City Council Working Session

The Robert Bobb Group, LLC
June 29, 2017
Agenda

• Discussion on a Collector of City Taxes
  – Josh Rahman, The Rahman Group
  – Patrick Scott, MuniServices

• Auditor Observations on Treasurer Financial Controls per the FY 2016 Comprehensive Annual Financial Report (CAFR)

• RBG Presentation and Recommendation
§ 3-14. Collector of city taxes generally.

- There may be appointed by the city council, in its discretion, a collector of city taxes who shall serve at the pleasure of the city council. He shall perform such duties and have such powers as are prescribed by the city council or by state law. If city council does not appoint a collector of city taxes, duties and powers prescribed to the collector of city taxes shall be administered by the treasurer and as provided for by state law. (1962, c. 259; 1976, c. 482)
1. Missing Supporting Documentation for Credit Card Transactions
   “During the testing of credit card transactions, we noted instances in which there was no supporting documentation maintained for the credit card charge. We recommend the City implement procedures to ensure all credit card transactions have the appropriate approved supporting documentation.”

2. Bus Receipts Posted Several Days after Brinks Deposit
   “We noted during our examination of bus route receipts, the City Treasurer’s office did not post bus route receipts to the accounting system until several days after the deposits were made by Brinks. We recommend receipts be posted as of the date deposited.”

3. **Need for Refunds to be Reviewed and Approved**

   “During FY2016, refunds were processed and paid absent of a documented review. For example, if a business license refund is requested, the Commissioner of Revenue will complete a form and submit to the Treasurer for issuance. The Treasurer posts the amount to be refunded in the daily close. **We recommend all refunds be reviewed and approved.**”

4. **Reporting Bank Account Information**

   “We recommend receipts be posted as of the date deposited.”

**Source:** Management Letter to the City of Petersburg, Robinson, Farmer, Cox Associates, May 31, 2017.
# Comparison of Regional Real Property Tax Collections

<table>
<thead>
<tr>
<th>CITY</th>
<th>Population</th>
<th>Average Tax Collections Rates FY2009-FY2015</th>
<th>Unassigned Fund Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Petersburg</td>
<td>32,701</td>
<td>93%</td>
<td>($7.7M)</td>
</tr>
<tr>
<td>Colonial Heights</td>
<td>17,731</td>
<td>98%</td>
<td>$7.95M</td>
</tr>
<tr>
<td>Danville</td>
<td>42,444</td>
<td>94%</td>
<td>$36.7M</td>
</tr>
</tbody>
</table>

We compared FY2009 – FY2015 Comprehensive Annual Financial Reports (CAFR) for Petersburg, Colonial Heights and Danville.

Compared to our regional peers, Petersburg has a NEGATIVE Unassigned Fund Balance and the lowest average tax collection rate.


Source for Colonial Heights: [http://www.colonialheightsva.gov/ArchiveCenter/ViewFile/Item/1048](http://www.colonialheightsva.gov/ArchiveCenter/ViewFile/Item/1048)

$4.2 Million in Uncollected Personal Property Taxes as of 6/29/17

Uncollected Personal Property Taxes Owed to the City Have Increased Year Over Year!

<table>
<thead>
<tr>
<th>Year</th>
<th>Taxes Receivable</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$260,978</td>
</tr>
<tr>
<td>2014</td>
<td>$355,431</td>
</tr>
<tr>
<td>2015</td>
<td>$502,906</td>
</tr>
<tr>
<td>2016</td>
<td>$739,753</td>
</tr>
<tr>
<td>2017</td>
<td>2,313,945</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$4,173,013</td>
</tr>
</tbody>
</table>

Note: This reflects total uncollected as of 6/29/17.
$6.7 Million in Uncollected Real Estate Taxes as of 6/29/17

Uncollected Real Estate Taxes Owed to the City Have Increased Year Over Year!

