



# Department of Revenue FY 2019 Year in Review





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## Message from the Revenue Commissioner

In FY19, the Department of Revenue continued to meet its revenue collection goals, expand the safety net for Philadelphians, and dramatically reduce delinquency using a variety of enforcement tools. We've made smart and evidence-based efforts to collect all tax and water revenues, including delinquent debt for the City and School District. At the same time, we've ensured that vulnerable taxpayers and water customers are enrolled in our tax and water assistance programs.

Last year, we began our search for a new integrated tax system that will replace Revenue's 35-year-old legacy software. A new tax system will enhance our internal processes and improve customer services for all Philadelphians.

As this fiscal year ends, we're already laying groundwork by:

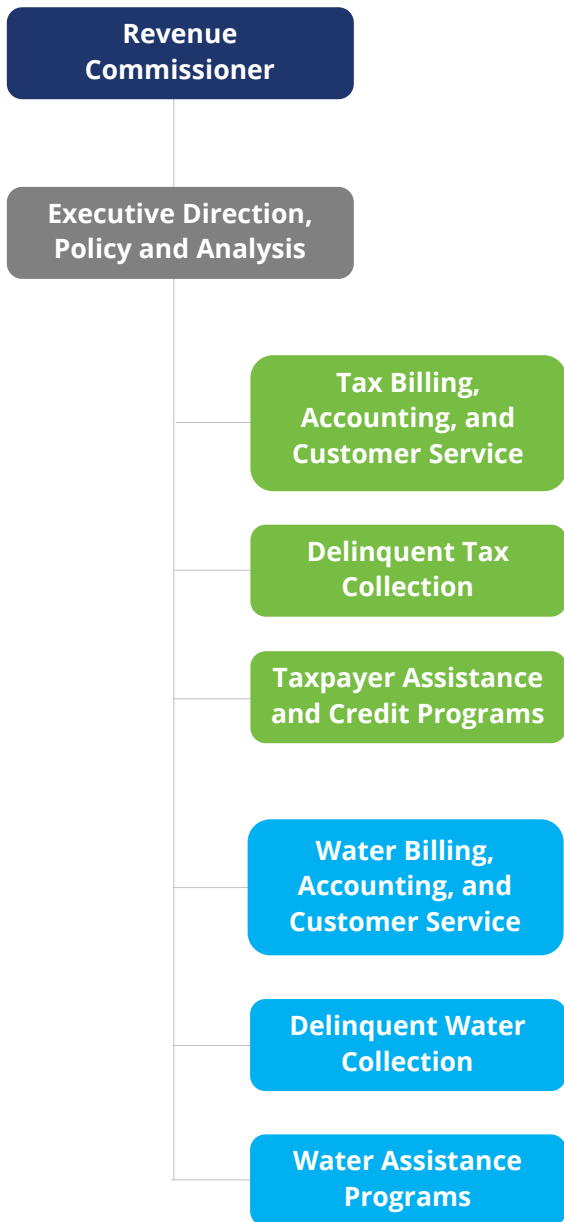
- Continuing to streamline case management of delinquent accounts
- Planning to launch e-billing for water customers, which will expand customer options in FY20
- Evaluating our collection efforts to determine the right enforcement tool for each account type.

We're looking ahead to FY20 with excitement. Developing and implementing a new tax system is no small challenge, but it will transform the way Revenue interacts with taxpayers.



Frank Breslin, CPA  
Revenue Commissioner  
& Chief Collections Officer

# About the Department of Revenue



The Department of Revenue collects taxes, water and sewer charges, and other fees and fines to provide funding for the School District and City of Philadelphia. These funds support critical services such as trash collection, water service, snow removal, police and fire protection, parks, libraries, and more. The Department of Revenue has 669 authorized employees with a FY19 operating budget of \$73.8 million.

In FY19, the Department of Revenue used program-based budgeting to organize its spending into seven areas:

- **Executive Direction, Policy and Analysis** - \$13.4 million. This program provides leadership for Revenue, conducts analysis, sets and informs policy, and ensures that Revenue has the resources it needs. This includes fiscal and information technology functions and an outgoing mail processing center that handles over 10 million notices a year. 84 employees.
- **Tax Billing, Accounting, and Customer Service** - \$13.1 million. This program determines which taxes, fees, and fines taxpayers owe, communicates how much is owed, and processes payments received. 254 employees.
- **Delinquent Tax Collection** - \$25.7 million. This program is a partnership with the Law Department to increase delinquent tax collection, streamline processes for lien and judgement payoffs, and represent the City in all collection proceedings, appeals and bankruptcy cases. 109 employees.
- **Taxpayer Assistance and Credit Programs** - \$1.2 million. Revenue provides tax relief to individual homeowners and business taxpayers through payment agreements, tax freezes, and credits. This program also helps taxpayers through the Earned Income Tax Credit (EITC) campaign. 7 employees.
- **Water Billing, Accounting, and Customer Service** - \$8.1 million. This program determines which water, sewer and storm water charges customers owe, bills them, and processes payments received. 158 employees.
- **Delinquent Water Collection** - \$10.1 million. This program is a partnership with the Law Department to increase delinquent water collections, streamline processes for water lien payoffs, and execute Sheriff Sales of high-dollar water debt. 21 employees.
- **Water Assistance Programs** - \$2.2 million. Revenue provides affordable bills to vulnerable residential customers through this program. 36 employees.

# FY19 Highlights

Revenue is setting the stage for future technology investment, which will change the way residents interact with the City

- In FY19, Revenue began the process of hiring a vendor to replace our current 35-year-old tax system of record. We posted a Request for Proposals and held vendor demonstrations.
- In the next fiscal year, Revenue will choose a vendor, create a dedicated Revenue team to manage new changes, and begin the implementation of the tax system.
- We've started modernizing our processes by using the Data Warehouse and IT to consolidate and streamline our responsibilities.

On-time Revenue collections continue to grow, and delinquency is down for all tax types

- General Fund and School District collections grew by almost 7% from FY18 to FY19.
- The on-time water collection rate of the amount billed was almost 90% in FY19.
- Across all taxes, the number of delinquent accounts fell by 23% and principal due for active periods\* declined by almost 35% in the last ten years.

By testing enforcement strategies, Revenue is using targeted tools for different account types

- In FY19, the Department of Revenue collected more than \$84 million in delinquent BIRT, Liquor Tax, and other non-Real Estate Taxes, as well as about \$98 million in delinquent Real Estate Taxes.
- We published a strategy document in FY19, which outlines our early-intervention and data-driven tactics to collect tax and water debt.
- We are building on our tax enforcement experience—such as with sequestration—to expand delinquent water account collections

Revenue continues to use innovate approaches to increase the safety net for vulnerable Philadelphians

- In FY19, there were around 245,000 people enrolled in tax assistance programs, and 45,000 in water programs. These programs provided \$150 million in tax relief, and \$13 million in water bill assistance.
- We expanded “on the spot” sign up events for tax and water programs in underserved neighborhoods, and conducted door to door outreach to boost enrollment.
- Revenue worked with the Philadelphia Water Department to combine the applications for all water assistance programs so that customers can apply once, and get the best deal.

\*Active periods refers to periods after January 1, 2009 for Real Estate Taxes and January 1, 2013 for other tax types.

# Overall Revenue Collections

With approximately \$5.8 billion collected in FY19, revenues increased by 7% across all funds compared to \$5.4 billion in FY18.

Revenues have grown more than 50% in the last 10 years, due to a growing economy and improved on-time and delinquent tax collection by Revenue.

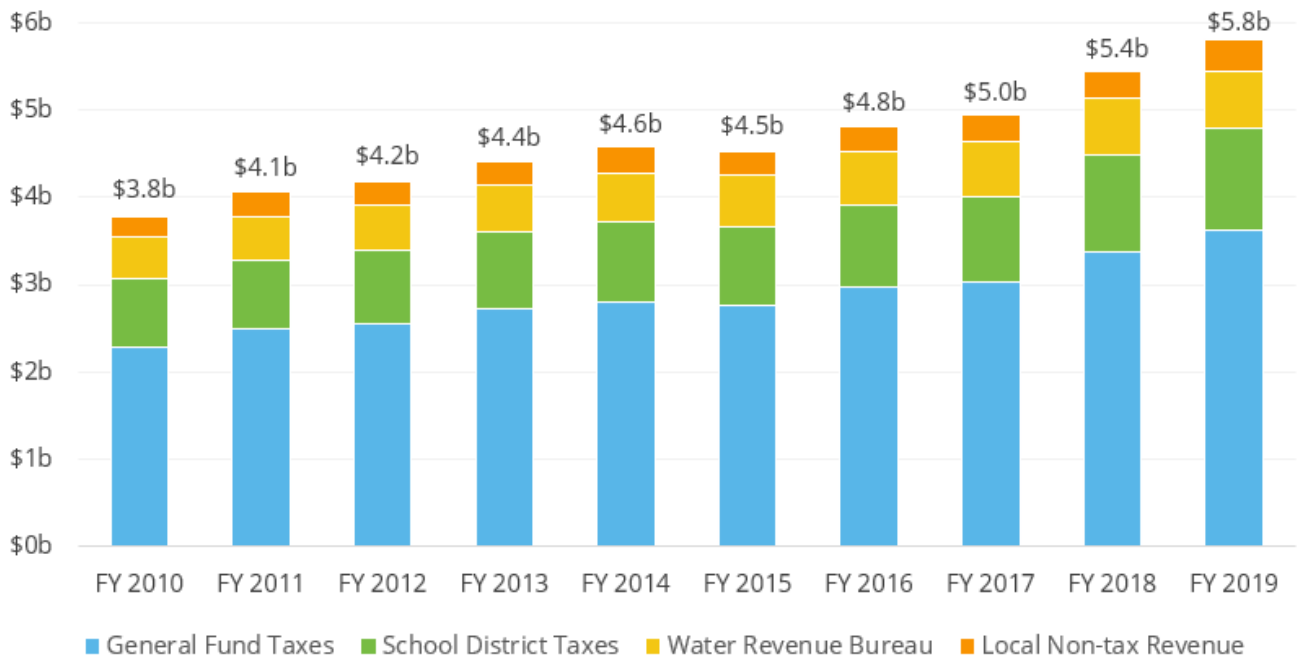
In the last 10 years, Philadelphia's longest standing tax revenue sources - Wage, Earnings, and Net Profits Tax as well as Real Estate Tax has seen consistent, steady growth.

Collections for the Business Income and Receipts Tax, which is heavily influenced by business cycles, has seen the most volatility. Realty Transfer Tax has grown the most dramatically in recent years due to legislative changes.

This report breaks down taxes that support the City's General Fund, the School District, and the amounts collected by the Water Revenue Bureau.

## Ten-year trend, total collections

All FY19 revenue collections data is preliminary. Data does not include revenue from other governmental units, PICA, or special taxes (ex. Hospitality and Tourism Tax).



