



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Julia H. Cooper

SUBJECT: ACCOUNTS RECEIVABLE
AMNESTY PROGRAM PILOT
(EQUITY LENS)

DATE: June 6, 2022

Approved

Date: 6/6/22

RECOMMENDATION

- a. Direct the Administration to pilot an Accounts Receivable Amnesty Program for unpaid penalties and interest accruing to the City of San José General Fund and select fees within other funds for certain accounts billed from April 2020 through August 2021, with an estimated gross accounts receivable of \$4.7 million, up to an estimated \$1.3 million in waived unpaid penalties and interest, and an estimated Accounts Receivable Amnesty Program implementation expense of \$192,000; and
- b. Direct the Administration to return to the August 9, 2022 City of San José City Council meeting for approval of the ordinance to implement the Accounts Receivable Amnesty Program effective September 1, 2022 through February 28, 2023; and
- c. Direct the Administration to present a status report on the Accounts Receivable Amnesty Program as part of the 2022-23 Mid-Year Budget Review.

BACKGROUND

At the June 11, 2021 City of San José (City) Council (Council) meeting, along with their approval of the 2021-2022 Operating and Capital Budgets for the City of San José and Schedule of Fees and Charges¹, the City Council also approved a memorandum from Councilmember Esparza with the following recommendation²:

¹ June 11, 2021: Item 3.8, *Approval of the 2021-2022 Operating and Capital Budgets for the City of San José and Schedule of Fees and Charges* <https://sanjose.legistar.com/LegislationDetail.aspx?ID=4970404&GUID=6B2DD118-1D0C-4E05-9258-8F66033763BD&Options=&Search=>

² June 11, 2021: Item 3.8, *Approval of the 2021-2022 Operating and Capital Budgets for the City of San José and Schedule of Fees and Charges* <https://sanjose.legistar.com/View.aspx?M=F&ID=9476577&GUID=A8EF8E46-F489-4D45-B20F-7BBCEF9A60F3>

Direct Staff to explore options to relieve debt incurred by residents during the pandemic through fees and fines issued by the City of San José, utilizing a portion of the remaining \$50.1M of American Rescue Plan funds, focusing on fees and fines that disproportionately impact low-income communities and return to Council with recommendations.

This Manager's Budget Addendum (MBA) responds to this direction, as well as providing a summary of the multiple actions the City has taken to leverage a variety of funding sources to implement various policies and amnesty/forgiveness/assistance programs to support San José residents and businesses affected by economic and other hardships due to the persistent Coronavirus disease 2019 (COVID-19) Pandemic.

Since the first case of COVID-19 was reported in the County of Santa Clara on January 31, 2020, the Administration has provided support for City residents and businesses through various policies and amnesty/forgiveness/assistance programs. The Local Assistance Framework was updated through City Council action on March 17, 2020³, which provided a preliminary assessment of the potential longer-term impacts of the COVID-19 Pandemic on San José residents, businesses, and nonprofits. Recognizing this, the City Council took additional actions on March 17, 2020, one of which was the approval of a joint Office of Economic Development/Housing Department recommendation to enact a moratorium on evictions and income loss, providing housing stability to San José tenants experiencing financial hardship due to the health crisis. The San José Library also took immediate action on March 17, 2020, suspending the collection of fines on all library materials.

Subsequent City Council actions since March 2020 funded amnesty/forgiveness/assistance programs to address food insecurity, digital equity, emergency housing and housing stabilization, re-employment and workforce development and small business recovery, among other items on the adopted City Roadmap, and appropriated or planned the spending of over \$796.4 million of federal, state and local dollars granted and/or received through June 2022.

The Finance Department Revenue Management Division, in collaboration with those City Departments providing the services, is responsible for the majority of City-wide invoicing of City services, as well as the collection of taxes, fees, charges and fines, through its Utilities Billing Unit, Business Tax Unit and Accounts Receivable Unit, and has delivered, in coordination with other City Departments, a number of amnesty/forgiveness/assistance programs to relieve debt incurred by residents and businesses during the COVID-19 Pandemic.

³ March 17, 2020: Item 3.8, *Local Assistance Framework*

<https://sanjose.legistar.com/LegislationDetail.aspx?ID=4396367&GUID=E98ED404-DFC1-4C70-B321-F744626A471D&Options=&Search=>

Utilities Billing Unit

The Revenue Management Division partnered with the Community Energy Department to participate in the California Arrearage Payment Program (CAPP)⁴, providing \$4,348,501 to offset unpaid electric bills, including forgiving late, interest, and other fees as well. Similarly, the Revenue Management Division collaborated with the Environmental Services Department to receive and distribute an estimated \$663,000 in monies through the California Water and Wastewater Arrearage Payment Program (CWWAPP)⁵, providing customer relief for unpaid potable water bills and waiving late, interest, and other fees. The Revenue Management Division and the Environmental Services Department continue to pursue any available monies for unpaid water bills through the State of California Low-Income Household Water Assistance Payment Program⁶.

Business Tax Unit

The Finance Department Business Tax Amnesty Program (BT Amnesty Program), which commenced on October 1, 2019, forgave taxpayers who paid certain past due business taxes from liability for any remaining past due business taxes, interest and penalties, looking back for a period of three years to charges as of October 1, 2016. The BT Amnesty Program also expanded eligibility requirements for business tax financial hardship exemptions to include trusts, under certain circumstances. Originally set to expire on March 27, 2020⁷, the BT Amnesty Program was initially extended to June 30, 2020⁸. Subsequent Council actions expanded the BT Amnesty Program to include all persons engaged in business in the City who satisfy certain financial hardship criteria and extended the amnesty period to June 30, 2022⁹. Through December 31, 2021, the BT Amnesty Program has assisted 3,211 businesses out of 4,060 reviewed applications, for an estimated foregone revenue of \$654,562.

