

CITY OF PHILADELPHIA PENNSYLVANIA

OFFICE OF THE CONTROLLER

Promoting honest, efficient, and fully accountable government

CITY CONTROLLER'S GUIDE TO GENERATING NEW REVENUES & SAVINGS

Recommendations Providing Millions of Dollars
for the City of Philadelphia

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City Controller's Guide to Generating New Revenues & Savings

*Recommendations Providing Millions of Dollars
for the City of Philadelphia*

Overview:

As a result of the ongoing issue of uncollected taxes and revenues, the Mayor on April 3, 2013, announced the creation of the city's chief revenue collections officer. This position will have the authority over all city departments that collect taxes, fees, fines and any other form of payment. While many of the uncollected revenues are a result of habitual tax delinquents not paying their share, there are several additional revenue-generating opportunities that the city can seize.

The City Controller's Office regularly publishes reports and audits detailing recommendations to improve and streamline city operations. These recommendations, if implemented, would not only provide the City of Philadelphia with a more efficient and effective government, but also an opportunity to realize millions of dollars in revenues and savings.

This report outlines revenue and savings opportunities valued at more than \$650 million, which the City Controller's Office has provided in recommendations to the city. This includes \$415.8 million in one-time payments and \$47.2 million in recurring savings over a five-year period.

Recent Recommendations:

While some of the Controller's prior recommendations have been implemented by the Mayor and City Council, there are still several that the City has yet to realize, which include the following recent recommendations:

- \$132 million – improve collection procedures and aggressively collect unpaid water and sewer bills.
- \$70 million – pursue all unpaid fines and fees for trash, litter and false alarm citations.
- \$12 million – implement an eProcurement system to create a more efficient and effective contracting method. (annual savings)
- \$5 million – collect amounts owed for police services by all businesses and individuals.

Conclusion:

This report should act as a guide for the city's chief revenue collections officer, as well as the Department of Revenue, as it moves forward with taking aggressive collection actions. As unpaid taxes and debts for services continue to increase in Philadelphia, these are opportunities the city should initiate immediately to increase the quality of services for all residents and visitors.

CONTENTS

Recommendations to Generate Revenues & Savings.....	1
Implemented Recommendations.....	9
Conclusion	11
Appendix	12

Collect Unpaid Water & Sewer Bills

TOTAL: \$132 Million

Since January 2007, the city has spent \$49 million on five customer billing systems. This measure was taken to provide accurate water and sewer billings as well as increase collections for owed services. Over the last six years, records indicated delinquent amounts owed have increased from \$117 million to \$132 million, an almost 13 percent increase.



There have been many instances where customers have not paid for water and sewer service over a period of time, which has included 15 years or longer. The Philadelphia Water Department along with the Water Revenue Bureau need to coordinate efforts and resources and follow established collection enforcement policies to aggressively pursue all unpaid amounts.

- Review of Delinquent Water & Sewer Accounts (February 2008)
- Review of New Water Billing System (June 2009)
- Department of Revenue FY08-09 (June 2012)

\$132 million
(one-time payment)

Collect Court Fines & Fees

TOTAL: \$70 Million



Prior to 2009, the city did not maintain a receivable for bail owed by individuals who failed to show up for court. As a result, the amount owed the city was unknown and nothing regarding the city’s claim for unpaid bail was reported to the city for financial statement purposes.

After the Controller’s Office found that collection efforts were poor and there was a lack of accounting by the court, the First Judicial District compiled a receivable balance of \$70 million owed the city, and eventually assumed the duties of the Clerk of Quarter Sessions in March 2010.

Along with taking all necessary actions to collect outstanding forfeited bail, bail records need to be properly maintained as they are critical to improving collection efforts.