Fund type	FY18 Collections (millions)	FY19 Collections (millions)	Percentage Growth
General Fund Taxes	\$3,383.6	\$3,619.0	7%
School District Taxes	\$1,100.8	\$1,174.9	7%
Water Revenue Bureau	\$652.3	\$658.2	1%
Local non-tax Revenue	\$312.9	\$353.1	13%



# General Fund Collections

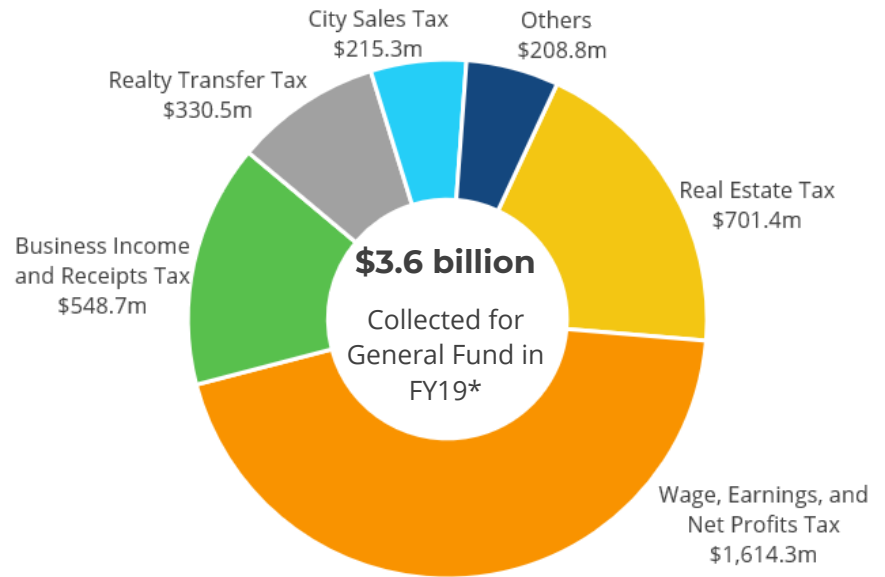
With around \$3.6 billion collected in FY19, General Fund tax revenues increased by 7% compared to FY18 collections of \$3.3 billion.

Business taxes (Wage Tax and Business Income and Receipts Tax) continue to account for more than 60% of General Fund tax collections.

Other taxes in the graph include Parking Tax, Valet Parking Tax, Amusement Tax, Outdoor Advertising Tax, Smokeless Tobacco Tax, Philadelphia Beverage Tax, and miscellaneous revenues.

In FY19, Revenue worked with two additional modernized e-filing (MeF) companies to include business taxes such as Business Income and Receipts Tax and Net Profits Tax, as well as the School Income Tax, in their service packages, bringing the total number of MeF vendors to ten. This has made it easier to file and pay these taxes, improving the customer experience and increasing the number of taxpayers who file and pay online.

FY19 Total revenue collected that supports the General Fund



\*Does not include revenue from other government units, PICA, or special taxes



# Wage and Net Profits Tax

Wage Tax and Net Profits Tax collections increased by 4.5% from FY18 to FY19, even with tax rate reductions.

Over the last 25 years, the City of Philadelphia has reduced Wage Tax rates for resident and non-residents by over 1%.

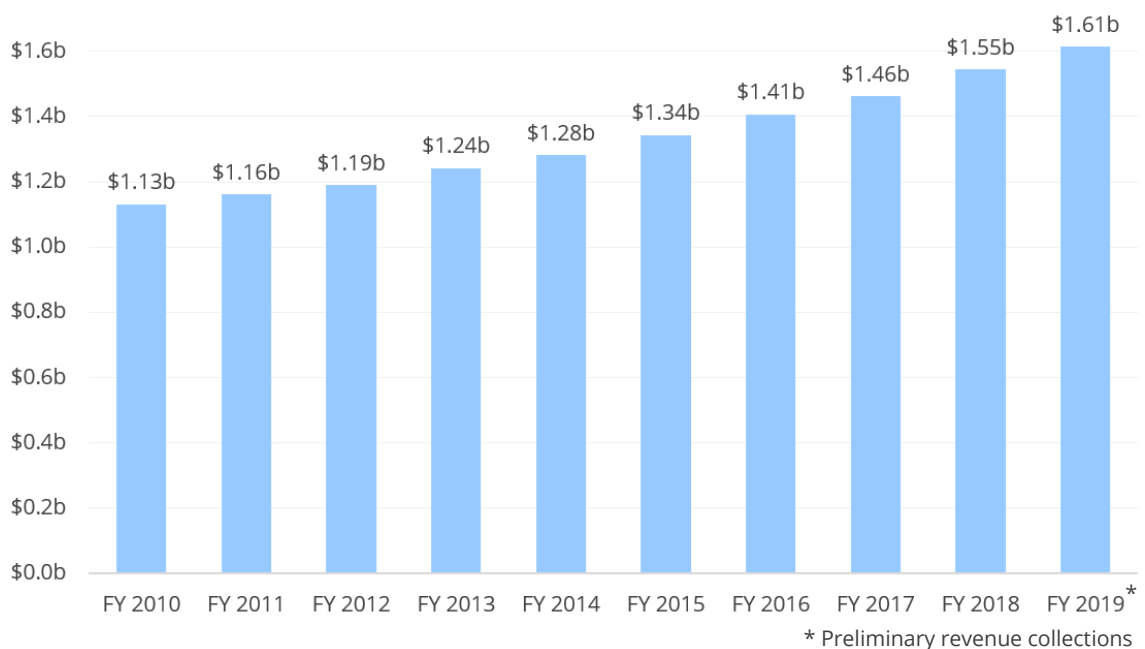
In 1992, the City implemented the first reduction in Wage Tax. Since then, the Wage Tax rate has continuously been reduced from a high of 4.96% to 3.8712% for residents and 4.3125% to 3.4481% for non-residents. The Wage Tax rate hasn't been this low since 1976.

One reason for the growth in Wage Tax collections is an increase in the population that pays the tax. The **American Community Survey** reported that Philadelphia has grown every year in this decade. In that time, the **Bureau of Labor Statistics** (BLS) reports an 11% increase in employment in Philadelphia. Among workers employed in Philadelphia, more than 60% live and work in the city, with an

additional 35% commuting to work in Philadelphia, according to the Longitudinal Employer-Household Dynamics.

A second reason for the growth in Wage Tax Collections is an improved economy. BLS **reports** that the unemployment rate fell from 9.8% to 4.6% in the last 10 years. The **Federal Reserve Bank of St. Louis** shows that mean Real Wages in Philadelphia have grown by almost 90% from 2010 - 2017, which is the last year of complete data. Qualitatively, a survey of business owners by the Federal Reserve Bank of Philadelphia also **showed** that more than one-fourth of all firms reported increases in staff in the last year and over 45% of nonmanufacturing survey respondents had wage increases.

Ten-year trend, total Wage Tax and Net Profits Tax collections





# Business Income and Receipts Tax

With a 22% growth from the prior year, Business Income and Receipts Tax (BIRT) collections continue to show volatile growth year-to-year, partly due to federal tax changes.

The increase in BIRT collections from FY18 to FY19 is the largest increase from a prior year in the last 10 years.

Although generally the growth of BIRT can be tied to the growth in the economy, the increase between FY18 and FY19 is not expected to be sustained. The increase is likely the impact of federal tax changes taking effect in 2018, with businesses making a one-time deferral of profits for their estimated BIRT FY19 payment. The actual BIRT FY19 collections may likely be less than these estimates.

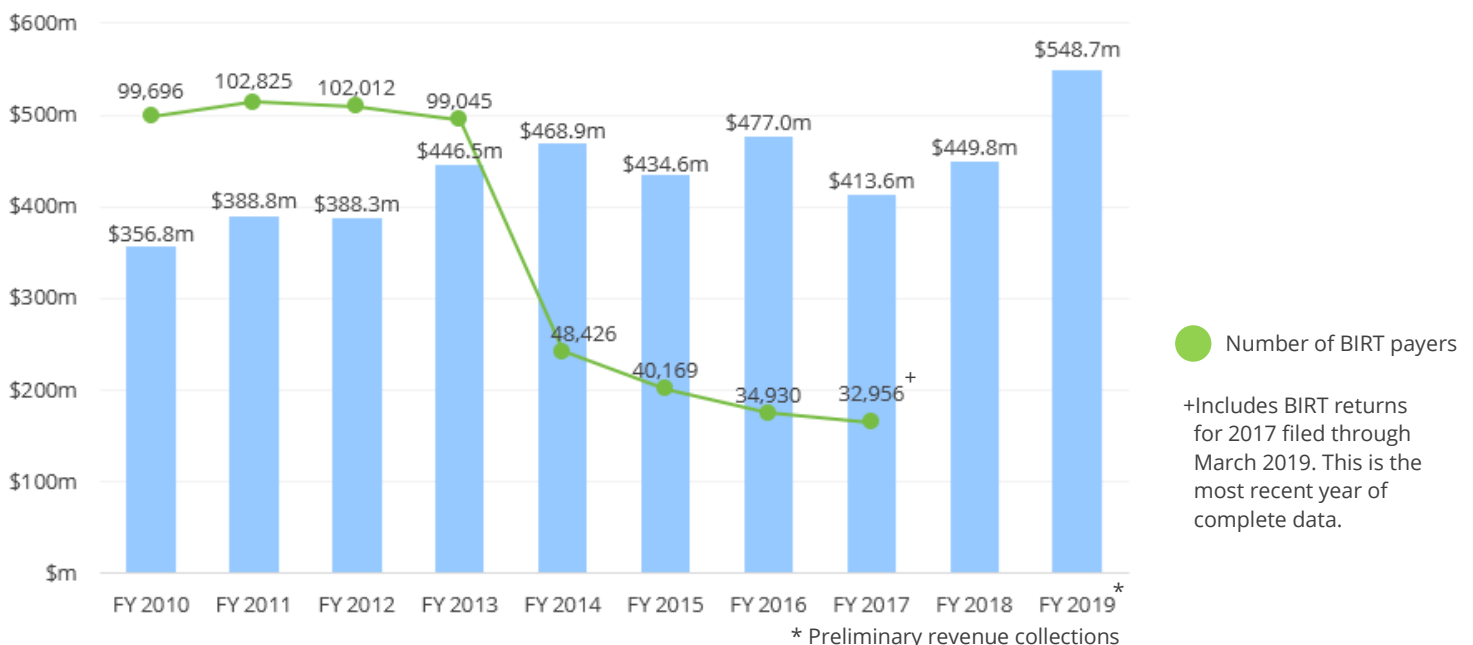
Today, only about 32,000 businesses have a BIRT liability out of 127,000 returns filed, a reduction of about 70% from 10 years ago.

Legislative changes that created a \$100,000 exemption took full effect in FY 2016 - dramatically reducing the number of businesses with a BIRT liability. In FY19, the City also passed Bill 190358 that removed the filing requirement for businesses making less than \$100,000 (comes into effect in TY20). The City also passed Bill 180077 that allows new businesses to make quarterly estimated payments, in their second year of businesses rather than a single annual estimated payment in TY19.

