Fiscal Year 2015
Year in Review
August 2015

FOR SCHOOLS AND SERVICES

Honorable
Michael A. Nutter
Mayor

Rob Dubow
Finance Director

Commissioner Claren I.W. Tolson
Chief Revenue Collections Officer
The Department of Revenue collects taxes, water charges, and other fees and fines to provide funding for schools and City services.

Guiding Principles:

- Everyone must pay their fair share
- Help taxpayers and customers who need financial assistance
- Create a culture of compliance through strong enforcement efforts that reinforce the message the City cannot subsidize businesses and individuals at the expense of children and citizens
- Support the Mayor’s strategic goals to improve education, make Philadelphia a place of choice, and provide efficient and effective government services
Steady tax collections in FY 2015 were the result of improvements in many areas, and a decrease in others.

The most significant change was how Sales Tax revenues are disbursed by the Commonwealth of Pennsylvania between the City and School District.

If the entire 2% local Sales Tax still came to the City, FY 2015 total collections would have been up more than $100 million.

MAJOR SUCCESSES
- +$62 million in Wage, Earnings & Net Profit Tax
- +$35 million in Realty Transfer Tax
- +$9 million in Real Estate Tax
- +$7 million in School Income Tax
- +$81 million in e-Payments
- More than $110 million in delinquent Real Estate Taxes collected for the City & School District
- Sustained dramatic improvements in delinquent tax collections from FY 2014

Expected Decrease
The average annual revenue growth was 2% between FY 2008 and FY 2015.

The largest percentage increase was 6% between FY 2010 and FY 2011, with a one-time spike from a tax amnesty.

3 Factors Determine Collection Growth:
- Changes in the base (# and size of taxpayers, # of water customers)
- Changes in tax rates and water/sewer fees
- Changes in collection administration & enforcement. The Department of Revenue has influence over collection administration and enforcement tactics.

Dramatic increases in Tax & Water collections were sustained in FY 2015:

- $4.35b
- $3.0
- $3.2
- $3.4
- $3.6
- $3.8
- $4.0
- $4.2
- $4.4
- $4.6

FY 2008: $3.8
FY 2009: $3.6
FY 2010: $3.4
FY 2011: $3.2
FY 2012: $3.4
FY 2013: $3.6
FY 2014: $3.8
FY 2015: $4.0

Global Economic Downturn
General Fund Tax Collections of $2.8 billion exceeded the adopted FY 2015 budget by $58 million.

With the real estate market continuing to improve, Realty Transfer Taxes increased from $167 million in FY 2014 to $203 million in FY 2015, a 21% increase.

Tobacco and Valet Parking Taxes also had double digit percent growth.

The biggest increase in dollars from FY 2014 to FY 2015 was the Wage, Earnings & Net Profits Tax at $62 million.

Collections for all major General Fund tax types in FY 2015 met or exceeded FY 2014, except Sales Tax (and there's a story behind that) for a total of $2.8 billion.

Revenue bills for and collects fees in collaboration with City departments, allowing those agencies to focus on their core missions.

FY 2015 Non-Tax Collections:

- POLICE: (Overtime) - $20.3 million
- STREETS: (Commercial Refuse) - $14.7 million
- L&I: (Liens) - $2.9 million
$901 million was collected for the School District of Philadelphia from 4 taxes – Use and Occupancy, Real Estate, Liquor Sales, and the School Income Tax.

Real Estate Tax collections only dropped (-0.6%) despite the fact that there were $14.7 million in unresolved AVI appeals as of fiscal year-end 2015. Those property owners do not have to pay any more than their 2013 Real Estate Tax bill until the appeal is complete.

Current year School Income Tax & Liquor Sales collections grew by $3.7 million, after efforts in FY 2014 to get more people on the tax rolls.

School District Tax Collections were above $900 million for the second year in a row

$120 million in Sales Tax goes directly to the School District starting in FY 2015
Water Fund collections in FY 2015 eclipsed projections by $7.4 million.

- Approximately 475,000 Water customers, totaling over 5 million bills sent each year.
- There are 3 charges included in each bill:
  - water usage
  - service fee
  - and a fee for managing the stormwater from the property.
- The Department improved the customer experience by redesigning the bill to make information clearer and upgrading our phone system.

$644 million was collected in FY 2015 for the Water Fund - 96% of FY 2015 billings

FY 2015 - Number of Shutoff Eligible Accounts Increased up to 39% During Moratorium Months
Collection Efforts: Delinquent Collections Toolkit

The Department uses a variety of techniques to generate voluntary and involuntary payment of past due bills.