\$70 million
(one time payment)

- Clerk of Quarter Sessions FY2005-06 (March 2008)
- Clerk of Quarter Sessions FY2007-08 (December 2009)

Collect City Fines & Fees (trash, litter, false alarm, etc)

TOTAL: \$70 Million

The Office of Administrative Review, a division within the City’s Finance Department, is charged with collecting unpaid fines that include trash, sanitation and false burglar alarm violations. From FY08 to FY10, total unpaid fines increased from \$50 million to almost \$70 million. During this same period, the total number of unpaid violations increased from 330,760 to 412,837.



Along with aggressively collecting unpaid fines, the Controller’s Office recommends denying the issuance of licenses and permits to any person or business who owes for unpaid violations. The city also needs to coordinate efforts with the Municipal Court to increase the number of referrals to clear the backlog of pending cases and improve the administrative due process delays.

\$70 million
(one time payment)

- Special Report on the Office of Administrative Review (June 2009)
- Office of Administrative Review Follow-Up (March 2012)

Collect Outstanding EMS Billings

TOTAL: \$50 Million



\$50 million
(one time payment)

In a follow-up report of the Philadelphia Fire Department’s collection and billing process of ambulance fees, the Controller found the city was owed almost \$50 million in EMS fees in fiscal year 2011. Of the \$82.5 million billed by the Fire Department for EMS user fees, only \$34.4 million was collected, marking a collection rate of 42 percent. In the Controller’s FY2006 report, the collection rate was 41 percent.

The city did take action on some of the Controller’s previous recommendations, which included raising the fees for emergency medical services and hiring a new patient billing vendor. Although, the collection rate increase was virtually unchanged and there’s still much improvement needed.

- Emergency Medical Service Billings & Collections (January 2008)
- Emergency Medical Services Follow-Up Report (May 2012)

Enhance Demolition Billing Procedures

TOTAL: \$20 Million

As a result of the Department of Licenses and Inspections (L&I) maintaining insufficient and incompatible records, along with untimely billings, L&I failed to collect \$20 million in revenue because of inadequate procedures with invoices to property owners for demolition services.

The money is owed from property owners who had dangerous, at-risk structures demolished, but the city either never billed for these services or it never took appropriate action to collect the amounts owed.

L&I needs to coordinate efforts with the Revenue Department to develop an improved accounting system for demolition receivables. Internal meetings should be conducted with managers responsible for the demolition expenses as well as review system vulnerabilities.



\$20 million - recurring
(\$100 million over five years)

- Department of Licenses & Inspections FY05-06 (November 2008)
- Department of Licenses & Inspections FY07-09 (October 2011)

Implement eProcurement System

TOTAL: \$12 Million



\$12 million – recurring
(\$60 million over five years)

In a special audit of the City’s Procurement Function, it was determined that \$12 million in annual savings could be achieved by implementing new technology and improving the process the city contracts for services and equipment.

Of the total annual savings, \$7.4 million would be achieved by implementing an eProcurement system, which the city could then eliminate the requirement for manual, redundant, labor intensive and out-of-date business processes. It would also save hundreds of thousands through staffing reductions.

The remaining \$4 million in savings could be achieved by amending the city’s contract terms and conditions that would allow for multi-year agreements and result in greater vendor competition. Provisions imposed by the Home Rule Charter on city contracts to be one year with renewal does not allow true multi-year pricing opportunities and discourages businesses from bidding.

- City’s Procurement Function (March 2013)

Recover Excess Fees & Overcharges from Sheriff’s Office

TOTAL: \$7.4 Million

As a result of the findings uncovered in the forensic investigation of the Sheriff’s Office, the City Controller urged the City Solicitor to recover the excess fees and overcharges made by the Sheriff’s largest vendor, amounting to just over \$7 million.

Some of the overcharges and excess fees made by the former vendor included: website costs, excess production costs, unpaid newspaper costs, unpaid utility bills, advertising overcharges and commission charges.

The Law Department needs to initiate civil legal actions against the former vendor based upon the forensic investigation.