These changes will reduce BIRT's impact on small businesses, and make it easier to do business in Philadelphia.

## Ten-year trend, total BIRT collections and number of accounts with a BIRT liability

Data for number of accounts may change yearly to include owners filing amended returns.



# Real Estate Tax

**Real Estate Tax collections for the General Fund were the highest collected ever at \$701 million, increased by 7.4% from FY18 to FY19.**

Increases in Philadelphia property assessments, more on-time collections, and increased compliance have continued the growth in Real Estate Tax collections.

In CY17, Revenue collected 96.1% of all Real Estate Tax in the calendar year of levy, up from 94.6% in CY15. Preliminary CY18 on-time Real Estate Tax payments is an all-time high, at 96.4%, exceeding the prior year by about 0.3%.

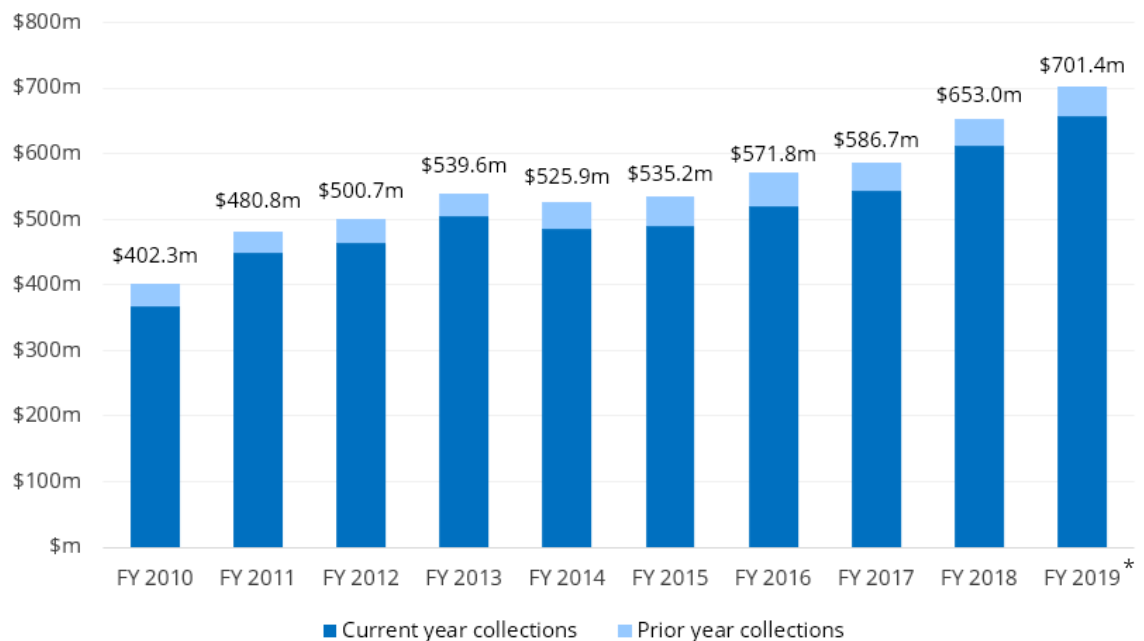
In FY19, Revenue continued to pursue data-driven, evidence-based approaches to increasing enrollment in assistance programs - and reducing delinquency. For example, Revenue hired a vendor to conduct door-to-door outreach for enrollment in tax assistance programs in vulnerable neighborhoods. Revenue also tested methods of invitations to neighborhood tax assistance events.

Using behavioral science best practices, we re-wrote the warning breach letter that taxpayers receive if they are enrolled in the Owner-Occupied Payment Agreement and miss a payment. These plain-language edits reduced the breach rate for taxpayers enrolled in the program, especially for those enrolled in low-income OOPAs.

In January 2019, Revenue also revamped the Real Estate Tax balance website to make it easier to view balances and make payments.

For every dollar collected in Real Estate Tax, the School District receives 55 cents. Of the total Real Estate Tax rate of 1.3998%, 0.6317% of the tax goes to the City and 0.7681% goes to the School District.

**Ten-year trend, General Fund Real Estate Tax collections**



\* Preliminary revenue collections

# Realty Transfer Tax

Realty Transfer Tax (RTT) collections dipped by 0.8% from \$333 million in FY18 to \$330 million in FY19, still far exceeding average collections in the last five years.

More than 50% of RTT revenue in FY19 came from residential transfers in neighborhoods outside Center City.

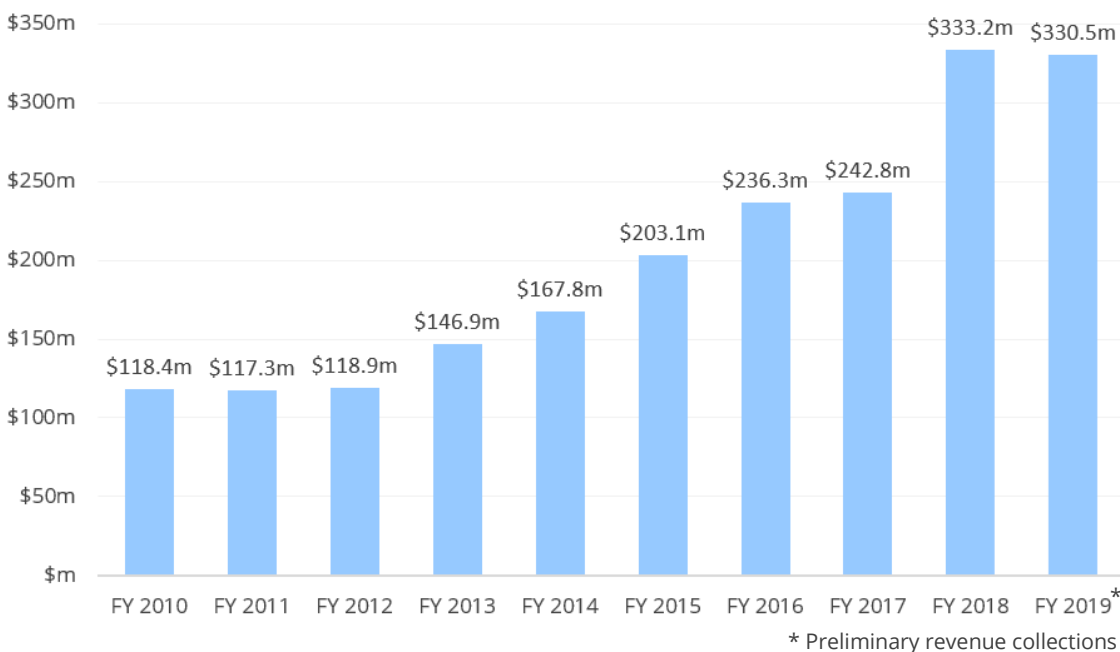
In FY16, Revenue closed a loophole that allowed taxpayers to avoid paying RTT on large commercial transactions. In FY19, Revenue worked with City Council to pass Bill 190135 that clarified what needs to be included when calculating RTT so that the tax is calculated on the full price paid for the property. In FY19, the City of Philadelphia also increased the RTT rate from 3.10% to 3.278% - that increased the amount Revenue collected for each property transfer.

With fewer large commercial property sales in FY19, the largest change in RTT revenue came from commercial transfers that brought in \$105.6 million in FY18 and \$79.3

million in FY19—a reduction of almost 25%. In the same time period, revenue from residential transfers increased almost 9% from \$227.7 million to \$247.2 million, effectively balancing out the reduction in commercial property sales.



Ten-year trend, total Realty Transfer Tax collections





# Other Taxes

Collections from all other tax types increased by nearly 6% from FY18 to FY19, led by strong growth in the Amusement Tax.

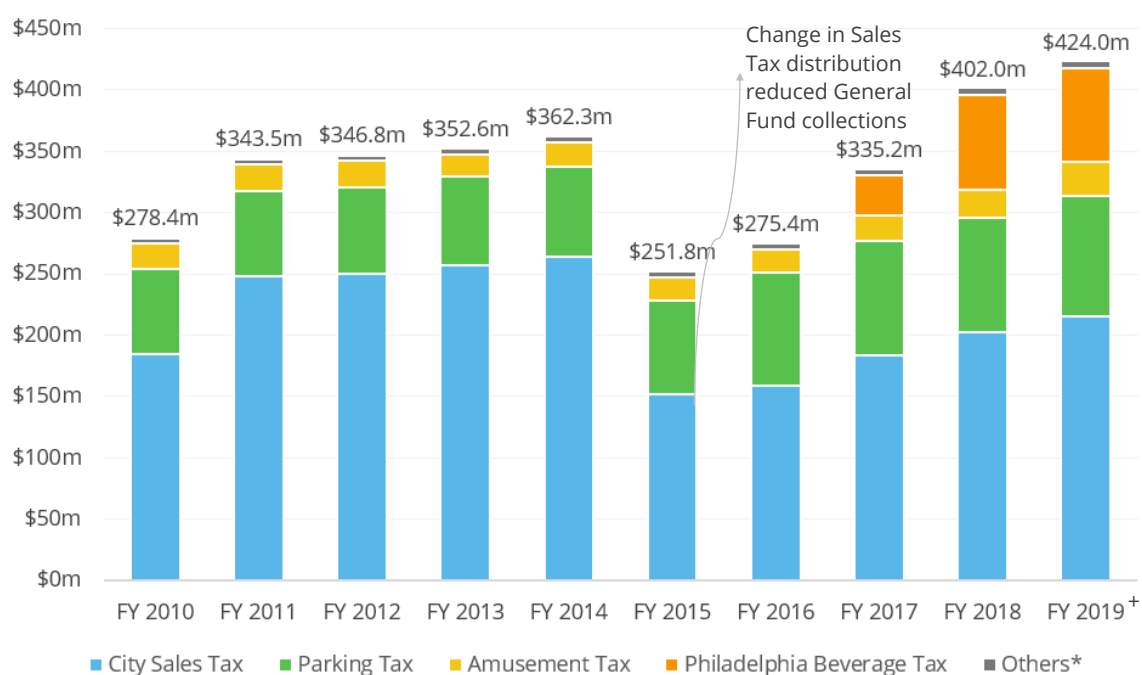
In the last ten years, collections from all other tax types have grown by 52%, from \$278 million to \$424 million, largely due to the introduction of the Philadelphia Beverage Tax (PBT) in FY17.

Other tax types that grew from FY18 to FY19 are the Amusement Tax (24% increase), Parking Tax (5%), and the Outdoor Advertising Tax (13% increase).

The PBT generated nearly \$77 million in FY19. More than 800 businesses registered and paid the tax in FY19 - an increase of about 40% from the previous year. This revenue funded 3,300 pre-K seats in the 2019-2020 school year in 140 locations across the city, and 17 community schools. It is also funding debt service for Rebuild, involving capital borrowings of hundreds of millions of dollars to upgrade parks, recreation centers, and libraries.



Ten-year trend, all other tax collections



\*Others includes Valet Parking Tax, Outdoor Advertising Tax, and Smokeless Tobacco Tax.

