrollment.
- Partner with the Chief Administrative Office Service Design Studio to redesign the Tiered Assistance Program (TAP) application and make the process more equitable and accessible.
- After several years of successfully working with minority owned businesses, Revenue will increase its OEO participation goal from 48% to 50%.
- Launch an Outreach Index mapping tool to help the Department, City Council, and other stakeholders focus outreach efforts in areas of the city that have the most need.

**PROPOSED BUDGET OVERVIEW**

<b>General Fund Financial Summary by Class</b>						
	<b>FY23 Original Appropriations</b>	<b>FY23 Actual Obligations</b>	<b>FY24 Original Appropriations</b>	<b>FY24 Estimated Obligations</b>	<b>FY25 Proposed Appropriations</b>	<b>Difference: FY25-FY24</b>
<b>Class 100 - Employee Compensation</b>	\$21,927,194	\$20,382,438	\$22,626,664	\$22,626,664	\$22,626,664	\$0
<b>Class 200 - Purchase of Services</b>	\$5,106,407	\$4,339,178	\$5,158,798	\$5,458,798	\$5,021,686	(\$437,112)
<b>Class 300/400 - Materials, Supplies &amp; Equipment</b>	\$774,976	\$819,267	\$1,069,045	\$2,349,045	\$2,069,045	(\$280,000)
<b>Class 500 - Contributions</b>	\$0	\$1,950	\$0	\$0	\$0	\$0
<b>Total</b>	<b>\$27,808,577</b>	<b>\$25,542,833</b>	<b>\$28,854,507</b>	<b>\$30,434,507</b>	<b>\$29,717,395</b>	<b>(\$717,112)</b>

**Proposed Funding Request:**

The proposed Fiscal Year 2025 General Fund budget totals \$29,717,394, a decrease of \$717,112 over Fiscal Year 2024 estimated obligation levels. This decrease is primarily due to a \$500,000 reduction in Class 200 for Property Assessment Relief Implementation funding and a \$280,000 decrease in class 300 for a FY24 mid-year transfer needed for the purchase of Mail Center equipment in FY24.

The proposed Fiscal Year 2025 Water Fund Budget totals \$18,391,000, an increase of \$360,162 over Fiscal Year 2024 estimated obligation levels. This increase is primarily due to additional funding for computer and peripheral upgrades and renovations and furniture purchases.

The proposed Fiscal Year 2025 Grants Fund budget totals \$19,650,000 and there is no change from the Fiscal Year 2024 estimated obligation levels.

The proposed budget includes:

Class 100:

- \$22,626,664 in General Fund Class 100. No change from FY24. This funding will support payroll costs for 400 budgeted positions.

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- \$10,792,000 in Water Fund Class 100, a minimal change from FY24. The funding will support payroll cost for 221 budgeted positions.

**Class 200:**

- \$5,021,686 in General Fund Class 200, a \$437,112 net decrease from FY24. The net decrease is due to non-recurring funding for the Property Assessment Relief Implementation project offset by the increase in the Multistate Tax Commission Audit Program. This funding will support Professional Services in support of tax collections.
- \$5,155,000 in Water Fund Class 200, a minimal change from FY24. This funding will support professional services in support of water collections.
- \$19,650,000 in Grants Class 200. No change from FY24. This funding is for professional services contracts for delinquent tax and water collections.

**Class 300/400:**

- \$2,069,045 in General Fund Class 300/400, a decrease of \$280,00 from FY24. This is due to a one-time addition of \$280,000 via an FY24 mid-year transfer to purchase Mail Center equipment . This funding will support the purchase of supplies and equipment needed for department operations.
- \$2,444,000 in Water Fund Class 300/400, a \$358,500 increase from FY24. This funding will support the upgrade of computers, peripherals and furniture and the continuation of WRB renovation project.

**STAFFING LEVELS**

The Department is requesting 621 budgeted positions for FY25.,

<b>Employment Levels (as of December 2023)</b>		
	<b>FY25 Budgeted</b>	<b>Filled as of December 2023</b>
<b>Number of Full-Time Positions</b>	621	488
<b>Number of Part-Time Positions</b>	N/A	N/A
<b>Number of Exempt Positions</b>	44	32

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<b>Number of Executive Positions (deputy level and above)</b>	6	5
<b>Average Salary of All Full-Time Positions</b>	\$53,862	\$58,254
<b>Median Salary of All Full-Time Positions</b>	\$45,572	49,745