- Forensic Investigation Report: Office of the Philadelphia Sheriff (October 2011)

\$7.4 million
(one time payment)

Collect Amounts Owed for Police Services

TOTAL: \$5 Million



\$5 million
(one time payment)

In a 2012 follow-up review of police receivables, the Controller’s Office found that \$5 million was owed from 716 entities for services the Philadelphia Police Department provided at many functions, events and security details. The businesses and/or individuals that owed money included bars, clubs, construction companies, financial institutions, and various government agencies.

While there was a 25 percent decrease in total outstanding receivables since the Controller’s 2009 report, there are still millions left uncollected. For all receivables over 90 days delinquent, the Police Department should request the Law Department to take aggressive action on collecting the outstanding balances.

- Philadelphia Police Department: Millions of Dollars Uncollected for Police Services & Reimbursements (January 2009)
- Philadelphia Police Department: Follow-Up Review of Monies Owed for Police Services (May 2012)

Sell Health Center #1 & Open New Facility

TOTAL: \$4 Million

In 2008, the Controller’s Office found the Philadelphia Health Center #1, which is located at 500 S. Broad Street, was struggling to function properly in its current condition. The clinic outgrew its current home years ago and the building is in disrepair and, in some cases, is unsafe for employees and patients.



If the City would sell the existing property and purchase a new site, the repair cost would be avoided and the net profit on the sale would yield the city an economic benefit of around \$4 million. Fifteen percent of the clinic employees work in the field and could easily be separated from the on-site staff.

Purchasing two less expensive properties could be the most economical and efficient course of action; one could house the day-to-day operations and the second could provide office space for staff.

\$4 million
(one time payment)

-Proposed Sale of Health Center #1 (November 2008)

Reduce Unnecessary EMS Runs - TeleNursing

TOTAL: \$2.6 Million



As a method to reduce the number of non-emergency dispatches by the Philadelphia Fire Department’s Emergency Medical Services unit, the Controller found that implementing a tele-nursing, or a triage system, could save the city \$2.6 million annually by eliminating 18,789 unnecessary EMS runs.

Tele-nursing would incorporate qualified nurses into the 9-1-1 emergency dispatch system, which would assist in separating non-life-threatening calls from those 9-1-1 emergency calls that require an ambulance to be dispatched immediately.

\$2.6 million - recurring
(\$13 million over five years)

Calls to the 9-1-1 system would be prioritized by the severity of the emergency.

- Tele-Nursing: Lifting the Burden on Emergency Medical Services (April 2009)

Deposit All Checks Within 24 Hours

TOTAL: \$1 Million

The Controller’s Office found that deposits of tax payments made to the City were significantly delayed in the months following the April 15 tax deadline. This was costing the city more than \$1 million in interest revenue. Thousands of checks that amounted to nearly \$60 million took more than 30 days, and in some cases more than 100 days to deposit after they were received by the city.



The Revenue Department needs to devise explicit policy guidelines for revenue payment processing. All checks should be deposited in a timely manner, including checks requiring exception processing to identify the proper account to credit.

\$1 million – recurring
(\$5 million over five years)

- Department of Revenue Auditor’s Report (June 2008)
- City Representative & Director of Commerce FY06-07 (March 2009)
- Performance Audit of the City’s Cash Management Program (June 2012)

Switch to Paperless Pay

TOTAL: \$400,00



A 2008 report on the city’s cost and usage of printing paychecks and pay-stubs found that city employees and pensioners use more than one million pieces of paper annually and cost Philadelphia nearly \$400,000 in materials, labor and postage expenses.

Moving to paperless paychecks will increase productivity and eliminate unnecessary expenses. Direct deposit should be mandated, and for those who cannot enroll in a direct deposit, a no-cost debit card could be issued.

In addition, it would help advance the city’s sustainability goals by eliminating almost five tons of paper per year and saving more than 130 trees.