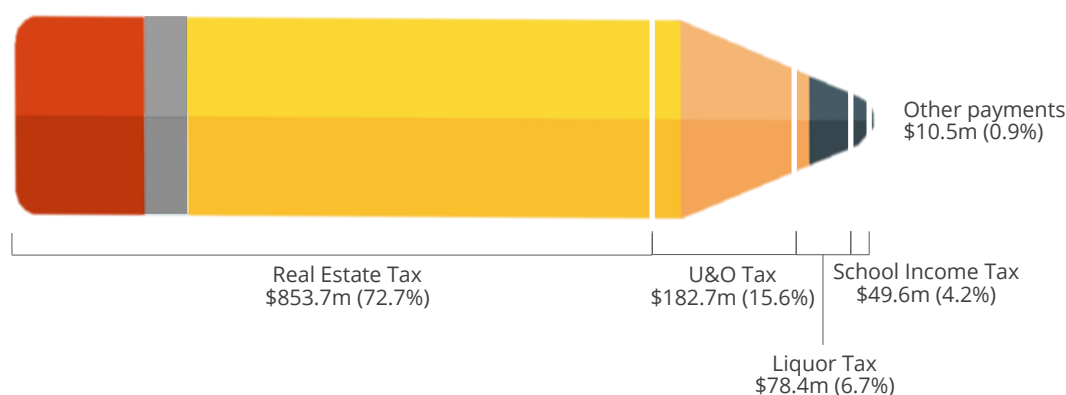
+ Preliminary revenue collections

# School District Taxes Collections

Revenue collected \$1.2 billion for the School District in FY19 an increase of \$74 million from FY18, or almost 7%.

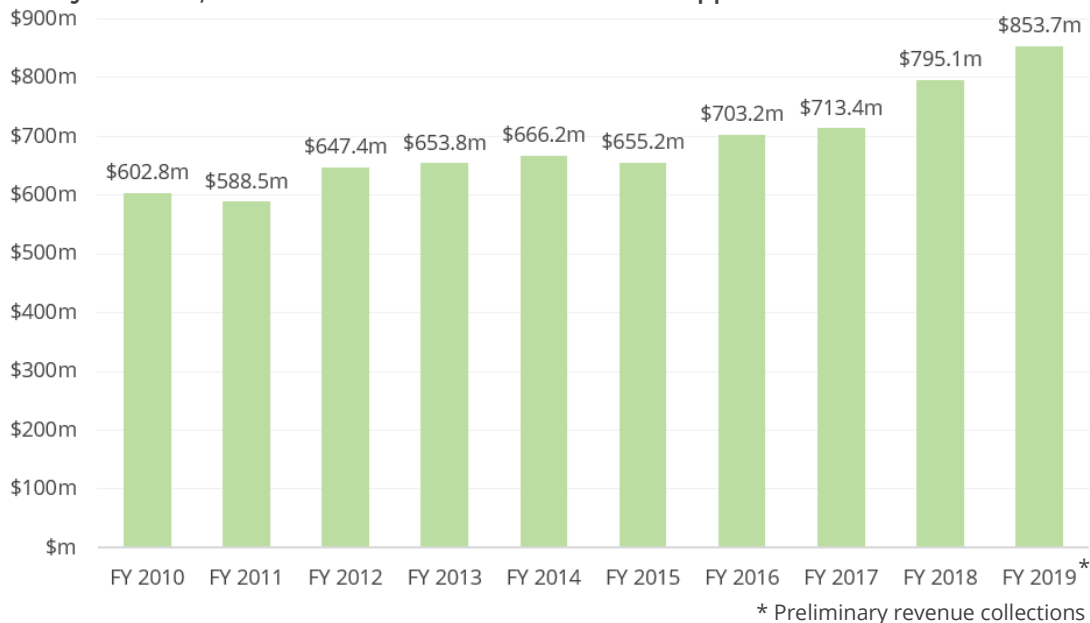
Real Estate Tax collections increases by 7% from FY18 to FY19, contributing 80% to the rise in School District tax collections in that time period.

Data sharing with Pennsylvania and the IRS grew School Income Tax collections by 128% in ten years. At the same time, data sharing with the Liquor Control Board to uncover underreported sales and the early placement of accounts with collection agencies, increased Liquor Tax collection by 82% in ten years.



## School District Real Estate Tax collection trends mirror the General Fund, with a 7% increase in collections from FY18 to FY19

Ten-year trend, total Real Estate Tax collections that support the School District



For every dollar collected in Real Estate Tax, the School District receives 55 cents.

## About 30% of School District tax collections are from School Income Tax, Liquor Tax, and Use and Occupancy Tax.

School Income Tax collections rose by 2% from FY18 to FY19.

Revenue has increased School Income Tax collections using the Data Warehouse to match Commonwealth of Pennsylvania and IRS data with City data to identify taxpayers who claimed dividend income at the federal or state level, but not the City. The Data Warehouse is an internal research team that uses technology to consolidate federal, state, and local information about anyone who has a financial obligation to the City.

Use and Occupancy (U&O) Tax collections has grown in the last 10 years, with an additional \$7.1 million in revenue collection in FY19, over FY18.

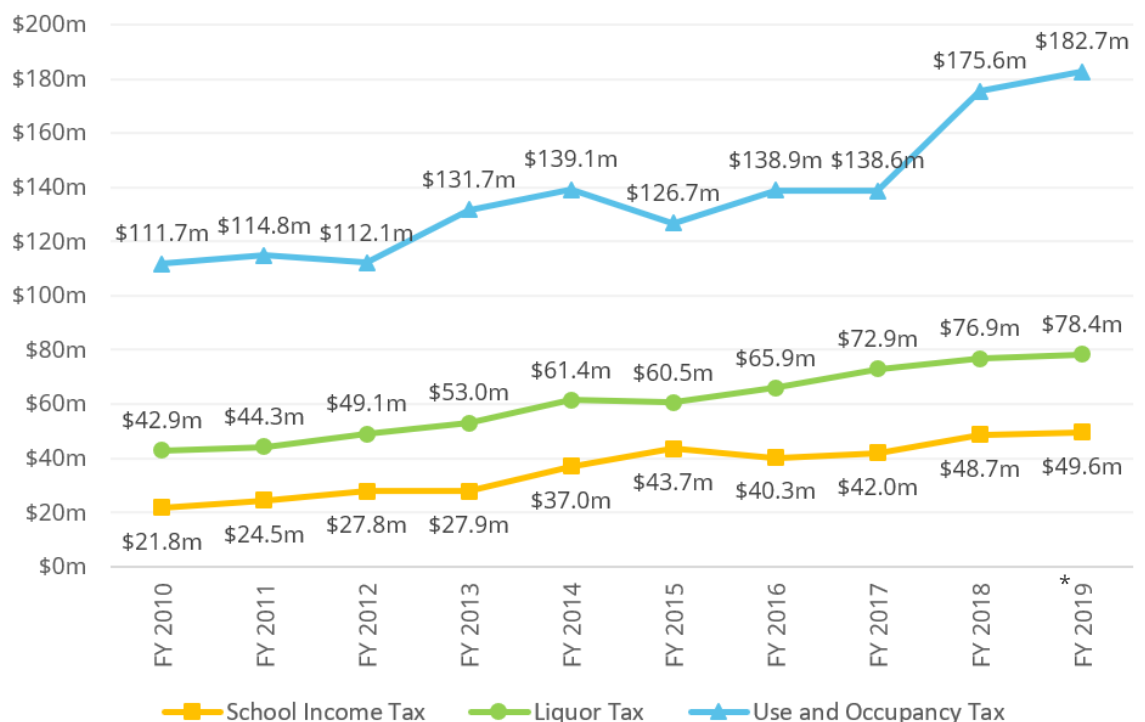
In FY19, City Council passed bill 180139 allowing Revenue to calculate U&O Taxes

for the entire calendar year based on current-year assessments and making it easier for taxpayers to understand and pay what they owe. Prior to the change, Revenue calculated U&O Tax based on current and future year assessments.

In the last 10 years, Revenue increased Liquor Tax collections by 82% from \$42.9 million in FY 2010 to \$78.3 million in FY19.

Revenue uses PLCB data to find and audit businesses that have Pennsylvania licenses, but do not pay the Liquor Tax. Once we identify businesses that have not paid the Liquor Tax, we use a variety of collection tactics, including the Commercial Activity License Revocation Program, which can close businesses that fail to pay.

Ten-year trend, total School Income Tax, Liquor Tax, and Use & Occupancy Tax collections



\* Preliminary revenue collections



# Water Revenue Collections

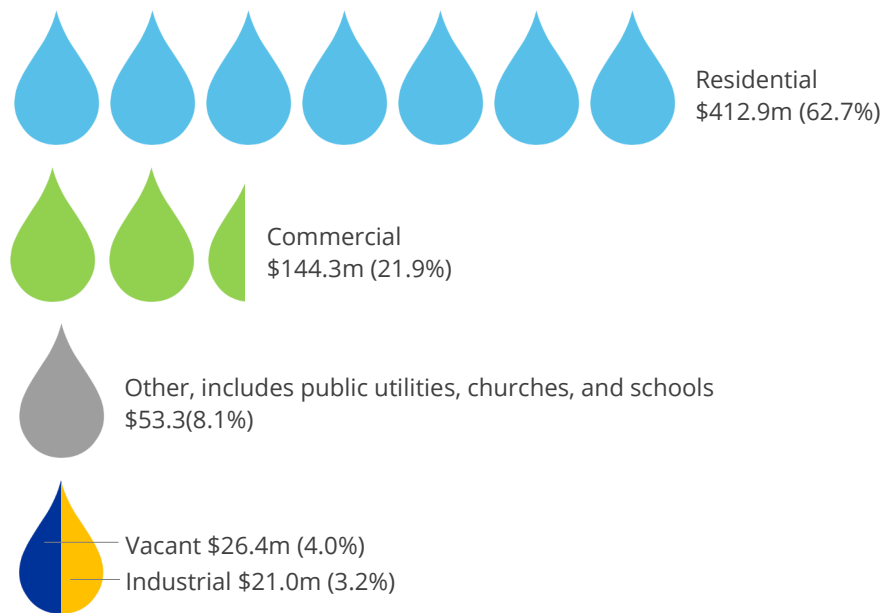
Water revenue collections (includes water, sewer, and storm water) increased slightly from FY18 to FY19, with seven out of 10 customers paying on time.

Although water revenue collections have increased by 40% in the last 10 years, a part of the growth is from increasing water rates.