**NEW HIRES**

<b>New Hires (from 7/1/2023 to December 2023)</b>			
	<b>Total Number of New Hires</b>	<b>Spanish</b>	<b>Hindi</b>
<b>Black or African American</b>	26		
<b>Asian</b>	2		
<b>Hispanic or Latino</b>	2	2	
<b>White</b>	6		
<b>Other</b>	5		1
<b>Total</b>	41	2	1

<b>Detail for new hires since December 2023, if applicable: As of March 4, 2024</b>			
	<b>Total Number of New Hires</b>	<b>Spanish</b>	<b>Bambara</b>
<b>Black or African American</b>	11		1
<b>Hispanic or Latino</b>	3	3	
<b>Total</b>	14	3	1

**PROGRAM BASED BUDGETING:**

**Program Name:** Policy, Analysis, Executive Direction & Administration

**Program Number:** 1

**FY25 Proposed General Fund:** \$9,504,654; **Water Fund:** \$7,185,000

**Program Description:** This program provides leadership for the Department, conducts analyses, sets and informs policy, ensures that Revenue has the resources it needs, and includes fiscal and information technology functions and an outgoing mail processing center.

**FY25 Strategic Goals:**

- In accordance with the passage of Bill 220485 in 2022, Revenue will complete regulations for market-based sourcing and pursue state-authorizing legislation. This change aligns Philadelphia business tax rules with other jurisdictions and better reflects business activity in Philadelphia.
- Expand duties of the Data and Research unit to assume programming duties currently performed by a collection vendor to support new strategic collection initiatives and automate manual processes.
- Replace end of life Outgoing Mail Processing sorter to continue postage service discounts and increase processing efficiencies. Modernize the concourse-level of the Municipal Services Building.

**FY25 Performance Measures:**

Measure	FY23 Actual	FY4 Target	FY25 Target
Percent of budgeted positions filled	79.7%	87.0%	87.0%

**PROGRAM BASED BUDGETING:**

**Program Name:** Water Billing, Accounting & Customer Service

**Program Number:** 2

**FY25 Proposed Water Fund:** \$8,961,000

**Program Description:** This program determines which water, sewer, and stormwater charges customers owe, lets people know how much to pay, and processes payments received.

**FY25 Strategic Goals:**

- Revenue will continue to reduce internal costs by increasing paperless billing and AutoPay adoption.
- The Department will update water bills to make it easier for customers to understand when their bills are based on estimated usage. This project includes enhancements to both paper bills and the e-billing application.
- Revenue will engage a planning vendor to gather business requirements and begin the change management process for the replacement of the water billing system, Basis2.

**FY25 Performance Measures:**

Measure	FY23 Actual	FY4 Target	FY25 Target
Percent of water bills paid in 90 days	83.3%	84%	84%
Dollar amount of water bills collected	\$766.1M	\$827.7M	\$895.0M

**PROGRAM BASED BUDGETING:**

**Program Name:** Water Assistance Program

**Program Number:** 3

**FY25 Proposed Water Fund:** \$1,399,000

**Program Description:** Revenue provides discounted water bills to vulnerable residential customers through the Senior Citizen Water Discount and the Tiered Assistance Program (TAP) for low-income customers.

**FY25 Strategic Goals:**

- Revenue will seek opportunities to enroll water customers into assistance programs, such as TAP and the Senior Discount program, through data sharing and cross-enrollment.
- The Department will partner with researchers such as Community Health and Behavioral Economics to better understand TAP customers' satisfaction with the program and how the program has positively impacted their lives by increasing water security.
- Revenue will work with the Chief Administrative Officer's Service Design Studio to make the TAP application a more trusted, equitable, and accessible process.

**FY25 Performance Measures:**

Measure	FY23 Actual	FY4 Target	FY25 Target
Percent of applications reviewed within 30 days	100%	100%	100%

**PROGRAM BASED BUDGETING:**

**PROGRAM NAME:** DELINQUENT WATER COLLECTIONS

**Program Number:** 4

**FY25 Proposed Water Fund:** \$846,000



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**Program Description:** In partnership with the Law Department, Revenue uses an array of tactics to encourage and compel payment of delinquent water and sewer charges. Enforcement tools include making phone calls, sending letters, placing liens on properties, filing suits in both Municipal and Common Pleas courts, placing accounts with collection agencies, shutting off delinquent accounts, conducting sales of property through Sheriff's Sales, landlord sequestration, and administering payment agreements.

**FY25 Strategic Goals:**

- The Department will reduce delinquencies and improve compliance by increasing the use of external collection agencies and encouraging customers to initiate payment agreements. Collection agencies expand the department's capacity to reach taxpayers before their bills become unmanageable.
- In partnership with Law, the Department will expand consolidated actions to bring more delinquent multi-property owners into compliance.