<table>
<thead>
<tr>
<th>Year</th>
<th>Taxes Receivable</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>$99,494</td>
</tr>
<tr>
<td>2010</td>
<td>$146,143</td>
</tr>
<tr>
<td>2011</td>
<td>$201,931</td>
</tr>
<tr>
<td>2012</td>
<td>$295,284</td>
</tr>
<tr>
<td>2013</td>
<td>$335,180</td>
</tr>
<tr>
<td>2014</td>
<td>$401,841</td>
</tr>
<tr>
<td>2015</td>
<td>$712,474</td>
</tr>
<tr>
<td>2016</td>
<td>$4,469,220</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$6,661,568</td>
</tr>
</tbody>
</table>

Note: This reflects total uncollected as of 6/29/17.

Source: FY2016 CAFR, City of Petersburg, Va, Taxes Receivable, Analysis of RET and PPT by Tax Year, June 29, 2017
$10.8 Million is Uncollected and Owed to the Treasury as of 6/29/17

That is a Total of $10.8 Million in Uncollected Personal Property and Real Estate Taxes as of 6/29/17

Source: FY2016 CAFR, City of Petersburg, Va, Taxes Receivable, Analysis of RET and PPT by Tax Year, June 29, 2017
~$800,000 in Uncollected EMS Billing by the Treasurer

The Treasurer has not supported collection of up to $800,000 owed to the Fire Department

**Background**

- The Fire Department contracts with Cornerstone Adminisystems for EMS billing
- ~20 daily bills are sent by the Fire Department/EMS to Cornerstone that is then submitted for insurance payment
- **Industry Average for current account collections is ~70%**
- In Petersburg, the 3rd Party Collection Rate is higher at ~76%
- **Cornerstone hands off delinquent accounts to the Treasurer ~24%**

*Break down in Communications with the Treasurer: 3rd Party Company has unread emails over 1 year old from Treasurer*

**Problem:** We are not collecting the delinquent accounts which could be some percentage of ~$800,000.

*Source: Cornerstone Adminisystems is the 3rd Party EMS Billing company contracted with the Petersburg Fire Department, 6/29/17.*
The New EMS Billing Cycle

This Process describes the Industry Standard. It has been authorized as the process to be followed effective immediately by the Interim City Manager.

Approximately ~20 Claims Per Day

STEP 1
EMS Billing (~70% of billing is paid)

STEP 2
EMS Collections (after 1.5 years)

STEP 3
Sell Debt Off

STEP 4
Write Off the Debt (With Council Approval)

In Step 1, 70% of billing is paid by the health insurance company and any copays by the patient.

In Step 2, 30%-50% surcharge after unpaid debt sent to a 3rd party for collections

In Step 3, 10% of the remaining debt is sold off.

In Step 4, Council would approve any debt the City proposes to write off.

Source: Fire Department, 6/29/17.
1. An itemization of the $110,000 estimated cost of re-creating the position of Collector of City Taxes.

The $110,000 salary represents a potential range for Council’s consideration. The initial estimate for the cost of a City Collector was based on the December 2015 Compensation Study for a comparable role. The comparable role used was the City Assessor. It is the cost of a fully loaded compensation package (Salary + Benefits). According to the 2015 Compensation Study, the City Assessor salary was $82,265. Assuming a 30% additional amount for Benefits, the total is $107,412.50.
The Virginia Compensation Board determined the FY18 salary for the Treasurer as $75,679.

The City Council in its FY18 Budget approved a salary of $79,917.

The Compensation Board reimburses the City for Constitutional Officers. Based on the Comp Board’s formula, the City will only pay a net cost for the Treasurer’s salary of $7,352.

Need for Processes & Technology in the Treasurer’s Office

Our Target State includes a comprehensive program that addresses standard operating procedures

• Regardless of who takes on duties and functions – whether it is the Treasurer, or the Finance Department, or the Collector of City Taxes – we believe a comprehensive Change Management Program is needed that addresses needs for new policies, processes and technologies.

• The City may need an outside firm to take on the collection function. Some of that is happening currently (e.g, TACS). Further, additional funds may be needed to support data and technology needs.
2. Whether the $110,000 estimated cost takes into account the savings that will result because the City will no longer have to pay the City employees who now assist the City Treasurer.