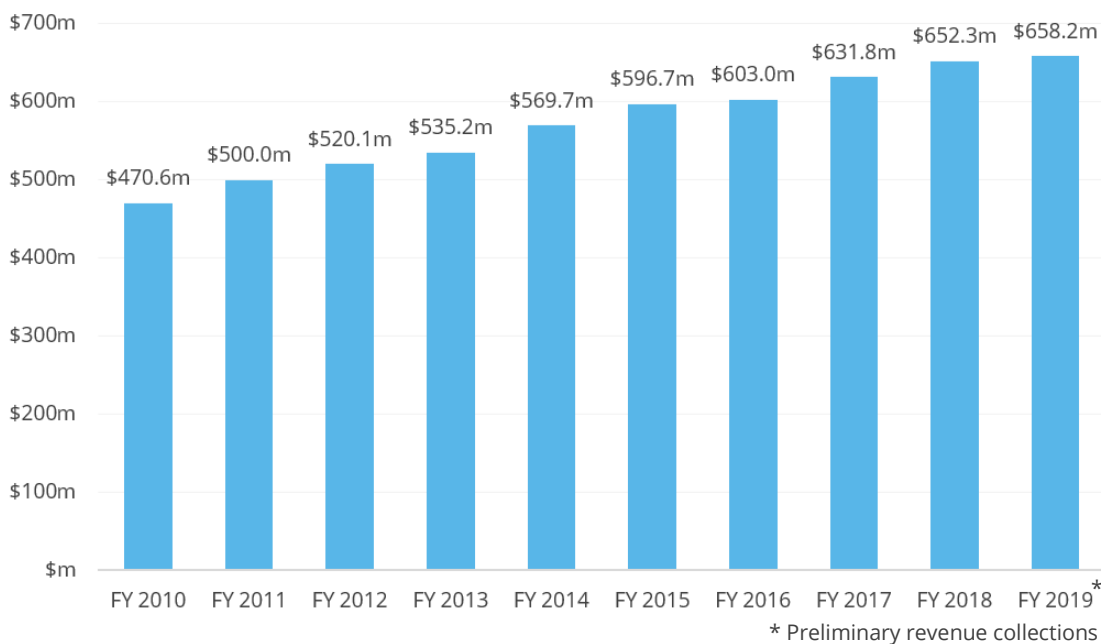
In FY19, Revenue collected nearly 90% of the amount due on all water bills within the fiscal year. In the last five years, Revenue collected between 88-90% of the amount due for water bills in the year of billing, and about 93% of water bills within two to three years. However, just under 70% of accounts paid in the first 30 days of billing in FY19. The biggest challenge for water revenue collections is customers who pay after 30 days of billing, or “slow payers,” not non-payers.

Most of Revenue’s water collections in FY19 were from residential properties, followed by commercial properties.

Water revenue collections by property type



Ten-year trend, total Water Revenue Collections



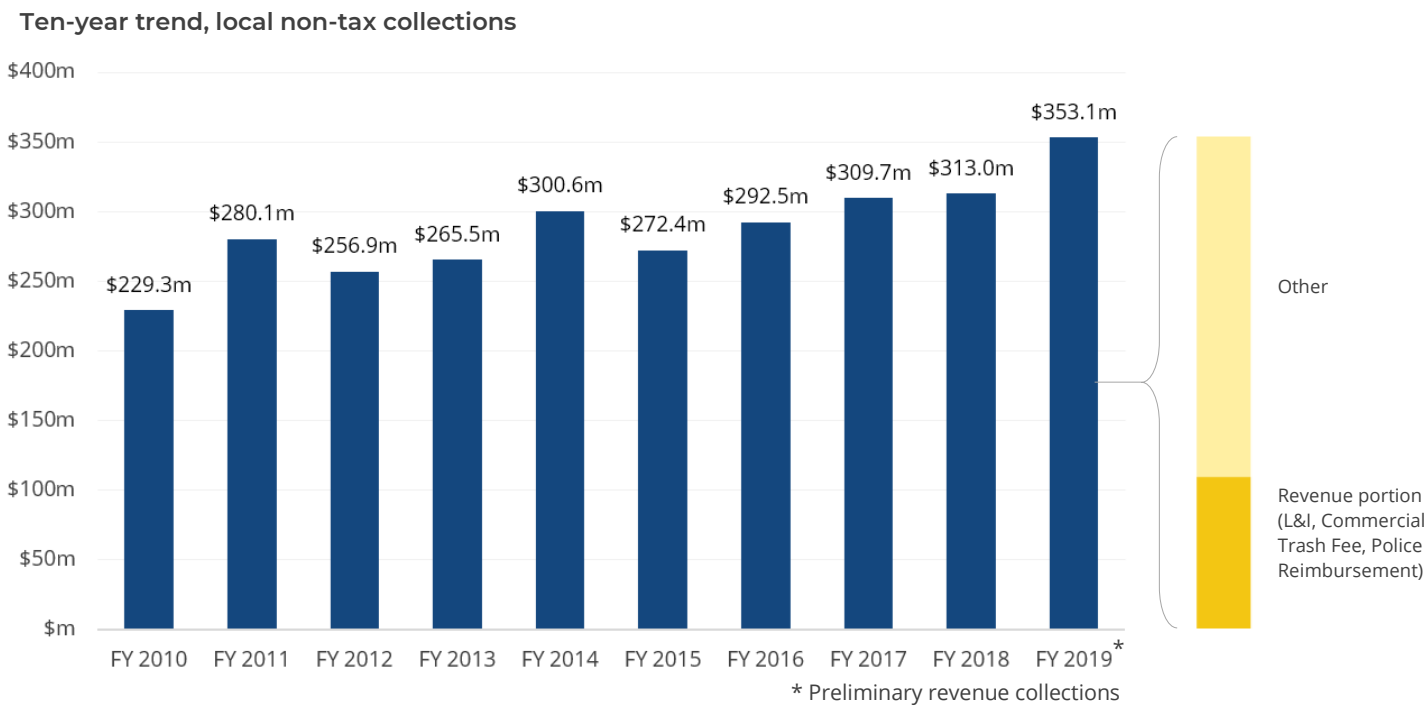
# Local Non-tax Collections

Non-tax revenue collections increased by 13% from FY18 to FY19. L&I, Commercial Trash Fees and Police Reimbursements increased by 5% from FY18 to FY19.

In the last few years, Revenue has increased non-tax collections by using pilot projects to test the effectiveness of enforcement tactics.

Generally, local non-tax collections include amounts collected by other City departments, and fines and fees credited to the General Fund.

In FY18, we conducted a pilot identifying and billing 1,181 property owners who had outstanding L&I obligations. The pilot increased the average amount paid by for L&I debt by 142.6%. In FY19, we included L&I debt in the Data Warehouse so that Revenue collection staff can see the debt owed by property owners and businesses across departments. This way, when we pursue Real Estate Tax debt, we can automatically add L&I balances to any potential settlements.



# Delinquency and Enforcement

The Department of Revenue has been making it easier for taxpayers and water customers to pay on time, and about 9 out of 10 do. For customers who are behind, Revenue is getting smarter and faster with enforcement—collecting over \$182 million in delinquent taxes and more than \$40 million in delinquent water, sewer, and storm water bills in FY19.

Across all taxes, the number of delinquent tax accounts fell by 23% and principal dropped by almost 35% in 10 years.

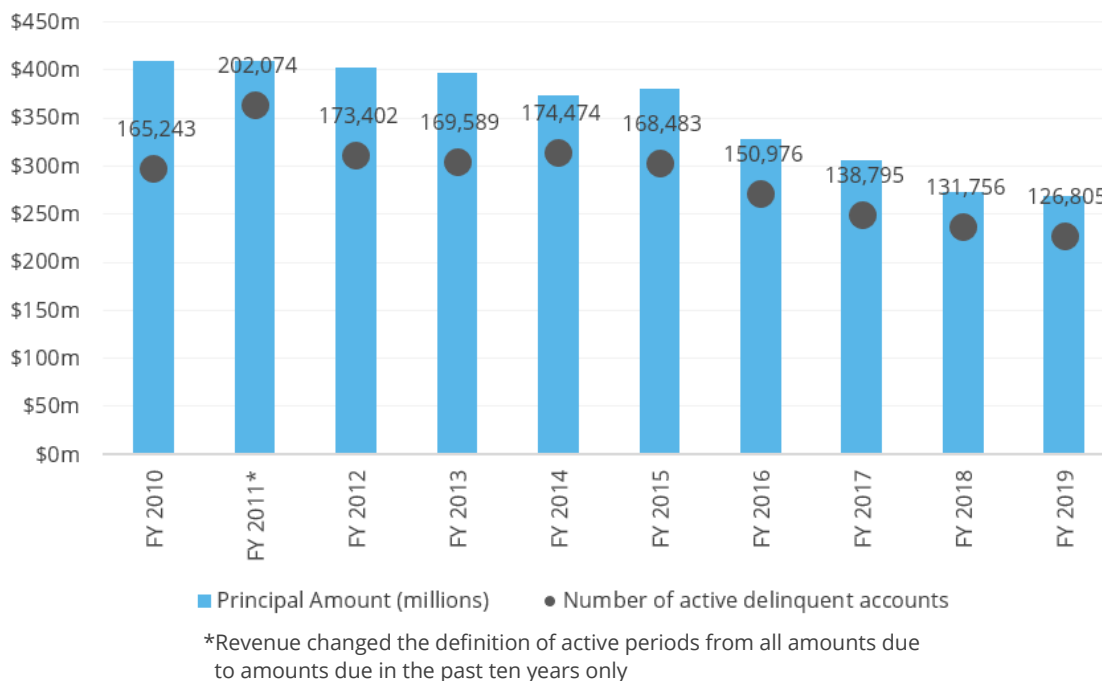
Although there is still work to do, the number of delinquent accounts and amounts owed will likely continue to decline as Revenue increases on-time collections for all tax types. The shrinking pools of delinquent accounts and amount owed will leave only the most challenging accounts in the future.

In FY19, Revenue piloted a new approach of collecting delinquent debt from these accounts. Through the Data Warehouse, we were able to merge Real Estate Tax, Water, and License and Inspection debt across many properties for individual landlords. This allows our staff to target bad actors across the city and pursue a judgement against all their balances, allowing us to efficiently engage delinquent taxpayers. In the future, a new integrated tax system will streamline and refine this process.

A full description of our tax collection strategies is available at [www.phila.gov/documents/action-reports-white-papers](http://www.phila.gov/documents/action-reports-white-papers)

## Tax delinquency for all tax types continues to hit record lows

Ten-year trend, tax delinquency, all types





## Real Estate Tax principal debt has declined by 38% in the last five years and the number of delinquent accounts has declined by almost 37%.

In FY19, the Department collected more than \$98 million in delinquent Real Estate Tax, reducing the number of delinquent accounts and amount due to record lows.

Revenue has continued to improve its customer service & assistance program outreach, use more effective enforcement methods, and provide a wider range of flexible payment options to help taxpayers reduce outstanding delinquent balances more easily. These efforts have reduced the percentage of delinquent Real Estate Tax accounts, to all Real Estate Tax accounts by more than six percentage points in the last five years.