Clear communications +
Easy payment options +
Assistance programs +
Enforcement =
Maximum Compliance

Customer Assistance
- Send past due notices & bills
- Enroll taxpayers in assistance programs to reduce amount due
- Offer payment plans to get people back on track

Moderate Enforcement
- Deny zoning variances, permits or tax credits
- Garnish wages for City employees with debts and pensions for City retirees with debts
- Withhold payment to businesses working for the City
- Place debt with a collection agency

Maximum Enforcement
- Place a lien on a delinquent property (in other PA counties – coming soon)
- Include property in Tax Lien Sale or Sheriff’s Sale
- Appoint a receiver to collect rents (Sequestration)
- Shut off water
- Close a business (Commercial Activity License revocation)
COLLECTION EFFORTS – ENFORCEMENT STATUS

There is $380 million in active principal tax debt for Real Estate and Non-Real Estate.

- Nearly a quarter of accounts do not require action beyond monitoring.
  - Payment Agreements;
  - Under Appeal;
  - In bankruptcy;
  - or are only slightly past due

- For the other 75% of the delinquency, the Department analyzes the accounts to apply the right enforcement tool at the right time to maximize payments and minimize administrative costs.

Of the $214 million in active delinquent Real Estate Tax principal, 62% is in a payment agreement or with a collection agency.

Active Tax Delinquencies are up to 6 years old (10 years for Real Estate) and are more likely to be collected through enforcement action than older debts.

The principal due on older, inactive tax delinquencies is $255 million.

<table>
<thead>
<tr>
<th>Non-Real Estate Tax Delinquency</th>
<th>Enforcement Status</th>
<th>Principal Due ($ Mill)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collection Agency</td>
<td>$</td>
<td>47.5</td>
</tr>
<tr>
<td>In-house Litigation/Collectio</td>
<td>$</td>
<td>46.8</td>
</tr>
<tr>
<td>New (Less than 90 days old)</td>
<td>$</td>
<td>27.4</td>
</tr>
<tr>
<td>Sequestration/CAL Revocation</td>
<td>$</td>
<td>22.5</td>
</tr>
<tr>
<td>Under Appeal</td>
<td>$</td>
<td>9.2</td>
</tr>
<tr>
<td>Payment Agreement</td>
<td>$</td>
<td>9.1</td>
</tr>
<tr>
<td>Bankruptcy</td>
<td>$</td>
<td>3.5</td>
</tr>
<tr>
<td>Sheriff Sale</td>
<td>$</td>
<td>0.1</td>
</tr>
<tr>
<td>Total</td>
<td>$</td>
<td>166.2</td>
</tr>
</tbody>
</table>
In a tax lien sale, the City of Philadelphia sells the debt on a property to a 3rd party.

The debt to the City is paid off, and now the property owner owes the 3rd party purchaser of the debt.

In FY 2015, the City held its first tax lien sale in 18 years and modernized its approach by selling individual liens online.

Two Tax Lien Sales are planned for FY 2016.

**PRE-SALE:**
- 4,091 Properties received notices that they may be in the Tax Lien Sale
  - 1,696 Commercial Properties owed $17.4 million
  - 2,395 Residential Properties (mainly vacant parcels) owed $8.5 million
- Within 30 days of mailing the Tax Lien Sale notices, the City had received nearly $4 million (52% of all payments from taxpayers).
- In total, property owners made payments of $6.8 million and entered into 511 payment agreements for another $2 million to remove their liens from the sale.

**SALE:**
- Due to contract limits, 865 properties were placed for auction at the online Tax Lien Sale on June 24th.
- Tax Liens on 214 properties sold at auction for $1.6 million.

**RESULTS:**
- General Fund → $4.7 million
- Philadelphia School District → $5.7 million
- Tax Lien Sale Impact (60 days) → $10.4 million

$260 tax collected for each $1 spent
98¢ collected on each $1 of debt sold
The ongoing improvement in the collection of delinquent taxes is due to a number of factors, such as the $6.8 million increase in collections from cases we took to Sheriff’s Sales – a 42% increase.
School District delinquent collections for FY 2015 (preliminary) = $89.3 million

- Efforts this year sustained the dramatic increase in delinquent tax collections for schools from FY 2014.
- Continued success is attributed to:
  - Analysis of liquor license and purchasing data to ID Liquor Tax non-filers and underreporters.
  - Focused enforcement with Commercial Activity License (CAL) Revocation and Sequestration; and
  - Ongoing use of IRS information to uncover School Income Tax non-filers and underreporters.
The Department of Revenue coordinates Water and Real Estate Tax discounts and payment plans for seniors and low-income Philadelphians.