\$400,000 – recurring
(\$2 million over five years)

- Paperless Pay: Saving Tax Dollars, Protecting the Environment (September 2008)

Hire Four Pharmacists; Reduce Contracts

TOTAL: \$300,000

In a 2008 audit of the city’s pharmacy operations, it was found that pharmacists in the city’s health centers had an extraordinarily high volume of prescriptions (300-365 per day), and the volume was expecting to increase. The higher the volume of prescriptions filled, the higher the risk to the patient. Pharmacists can make mistakes because they’re working too fast, technicians can make mistakes because the pharmacists are too busy to counsel them.



Hiring four pharmacists, reducing technician hours, and capping the outlay for contract pharmacists at \$50,000 would save the city \$300,000 a year. The additional staff and the redeployment of staff will reduce the workload and allow pharmacists time to focus on counseling and oversight.

- Department of Public Health: Assessment of Pharmacy Operations and Impact of Walk-In Patients at District Health Centers (February 2008)

\$300,000 - recurring
(\$1.5 million over five years)

Reduce Prescription Drug Costs - Workers’ Comp Program

TOTAL \$300,000



As indicated in the Controller’s Office audit of the city’s Workers’ Compensation Program, benefits pertaining to the prescription drugs had cost the Program \$2.1 million in fiscal year 2011. The contracted vendor for prescription drug plan was approved by the Risk Management division of the City’s Finance Office.

Through research, it was discovered that there are other vendors in the market that can provide the same services at approximately a \$300,000 annual savings on prescription drugs and services as compared to the current vendor. Risk Management needs to explore other venues for providing the prescription drug network management service.

- Workers’ Compensation Program Review (March 2013)

\$300,000 – recurring
(\$1.5 million over five years)

Eliminate Unused Cell Phones

TOTAL: \$168,000

During September 2006, 625 of the 1,921 city cell phones had no usage. Although, these phones were invoiced at the \$26.99 monthly rate instead of the \$5 dormant rate. During this same month, excess costs incurred for September were approximately \$14,000, accumulating to \$168,000 over the year.

During the Controller's review, it was determined that the Department of Public Property's records relating to assignment of cellular devices did not agree with individual department records relating to the assignment of those devices. Departments were, at times, unable to locate devices for which they were being charged.

Records reflecting the assignment of phones should be verified via an inventory or similar procedure and updated periodically. There needs to be adequate controls and procedures to eliminate excess cellular charges to the city.



\$168,000 – recurring
(\$840,000 over five years)

- City Controller's Audit of Cell Phone Policies & Usage
(September 2007)

Implemented Recommendations

As indicated by the list of recommendations provided in this report, there are many revenue opportunities the City has yet to realize. Although, there has been progress with implementing recommendations by the Controller's Office through the actions taken by the Mayor's Administration and City Council. These include the following:

Implement Tax Amnesty Program

In a 2009 report that included 10 action steps to generate more revenue and improve tax collections, the Controller's Office recommended implementing a tax amnesty program for all taxes owed the city. Soon after the Controller's report was issued, City Council adopted legislation enacting the tax amnesty program and it became available to citizens from May through June 2010.



Amount Collected: \$72 million (net collection)

Increase EMS Billing Rate

In response to the Controller's 2008 analysis of Emergency Medical Service charges, the Philadelphia Fire Department in FY2010 increased its rates for transport services by nearly 100 percent to better reflect industry standards. Records indicated that when the rates were increased, the Fire Department experienced a \$5.5 million increase in EMS revenues.



Annual Savings: \$5.5 million (\$27.5 million over five years)
Controller's initial recommendation estimated \$10.4 million

Implement Employee Withholding Program

The Controller's Office has been engaged in pursuing every opportunity for the City to collect delinquent taxes. Under a 1937 state law, the Philadelphia Controller has the authority to withhold up to 20 percent of a city employee's pay to offset against delinquent taxes. When the Controller began the withholding process, there were almost 800 employees delinquent, which half paid or entered agreements immediately and the other half incurred the direct withholding.