Some of our collection efforts are:

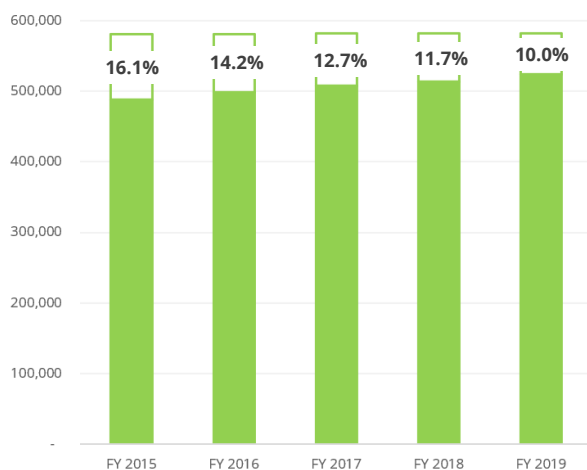
**Pre-placement letter campaign:** A proven strategy for overdue Real Estate Tax, pre-placement is a new tactic in FY19 for delinquent Real Estate Tax. Revenue is sending additional noticing to alert taxpayers that their delinquent accounts

are at risk of being sent to a collection agency, increasing the collection fees owed on their bills.

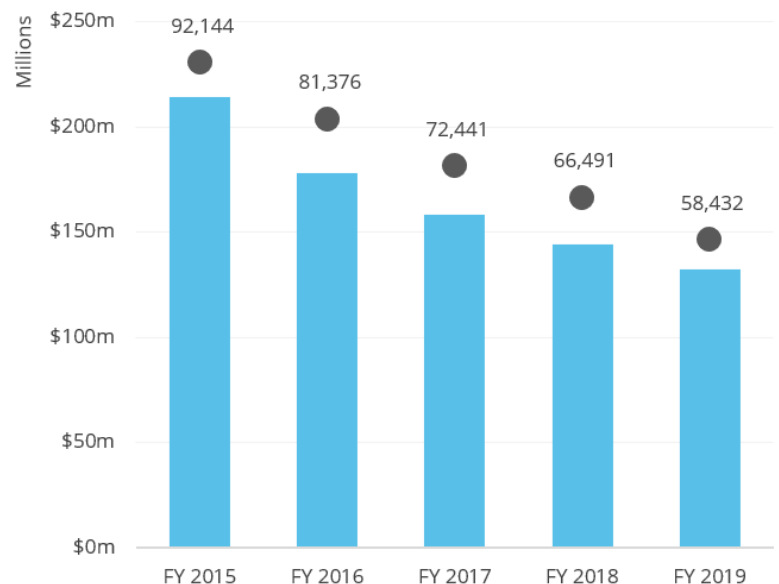
**Sequestration:** Sequestration is a legal process for delinquent rental properties in which the City can request a court appointed “sequestrator” to collect rent, manage a property and pay its expenses until all debts to the City are paid off. Similar to Sheriff Sales, taxpayers are more likely to pay once they begin the sequestration process, and a sequestrator is assigned. In FY19, we collected approximately \$15.5 million in delinquent Real Estate Taxes.

**Data-driven targeted outreach:** In FY19, we continued to test if pop-up events, street teams, and other outreach efforts are

Five-year trend, delinquent Real Estate Tax accounts, to total Real Estate Tax accounts



Five-year trend, total active Real Estate principal due, and number of delinquent accounts



effective in areas of high tax delinquency. We partnered with City Council to host new “on the spot” sign-up events at familiar meeting places such as neighborhood churches, libraries, and community centers. By continuing the experiment in new locations in the City, we can tweak our outreach methods to increase assistance program participation and payment agreement enrollment.

**Out-of-county lien transfer:** Delinquent taxpayers with property in other Pennsylvania municipalities can have liens placed on property located outside of Philadelphia because of outstanding Real Estate Taxes in Philadelphia. In FY19, we notified 27 taxpayers that we would place a lien on their property unless liabilities were paid. We received \$32,417 in payments from these property owners after the initial notification.

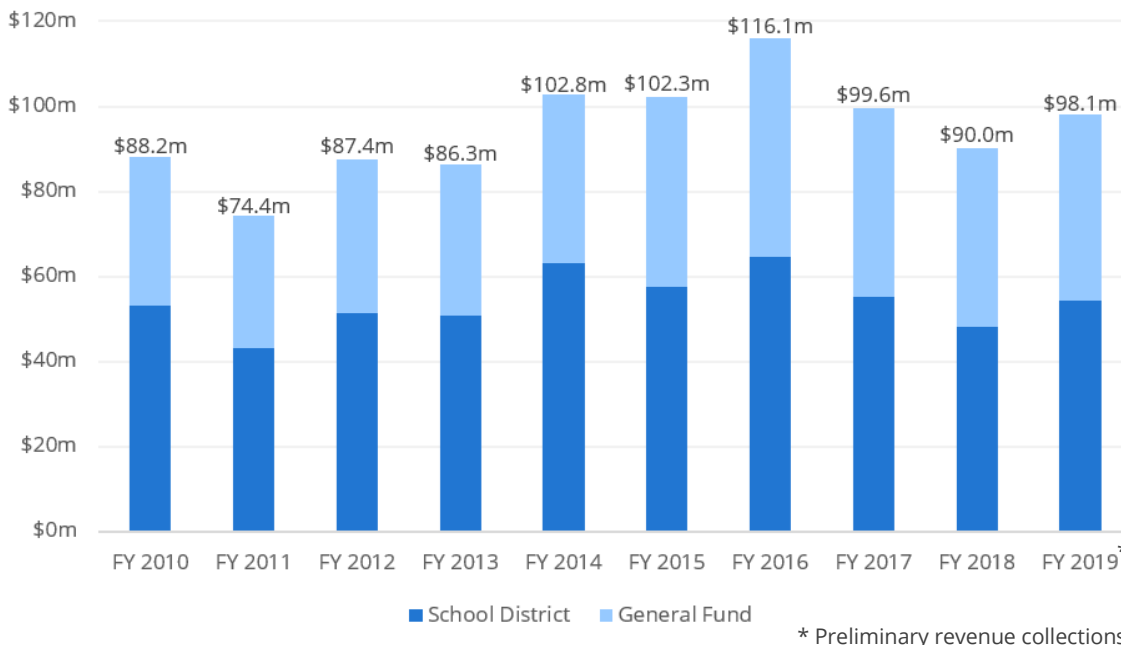
**Improved case selection through the Data Warehouse:** In prior years, Revenue assigned delinquent Real Estate Tax accounts to collection groups once a

month. By creating specialized views in the Data Warehouse that only show actionable delinquent accounts to collection groups, we’ve streamlined the process so accounts are not pursued by more than one strategy. The selections from the Data Warehouse are also transferred to our tax system overnight, eliminating issues with manual entry. Finally, it makes it easier to evaluate the performance of our internal groups.

Older debts, interest and penalties are much less likely to be collected and are often reduced or waived when payment does occur. Presenting the active, principal delinquency is reflective of reasonable expectations for collections.

More information about Real Estate Tax delinquency is available at [www.phila.gov/revenue/delinquency-reports](http://www.phila.gov/revenue/delinquency-reports)

**Ten-year trend, delinquent Real Estate Tax collections for the City and School District**  
delinquent collections have declined as the number of delinquent accounts has fallen



## In FY19, the Department of Revenue collected more than \$84 million in delinquent BIRT, Liquor Tax, and other non-Real Estate Taxes.

Revenue's FY19 delinquent tax collection strategy is built on two key elements—early intervention and data-driven enforcement.

Some of our early intervention tactics for business taxes are:

**Requiring tax clearance** for businesses who pursue City contracts, apply for license and permit applications, or receive a City benefit, such as enrollment in Philadelphia Department of Commerce programs or a loan from the Philadelphia Industrial Development Corporation.

**Frequent non-filer and non-payment notification** to spur action.

Data-driven enforcement tactics include:

**Ongoing use of data-sharing agreements** to uncover unregistered businesses and underreporting. Through the Data Warehouse, we receive feeds from the

federal and state government on information such as liquor licenses from the Liquor Control Board, wage income from the IRS, and income tax, lottery winners and sales data from the Commonwealth of Pennsylvania.

### **Commercial Activity License Revocation (CAL Rev)**

revokes the L&I issued activity licenses of businesses that fail to file and pay the City, forcing the businesses to stop operations. This tactic is most effective for businesses still operating and having a physical location within the City. Approximately, 80% of taxpayers comply rather than close. In FY19, we used the Data Warehouse to move to an automated case management system that creates correspondence, alerts employees when payments are made and agreements are breached. This will allow case workers to manage much higher volumes of delinquent accounts.



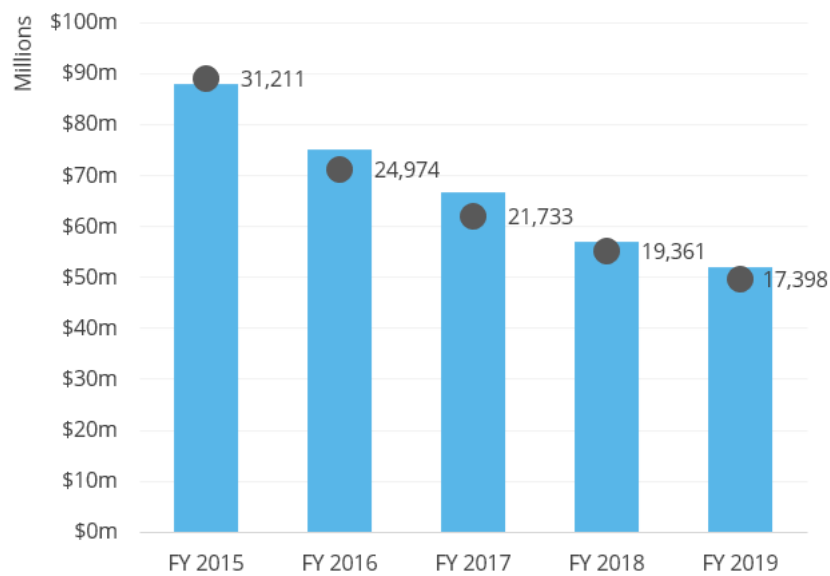


**Business Income and Receipts Tax (BIRT) delinquency has declined by 36% in the last five years and the number of delinquent accounts has been reduced by almost 50%.**

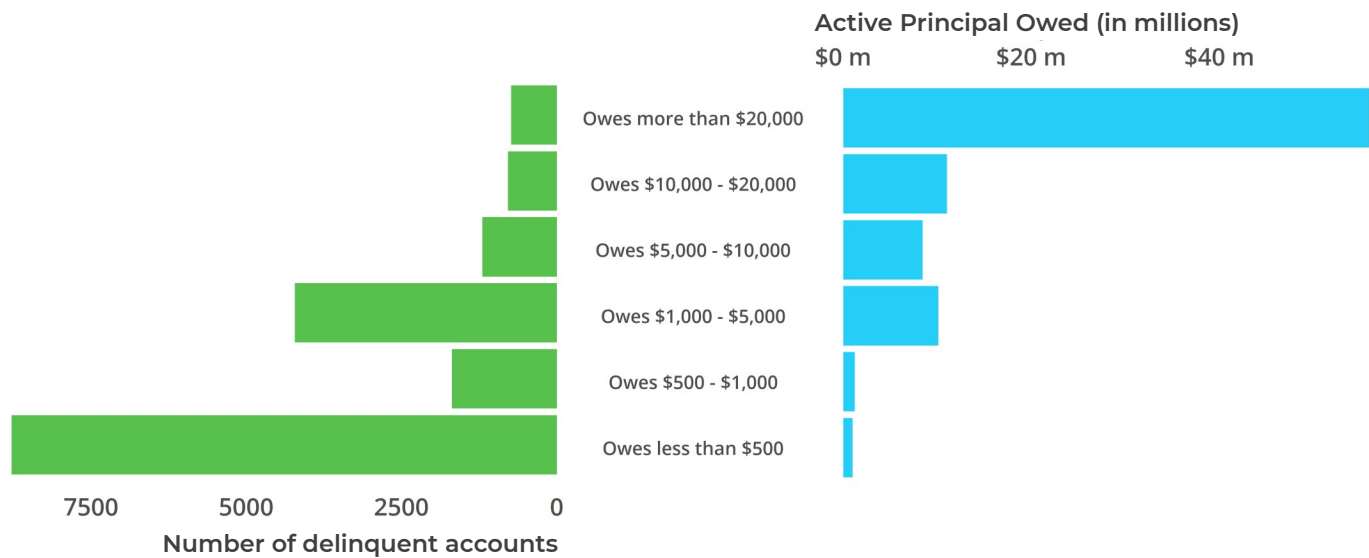
In FY19, the Department of Revenue collected almost \$51 million in delinquent BIRT, an increase of 50% from FY18.