In FY 2015, the Department, working with the Mayor’s Office and other City agencies, convened a working group to improve enrollment in assistance programs among low-income Philadelphians.

This ongoing effort has increased participation through increased and improved outreach, redesigned materials, and engagement of new partners.

Real Estate Tax & Water relief programs saved seniors, low-income Philadelphians, and other homeowners $112 million in 2015.

<table>
<thead>
<tr>
<th>Program</th>
<th>Homes</th>
<th>Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Homestead</td>
<td>212,000</td>
<td>$85 million</td>
</tr>
<tr>
<td>LOOP</td>
<td>18,000</td>
<td>$17 million</td>
</tr>
<tr>
<td>Senior Tax Discount</td>
<td>19,000</td>
<td>$6 million</td>
</tr>
<tr>
<td>Real Estate Installment Agreement</td>
<td>19,000</td>
<td>$21 million under agreement</td>
</tr>
<tr>
<td>Owner-Occupied Payment Agreement</td>
<td>5,500</td>
<td>$36 million under agreement</td>
</tr>
<tr>
<td>Senior Water Discount</td>
<td>23,000</td>
<td>$3.5 million</td>
</tr>
<tr>
<td>Water Revenue Assistance Plan</td>
<td>8,000</td>
<td>$3.9 million</td>
</tr>
</tbody>
</table>

1: Homestead Exemptions were no longer available to homeowners with 10-year Tax Abatements in Tax Year 2015, lowering the amount of savings compared to FY 2014.
2: Savings associated with the WRAP program are measured through FY 2015 City Grant disbursements.
ASSISTANCE PROGRAMS - EITC

To raise EITC awareness and access to tax preparation, we:

- Made outbound calls, opened a hotline, and launched a website that received 40,000 views
- Sponsored 3 free tax preparation locations + hosted 3 drop-off locations at City facilities
- Held focus groups to identify barriers to filing for EITC
- Conducted an outbound calling campaign
- Mailed EITC info to 42,000 households
- Presented at 45 community meetings
- Provided EITC info in 5 languages

Approximately 40,000 Philadelphians are not claiming the federal Earned Income Tax Credit (EITC) – representing $2,400 in lost benefits per taxpayer.

In FY 2015, the City invested $318,000 in raising awareness of EITC and providing free tax preparation through our partners at the Campaign for Working Families.

This investment resulted in $9.2 million in federal refunds and $500,000 in savings on preparation fees.
Federal, State and local legislation affect:

- How much is charged and to whom for various taxes and fees;
- What assistance is offered to those in need; and
- What tools can be used to collect from those that fail to meet their obligations.

FY 2015 Local Legislation Highlights

**Wage Tax Relief** – Starting in FY 2016, low-income Wage Taxpayers will be able to request a refund for a portion of their payments.

**Job Creation Tax Credit** – The eligibility period for the $5,000 annual credit increased from 1 year to 5 years for each job created in 2015, making the total maximum credit available $25,000.

**Hotel Tax & Short-term Home Rentals** – Philadelphia became the largest US city to legalize short-term home rentals. The Hotel Tax was updated to allow booking agents, like AirBnB.com, to collect and remit the tax on behalf of their customers, making collecting this tax easier for everyone.
In FY 2016, the Department of Revenue will maximize collections to support School and City Services.

We will do this by:

- Updating departmental Policies, Regulations & Procedures
- Ensuring that everyone pays their fair share and obtains the assistance they need
- Improving communications and customer service

**COLLECTION GOALS**

- $2.86 billion in taxes for City services
- $932 million in taxes for Philadelphia Schools
- $591 million in water/sewer/storm water collections

**NEW COLLECTION INITIATIVES**

- Automate placement of Business Tax debts with collection agencies to increase revenue and reduce manual efforts
- Initiate Tax Prosecution program to seek criminal charges and penalties against delinquents (when allowed by law)
- Implement Phase 1 of the Data Warehouse, which will improve analytical capability and case management. This is expected to increase delinquent revenue collection by more than $25 million over 5 years
- Introduce a consolidated Water bill with water/sewer charges and repair fees
- Incorporate Live Chat option on website to assist with common taxpayer questions and reduce call volume and hold times
- Offer monthly billing for Real Estate taxes

**NEW ASSISTANCE INITIATIVES**

- New water affordability program to keep current bills manageable and address back debt for low-income water customers
- Launch Wage Tax Refund program for low-income workers
- Expand EITC outreach and support for tax preparation by quadrupling City investment
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