No. The Collector of City Taxes does not eliminate current employees who now assist the City Treasurer. We still need cashiering functions. The Collector of City Taxes will COST the City, it is an additional expense to the City. However, we believe this additional capacity will improve collections and realize revenue that is now “dormant.”
3. **The number of assistants and other staff members that the Collector will have.**

   This depends on the functions we identify for the Collector. At minimum, based on financial data and reporting requirements we would expect at least one (1) resource to manage financial data.
4. Whether the transfer of functions from the City Treasurer to the Collector of City Taxes will likely result in shorter lines at the cashier windows, and why.

- We view process improvements for collections as a comprehensive program. We recommend an approach that educates customers about alternatives to paying at the window such as the SunTrust Lockbox and online payments.

- With respect to shorter lines at the cashier window, RBG met with the Treasurer in March and offered to model the cashier process during peak payment periods with a goal of identifying how many more staff would be needed to eliminate those lines out the door. **THE TREASURER DID NOT ACCEPT OUR OFFER.**

- Our view is that this is a process issue specific to in person payments. Customers who chose to come in person versus paying online will on average require 2-5 minutes processing time. **Peak billing periods should have a “surge” in staffing of at least 2 additional people.**
5. What, if anything, the Collector of City Taxes will do differently from what the City Treasurer is doing to collect past-due revenues (including real estate taxes, personal property taxes, and utility bills).

The Collector would directly go after “dormant” or uncollected property taxes and real estate taxes. As we noted earlier, this is over $10 million (based on Auditor’s analysis).

Any potential Collector of City Taxes would manage financial data within the same legacy financial database we have today as the City Treasurer. As a result, we recommend that any functions assigned to the Collector are carefully mapped to the financial systems they would access.
Process Steps to Create the Position

6. An itemization of the steps to be taken to re-create the position of Collector of City Taxes and a timetable for taking those steps.

We expect at a minimum the following steps:

a. Confirm the Functions to be assigned to the Collector of City Taxes
b. Identify the Financial Reporting and Data Needs
c. Begin the Hiring Process for the Collector
d. Reassign existing resources or begin the hiring for a staff member
e. Communicate the hiring and onboarding process
f. Work closely with the Treasurer and his office to coordinate duties.
Potential Benefits of the Collector of City Taxes

7. An itemization of the benefits of re-creating the position of Collector of City Taxes.

We expect at a minimum the following benefits:

a. Since Collections would be the only function of the Collector, we anticipate an uptick in collections of 5%-10%. We would capture revenue that is now dormant.

b. Transparency into the City’s Tax Collection Processes

c. Process improvements to tax collection

d. Improvements to reporting

e. Implementing Auditor recommendations for documentation

f. Potentially greater collaboration between the Council, City Administration and Revenue Collection staff
RBG Recommendation

8. Whether the Bobb Group advises Council to re-create the position of Collector of City Taxes, and why.

Our Recommendation is that the Collector of City Taxes is reinstated and takes over all collection duties, in particular, the collection of delinquent taxes. For example, this would includes leading projects such as the “Smart Boots” vehicle tax program.
RBG Recommendation for Organization

Proposed Organization Model with the Collector of City Taxes

City Council

Collector of City Taxes

City Manager

Finance Director

City Treasurer

Move City Treasurer cashier function and staff under the Finance Director

Includes normal day to day functions of the Finance Department

City Treasurer handles deposits of city funds

§ 3-14. Collector of city taxes generally.
A collector of city taxes will serve at the pleasure of the city council.
Alternative Model for Improved Collections

Proposed Alternative Organization Model (NOT ACTIVATING SECTION 3-14)

City Council

City Manager

Finance Director

There is no Collector of City Taxes

Move City Treasurer cashier function and staff under the Finance Director. ALL THE TAX COLLECTIONS ARE DONE BY THE FINANCE DEPARTMENT

City Treasurer (apply the Richmond Model)

City Treasurer handles deposits of city funds

Finance Director

Includes normal day to day functions of the Finance Department