To reduce BIRT delinquency, we’ve focused on tailoring collection strategies for different account types. The majority of delinquent BIRT accounts owe less than \$500, but make up a little over 1% of active principal due. On the other hand, just 4% of delinquent BIRT accounts owe 61% of the total delinquent debt. One of the collection strategies we’ve used to target these accounts is litigation. Through the litigation process, business owners receive reminders that Revenue will pursue delinquent debt in court, and are more likely to enter payment agreements or pay their taxes in full. Owners that do not pay are pursued by Revenue until the case is heard by the Tax Review Board.

Five-year trend, total active BIRT principal due, and number of delinquent accounts



Number of delinquent accounts and principal owed, by amount due in FY19



## Water Delinquency declined by 4% in the last five years, from a peak of \$259.6 million, to \$249.1 million. Limitations on enforcement hamper dramatic reductions.

Revenue is using enforcement tools that have worked on the tax side, to reduce water delinquency on commercial properties. The biggest challenge to water collections in slow payers, customers who pay after 90 days, rather than non-payers.

In the last 10 years, water rates have increased, while average water usage has remained the same. In that time, water delinquency is slowly declining. Despite increasing water rates, delinquency dropped partly because of Revenue's efforts in using better enforcement tactics and expanded assistance programs.

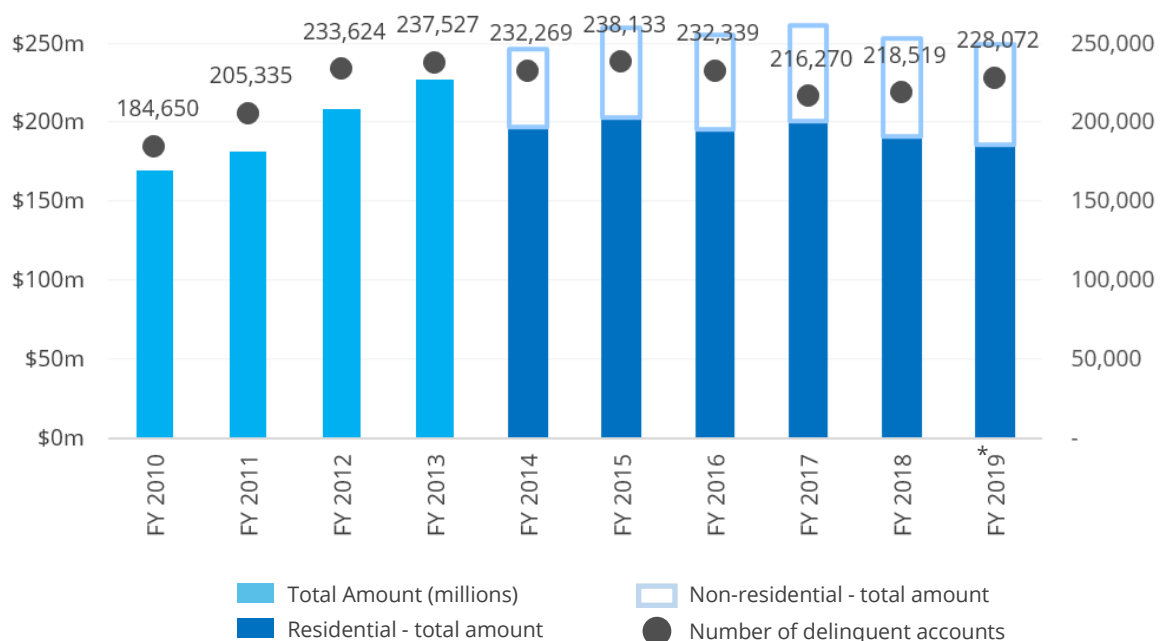
Revenue sent 475,544 water shut-off notices in FY19, of which 22,235 accounts were still eligible for shut-off at the end of the fiscal year. About 95% of the accounts that received shut-off notices either

entered into a payment agreement or applied for water assistance.

In FY19, we added a new enforcement tool—**sequestration**—to collect water debt, after its success in collecting tax debt. Water sequestration is an alternative to the inability of shutting off water to multi-tenant residential rental properties. Many of these properties have high dollar water debt and in the last three months Revenue has already collected an additional \$1.2 million from this program.

In addition to sequestration, another enforcement tool that's worked is the **informal water hearing process**. We offer an informal in-person hearing within Revenue to quickly resolve delinquent water disputes when possible. This process works for accounts with water debts under \$10,000 and only applies for disputes with water bills. In many cases, resolution

**Ten-year trend, total water delinquency, and number of delinquent water accounts, by property type** (Property type breakdown only available from FY 2014 onwards)



occurs at the informal hearing for customers disputing their water bills. If a customer is not happy with the review decision, they have the right to appeal to the Tax Review Board.

In FY19, the Department received about 1,800 hearing requests of which 967 customers scheduled hearings. 32% of the customers who requested hearings did not appear at their scheduled date and of the customers who attended the hearing, 58% resolved their debt - either receiving a bill adjustment from Revenue, or with an explanation of why they owed the full amount.

Informal hearing officers always offer customers the opportunity to apply for our water assistance programs. They also offer language services for water customers that do not speak English, including American Sign Language.

Other successful enforcement tools are:

**Utilizing outside collection agencies:**

Collected \$19 million

**Using the Data Warehouse for focused**

**call campaigns:** We used the Data Warehouse to identify and prioritize accounts that have the highest probability of payment for phone calls. Collected \$7.7 million from 25,067 calls.

**Sending warning letters through Data**

**Warehouse:** We identify eligible customers for Municipal Court referral and create an automatic input file for the Court IT system. Collected \$5.3 million from 96,054 letters in FY19, up from \$3.8 million in the previous fiscal year.

**Taking commercial properties to Sheriff**

**Sale for water debts:** Collected \$8.7 million (water, mortgage, tax, and lien sales). Revenue only uses Sheriff Sale as an enforcement tool for commercial properties.

**American Sign Language interpretation services at an informal water hearing**



# Assistance Programs & Initiatives

**The Department of Revenue helps Philadelphia's most vulnerable residents by offering tax and water discounts, payment plans, and connections to other forms of assistance.**

In FY19, there were about 245,000 enrollees in some form of taxpayer assistance program, providing over \$150 million in tax relief. In the same time period, we also automatically cross-enrolled 1,025 homeowners into the Homestead Exemption through their OOPA application .

The City expanded several taxpayer assistance programs in FY19:

**Low-income Senior Citizen Tax Freeze:**

The Pennsylvania General Assembly passed Act 87 in October 2018 that increased the income limits for the Senior Freeze program by \$4,000. The new income limits for the program are \$27,500 or less for a single person, and \$35,500 or less for a married couple.

City Council passed Bill 190004 that extended the deadline for the program from January 31, to March 15 for 2019. In that time, Revenue enrolled an additional 713 seniors in the program.

In FY19, Revenue also passed regulations to allow seniors living in cooperative buildings to enroll in the program.

**Longtime Owner-Occupants Program:**

In FY19, City Council passed Bill 181103-A that expanded the program eligibility to properties that experienced an assessment increase of 50% or greater, down from 200% in prior years. The change increased eligibility to properties whose value increased 1.5 times from one year to the next.

**Water Assistance Programs**

In FY19, the Water Revenue Bureau had almost 45,000 enrollees in water assistance programs, saving customers \$13.3 million on their water bills. This includes enrollment in the Tiered Assistance Program (TAP), for residents whose income falls below 150% of the Federal Poverty Level (FPL) and the Senior Water Discount, for low-income senior citizens in Philadelphia.

Similar to OOPA, TAP offers income-based monthly bills to water customers. In addition, customers do not have to be behind on their water bill to apply. While enrolled, past due amounts are suspended and Revenue does not take enforcement action.

To streamline the process of applying for water assistance, Revenue and the Philadelphia Water Department created a plain-language application that automatically gives taxpayers the highest discount on their bill, based on their income and age.

**The Department of Revenue also provides Philadelphians with free tax preparation services and encourages the residents to take advantage of the federal Earned Income Tax Credit, which offers an average refund of \$2,500.**

In TY19, over 26,000 tax returns were prepared for free at 20 city-sponsored sites, generating \$37.2 million in total refunds, and saving taxpayers \$7.7 million in service fees. In partnership with the Campaign for Working Families and Pathways PA, we conducted a print campaign outreach in nine languages, and paid digital and social media in English and Spanish. We also engaged street teams and community meetings for in-person outreach efforts.



## Taxpayer Assistance Programs for homeowners - 245,000 enrollees, \$150 million in tax relief

### **Homestead Exemption - 221,751 enrollees; \$122 million in tax relief**

Reduces the assessed value of a property for homeowners. Anyone who owns and lives in their home is eligible. Most homeowners will save up to \$629 a year on their Real Estate Taxes in 2020 – a \$70 increase from 2019.

### **Longtime Owner-Occupants Program - 16,200 enrollees, \$22 million in tax relief**

Real Estate Tax abatement for homeowners who have had their property taxes increase by 1.5 times from one year to the next. The taxpayer must also have lived in their home for 10 years or more, meet the income requirement, and be current on their Real Estate Taxes. Taxpayers cannot enroll in LOOP and Homestead at the same time.

### **Real Estate Tax Installment Plan - 14,820 enrollees**

Low-income homeowners can pay their current year Real Estate Tax in monthly installments. With the expansion of OOPA benefits, fewer taxpayers will need an installment plan for their current-year taxes.