Amount Collected: \$3 million

Collect Court Debt from City Employees

A coordinated collection effort in March 2011 between the City Controller's Office and the Courts led to uncovering \$1 million in owed court debt from more than 600 city employees. Collecting the unpaid court costs, fines and fees stemmed from the success of the Controller's withholding program.



Targeted Payment: \$1 million

Conclusion:

In the last five years, cities across the United States have been making tough financial decisions, which many have resulted in cuts to essential services and tax increases. The City of Philadelphia was no exception.

Uncollected taxes, whether real estate or other types of taxes and fees that have gone unpaid for decades, are placing an extreme burden on the city’s ability to fund and provide the necessary city services for all citizens. As the City Controller stated March 20, 2013, before City Council, “it is unfair for hard-working Philadelphians who pay their taxes on time to be at the mercy of those who don’t.”

Many of the Controller’s recommendations are opportunities for the city to collect unpaid taxes and fees. In addition the Controller has provided several recommendations that would generate savings and enhance services through innovative measures, e.g. reducing unnecessary, non-emergency EMS runs through tele-nursing; or enhancing demolition billing procedures.



While most of the recommendations require action by the City’s Administration, the Controller’s Office has used its own authority to collect revenues. In 2010, for the first time in 70 years, the Controller’s Office utilized a provision in state law to implement the employee withholding program, which yielded \$3 million in back taxes. Realizing the success of the program, the Courts implemented its own program with the assistance of the Controller’s Office to collect \$1 million in court debt from city employees.

This report should act as a guide for the city’s new chief revenue collections officer, as well as the Department of Revenue, as it moves forward with taking aggressive collection actions. Additional revenues will allow the city to improve the quality of services for residents and visitors. It’s also money the city can rely on during dire economic conditions.

City Controller's Recommendations Revenues & Savings

<u>AMOUNT</u>	<u>RECOMMENDATION</u>	<u>DATE</u>
\$132 MILLION	- Collect Unpaid Water & Sewer Bills	Aug. 2007 & July 2009
\$72.8 MILLION	- Implement Tax Amnesty Program ✓	May 2009
\$70 MILLION	- Collect Court Fines & fees	January 2010
\$70 MILLION	- Collect City Fines & fees (trash, false alarms, etc.)	June 2009 & March 2012
\$50 MILLION	- Collect Outstanding EMS Billings	Jan. 2008 & May 2012
\$20 MILLION	- Enhance Demolition Billing Procedures*	Nov. 2008 & Oct. 2011
\$12 MILLION	- Implement eProcurement System*	March 2013
\$10.4 MILLION	- Increase EMS Billing Rate* ✓	January 2008
\$7.4 MILLION	- Recover Excess Fees & Overcharges from Sheriff's Office	November 2011
\$5 MILLION	- Collect Amounts Owed for Police Services	Jan. 2009 & May 2012
\$4 MILLION	- Sell Health Center #1 & Open New Facility	November 2008
\$3 MILLION	- Implement Employee Withholding Program ✓	January 2010
\$2.6 MILLION	- Reduce Unnecessary EMS runs; TeleNursing*	April 2009
\$1 MILLION	- Deposit All Checks within 24 Hours*	June 2008
\$1 MILLION	- Collect Court Debt from City Employees ✓	March 2011
\$1 MILLION	- Collect Tax Revenues from Non-Filing Companies	April 2010
\$400,000	- Switch to Paperless Pay*	September 2008
\$300,000	- Hire Four Pharmacists; Reduce Contracts*	November 2008
\$300,000	- Reduce Prescription Drug Costs - Workers' Comp*	March 2013
\$168,000	- Eliminate Unused Cellphones*	October 2007

\$415.8 Million - One time payments

\$47.2 Million - Recurring Savings*

✓ - City implemented recommendation

\$652 MILLION
= 5 YEAR SAVINGS