**FY25 Performance Measures:**

Measure	FY23 Actual	FY4 Target	FY25 Target
Percent change in delinquent principal outstanding (excludes current charges not yet overdue/delinquent and city bills)	0.0%	0.0%	0.0%
Percent of Delinquent Water Accounts in Payment Agreements or TAP	8.3%	11.0%	13.0%

**PROGRAM BASED BUDGETING:**

**PROGRAM NAME: TAX BILLING, ACCOUNTING & CUSTOMER SERVICE**

**Program Number: 5**

**FY25 Proposed General Fund: \$14,165,286**

**Program Description:** This program determines which taxes, fees, and fines people owe, lets people know how much to pay, and processes payments and tax returns received.

**FY25 Strategic Goals:**

- Upgrade the current integrated tax system to the latest software version.
- Modernizing the Refund Unit’s phone software to a cloud-based solution will provide new functionality and reporting, which will provide staff with the tools needed to respond to customers faster.
- The Department, in partnership with OIT, will transition electronic payments to a new third-party processor. The implementation will reduce credit and debit card fees for customers, while e-check payments will continue to be free. The transition also will provide future opportunities to expand customer payment options and methods.

**FY25 Performance Measures:**

Measure	FY23 Actual	FY4 Target	FY25 Target
Percent of real estate tax collected within calendar year	97.6%	95.10%	96.5%
Total dollar amount collected (General Fund)	\$4.88B	\$4.59B	\$4.68
Total dollar amount collected (School District)	\$1.3B	\$1.17B	\$1.45B

**PROGRAM BASED BUDGETING:**

**Program Name:** Taxpayer Assistance and Credit Programs

**Program Number:** 6

**FY25 Proposed General Fund:** \$548,731

**Program Description:** Revenue provides tax relief to individual homeowners and business taxpayers through this program.

**FY25 Strategic Goals:**

- Decrease processing times for assistance program applications by cross-training additional staff. This effort also will reduce overtime costs during high-volume periods.

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- Continue the collaboration with IDEA to auto-enroll eligible customers in the Senior Tax Freeze assistance program.
- Collaborate with the Commonwealth to develop a behavioral science pilot to increase the adoption of the Income Based Wage Tax Refund. This program will use PA Revenue data to identify likely eligible Philadelphians. Working with academics at the University of Pennsylvania, Revenue will develop different messaging and measure the effectiveness of each method of communication.

**FY25 Performance Measures:**

Measure	FY23 Actual	FY4 Target	FY25 Target
Percent of eligible homeowners receiving relief	75.5%	80%	80%

**PROGRAM BASED BUDGETING:**

**Program Name:** Delinquent Tax Collections

**Program Number:** 7

**FY25 Proposed General Fund:** \$5,498,724

**Program Description:** This program determines which taxes, fees, and fines people owe, lets people know how much to pay, and processes payments and tax returns received.

**FY25 Strategic Goals:**

- Keep the number of delinquent accounts and delinquent active principal for Real Estate and Business Taxes from going up by increasing enrollment in payment agreements through outreach, expanded self-service functionality, and flexible payment agreement terms.
- Expand the use of external legal services to increase Business Tax judgment collections.
- Add self-service functionality in the Tax Center to include applications for Offers in Compromise, which can be submitted only by paper at this time. Additionally, the Department will conduct outreach to delinquent business taxpayers who may be eligible for the program.

**FY25 Performance Measures:**

Measure	FY23 Actual	FY4 Target	FY25 Target
Percent change in delinquent principal outstanding - Real Estate Tax	4.6%	0.0%	0.0%

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Percent delinquent real estate tax accounts in payment agreements	18.2%	25%	25%
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## Other Budgetary Impacts

### **Federal and State (Where Applicable)**

Revenue continues 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:

- Revenue continues to monitor progress of the Tax Relief for American Families and Workers Act of 2024. The bill includes provisions that likely don't affect taxes but could direct funds to Philadelphia, for example, an expansion of the Child Tax Credit and an increase to the low-income housing tax credit.
- PA legislators continue to seek to amend the Sterling Act, which gives the City of Philadelphia its taxing authority. Multiple House and Senate bills could alter 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 per year if the city were required to remit such tax revenue to local taxing jurisdictions (to the extent of the local EIT rate).
- Governor Shapiro's 2024-25 budget proposes significant investment in education, economic development, and public transportation, all with the potential to direct new funding to Philadelphia. The budget proposes legalizing adult-use cannabis, with an estimated \$250m in annual revenue for Pennsylvania. If adopted, this proposal would provide additional Sales Tax to Philadelphia, although the amount is unknown at this time.