### **Active Duty Tax Credit - 5 enrollees; \$32,592 in tax credits**

The credit excuses Reserve/National Guard military service members from paying the city portion Philadelphia property taxes while they are called to Active Duty outside of Pennsylvania.

### **Owner-Occupied Payment Agreement (OOPA) - 13,161 enrollees; \$86 million under agreement**

Allows residents who own and live in their home to make affordable monthly payments on past due property taxes.

There is no down payment and monthly payments are based on a percentage of the households monthly income.

In the beginning of FY19, Revenue hosted an “on the spot” sign up event in partnership with Council member Blackwell as part of an ongoing outreach strategy to reach delinquent homeowners in their neighborhood. Revenue hosted similar events in other neighborhoods of high delinquency last fiscal year, and four more towards the end of this fiscal year. By testing modes of invitations and making changes using behavioral science lessons, Revenue is using evidence-based approaches to inform our outreach strategies.

### **Low-income Senior Citizen Real Estate Tax Freeze - 18,431 enrollees; \$6 million in tax relief**

Revenue will stop increasing, or freeze, Real Estate Taxes for enrolled low-income senior citizens. If the tax liability decreases due to a lower assessment or a tax rate decrease, Revenue will reduce the amount of Real Estate Tax due.

### **Disabled Veterans Real Estate Tax Exemption**

A Commonwealth of Pennsylvania program, income-qualified disabled veterans with a service-connected injury can receive a 100% exemption from Real Estate Taxes.

## Business Tax Credits: More than \$6 million in tax relief to businesses in calendar year 2018



### Community Development Corporation (CDC) Credit

Tax credit to a business against the BIRT obligation that contributes to economic development efforts in distressed parts of the City.

- 41 non-profits enrolled
- \$3.7 million in credits received by non-profits in 2018
- \$4.0 million in credits to business sponsors in 2018

The Department of Revenue administers tax credits that reduce the cost of conducting business in Philadelphia.

Some of our other credit programs are:

**Jump Start Philly:** Two-year exemption of NPT and BIRT for new businesses that meet hiring requirements.

**Sustainable Jump Start:** Three-year exemption of BIRT for businesses that are environmentally, economically, and socially sustainable, and that meet hiring requirements.

**Sustainable Business Tax Credit:** Two-year exemption of BIRT for businesses that are environmentally, economically, and socially sustainable.

**Veterans Employment Tax Credit:** Tax credit against the BIRT for hiring a returning Veteran (full or part-time).

**Life Partner and Transgender Health Care Benefits Tax Credit:** Tax credit against BIRT for extending health care to life partners and offering health insurance coverage for transgender health care.

**Philadelphia Re-entry Program Tax Credit:** Tax credit against the BIRT for businesses that support hiring of returning citizens who are certified by the Mayor's Office of Re-Integration Services.

**Distressed Business Tax Credit:** Tax credit against BIRT liability for businesses experiencing loss of sales and profits due to a public works project blocking access to their location.

**Healthy Beverages Tax Credit:** Tax credit available to businesses against BIRT to offset any increased amounts paid to purchase healthy beverages for sale.



### Job Creation Tax Credit

A tax credit against BIRT for businesses that increase the number of jobs available in Philadelphia.

- 9 applications approved in 2018, promised 1,102 jobs
- Almost 13% of the 2018 promised jobs were created in the same year
- \$1.1 million in credits awarded to businesses in 2018



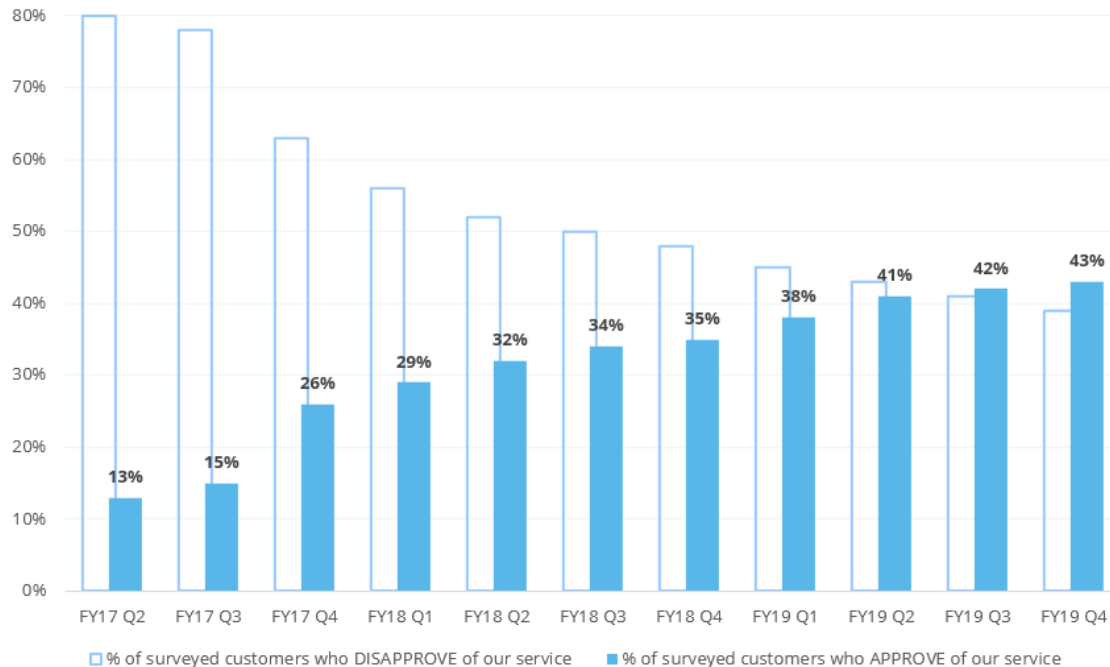
### Green Roof Tax Credit

Tax credit against BIRT for constructing a green roof.

- No applications approved in 2018
- \$41,995 in credits claimed on BIRT returns in 2018

# Improving Efficiency

Business process changes have enhanced the customer experience and eliminated the gap between customers who would recommend Revenue services and those who would not.



Although room to grow remains, Revenue has made significant strides improving customer service. In the last two years, customer satisfaction surveys showed that the percentage of customers who approve of Revenue and would recommend our services to a friend or colleague grew from 13% to 43%, accompanied by a sharp decline in the percentage of customers who disapproved of Revenue service.

Some of the changes Revenue made in FY19 are:

- **Real Estate Tax payments by bulk requests post faster to accounts:** Revenue could process Real Estate Tax payments made by bulk requestors only over the weekend and customers could not view their new balances for many days after they made the payment. IT changes increased mainframe capacity so that payments post during the week. Bulk requestors can now view payments within a day.
- **Migrated title clearance requests from fax to electronic:** When title companies want to search for prior claims against properties, they had to fax a payoff request form to Revenue, which was also returned via fax. By moving to a customer relationship management system, we've eliminated the payoff request form and fax. This has reduced delays and customer complaints about fax malfunctions and lost paperwork.
- **New tax balance webpage:** To make it easier to understand and pay past balances, Revenue changed the Real Estate Tax balance webpage on the City's website to plain language. The new webpage is also mobile-enabled. This is part of an effort to set the stage for a future integrated tax system that will give taxpayers more flexibility in viewing their accounts and paying taxes to Revenue.

## Customer service metrics in FY19



\*Includes TY17 filings for Wage Tax, NPT, BIRT, and SIT, last year of complete data. A change in methodology for TY17 includes payroll companies as e-filers for Wage Tax.

The Department of Revenue is making information easier to find and bills easier to pay for smooth customer experiences online, on the phone, by mail, and at our offices.

**Streamlined in-person customer experience:** Revenue expanded walk-in hours during tax season and also installed a new intake system at the Municipal Services Building allowing visitors to manage appointment times from their mobile phones. Average in-person wait times (not in tax season) are four to eight minutes, and two to four minutes on the phone. In the past year, wait times during tax season were just below six minutes on the phone and just below 12 minutes for in-person visits.

**Online tax filing and paying:** Taxpayers can file six out of eight tax types online. The number of taxpayers who filed their taxes online for TY17 increased by 14% from TY16. SIT e-filing saw the largest increase of 31% from TY16 to TY17. Taxpayers can pay 14 out of 18 tax types online. In FY19, about 385,000 taxpayers paid \$3.7 billion online, an increase of 6% in the number of accounts and 11% in the amount paid from FY18. Online payments make up more than 70% of all payments that Revenue processes. These transactions are faster and less costly to process.

**Language access:** Along with translating our major letters, in FY19, we posted eight multilingual blogs on our YouTube channel - covering topics like our language access plan and the EITC. We also published 15 Spanish-language blogs about our tax and water assistance programs, changes to our tax rates, and Q&A's about our tax types.

**Social media:** In FY19, we published 52 videos on our YouTube channel - [www.youtube.com/PhilaRevenue](https://www.youtube.com/PhilaRevenue) - introduced in FY18. This channel covers topics like business tax changes, what to know about the EITC, and how to find your stormwater charges. Of our videos, a line-by-line explanation of the SIT is our most popular and has over 1,600 views as of August 2019.

In addition to YouTube, we livestreamed 15 videos on Facebook during tax season that was a rundown of Revenue taxes and programs. During this time, our average monthly engagement on Facebook grew by almost 15%.



# Moving forward

The City projects over \$5.7 billion in collections in FY20 for the General Fund and the School District of Philadelphia. Revenue's priority moving forward is to establish the foundation for a new, modern integrated tax system, that will allow us to sustain long-term tax and water collection goals.

**We will also increase on-time payments and reduce delinquency to meet FY20 projections, while providing assistance to taxpayers in underserved neighborhoods.**

In FY20, we will actively prepare operations to align smoothly with a modern tax system. The new tax system will provide:

- A convenient and customized web experience for residents.
- Efficient customer service tools for our staff.
- Adaptability to legislative and regulatory changes.
- Streamlined and transparent tax enforcement.

Moving away from a system rooted in the Department for more than 35 years, will require thoughtful and cost-conscious preparation. Much of the Department's energy will focus on this transformative project.

Using the Data Warehouse, we have already started moving internal collections teams away from outdated tracking methods to a streamlined case management system. The results are targeted enforcement of delinquent accounts, and smoother, trackable correspondence.

However, our current tax system limits further meaningful progress. A new tax system will expand Revenue's capacity for in-house innovation, providing the technical resources and confidence to fulfill our mission long into the future.

## FY20 Revenue Projections



**General Fund Taxes:**  
\$3.6 billion

- Wage and Earnings Tax: \$1.6 billion
- Real Estate Tax: \$690.9 million
- Business Income and Receipts Tax: \$497.3 million
- All other Taxes: \$776.1 million



**School District Taxes:**  
\$1.3 billion

- Real Estate Tax: \$848.0 million
- School Income Tax: \$51.0 million
- Use and Occupancy Tax: \$185.1 million
- Liquor Tax: \$81.6 million



**Water Revenue collections:**  
\$656.3 million



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**Notes about the data:**

This report includes preliminary revenue collections data for FY2019.

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