⁴ January 11, 2022: Item 3.6, *Actions Related to the California Arrearage Payment Program*
<https://sanjose.legistar.com/LegislationDetail.aspx?ID=5361876&GUID=2F46D585-4356-4FE4-A518-565D42E52C2D&Options=&Search=>

⁵ January 11, 2022: Item 3.5, *Actions Related to the California Water and Wastewater Arrearage Payment Program*
<https://sanjose.legistar.com/LegislationDetail.aspx?ID=5361875&GUID=CFB67DAF-ABAC-4294-98D3-E53FEC66114&Options=&Search=>

⁶ April 12, 2022: Item 6.2, *Actions Related to the State of California's Low Income Household Water Assistance Program*
<https://sanjose.legistar.com/LegislationDetail.aspx?ID=5537352&GUID=B9AE16AE-ACB5-4F06-8149-1532F11A3585&Options=&Search=>

⁷ August 13, 2019: Item 3.4, *Amnesty Program for Business Tax and BID Assessment and Ordinance Amending Chapter 4.76 of the San Jose Municipal Code to Expand the Eligibility Requirements for the Business Tax Financial Hardship Exemptions Under Certain Circumstances*
<https://sanjose.legistar.com/View.ashx?M=F&ID=7570829&GUID=29D162EE-8731-4047-8B9A-BE045FED1FE9>

⁸ March 24, 2020: Item 2.21, *Extension of Business Tax Amnesty Program*
<https://sanjose.legistar.com/View.ashx?M=F&ID=8205849&GUID=263BB4CE-9C8D-41DE-8C13-36041485C35D>

⁹ September 28, 2021: Item 3.7, *Temporary Expansion of Business Tax Financial Hardship Exemptions*
<https://sanjose.legistar.com/LegislationDetail.aspx?ID=5136640&GUID=B26DDC4D-3C90-4C50-9106-8782674A214F&Options=&Search=>

ANALYSIS

Challenging economic, financial and health circumstances, caused by the unexpectedly tenacious COVID-19 Pandemic, continue to disrupt the well-being and welfare of many City residents and businesses. This MBA responds to the June 11, 2021 City Council direction and proposes to pilot an Accounts Receivable Amnesty Program for unpaid penalties and interest accruing to the City of San José General Fund and select fees within other funds for certain accounts billed from April 2020 through August 2021. The April 2020 through August 2021 eligibility timeframe closely mirrors the eligibility periods of comparable forgiveness programs, such as the CAPP and the CWWAPP noted above.

The Program, which is similar in structure to the successful BT Amnesty Program, is intended to increase statutory compliance while providing needed financial relief for City residents and businesses, by authorizing the Director of Finance to waive the respective late interest, and other collection levies on any base taxes, fees and charges collected. The Program also will prioritize outreach to those accounts in low-income communities and with a higher equity index per the San José Equity Atlas BIPOC and Income combined score map¹⁰, with the goal of increasing both relief and compliance in those census tracts. If this MBA is approved by the City Council as part of the Mayor’s June Budget Message for Fiscal Year 2022-2023, the Administration plans to return to the August 9, 2022 City Council meeting for approval of the ordinance to implement the Accounts Receivable Amnesty Program effective September 1, 2022 through February 28, 2023.

Program Data Population and Methodology

The table below presents outstanding fees & charges billed from April 2020 through August 2021, for a total of 4,084 Accounts Receivable Unit accounts:

TABLE 1

Outstanding Fees & Charges Billed April 2020 thru August 2021					
	Base Fees/Fines	Interest	Penalties	Collection Expense	Total
Total Outstanding Fees & Charges	\$ 3,413,417	\$ 427,528	\$ 745,942	\$ 120,639	\$ 4,707,526
Total Interest, Penalties and Collection Expense		\$ 427,528	\$ 745,942	\$ 120,639	\$ 1,294,110

For illustrative purposes, Table 2 below is a subset of Table 1 above, and demonstrates fees and charge types with larger amounts due during the same period:

¹⁰ San José Equity Atlas [Beta]

<https://csj.maps.arcgis.com/apps/MapSeries/index.html?appid=9921c7e45b874c1ebcc8ef918a130018>

TABLE 2

Outstanding Fees & Charges Billed April 2020 thru August 2021 (Subset demonstrating Fees & Charges with Larger Amounts Due)					
Fee & Charge Type	Base			Collection	Total
	Fees/Fines	Interest	Penalties	Expense	
Animal Svcs - Field Citations	\$ 64,716	\$ 2,106	\$ 6,104	\$ 2,638	\$ 75,564
Animal Svcs - License Citations	136,571	3,806	12,810	33,328	186,515
Blight Fines	193,049	7,875	19,398	4,830	225,151
False Alarm Fines	162,512	6,789	20,653	16,091	206,044
Sidewalk Repair Activities	100,478	19,428	14,067	5,456	139,428
Grand Total	\$ 657,326	\$ 40,005	\$ 73,031	\$ 62,342	\$ 832,703

The original population of accounts with outstanding fees & charges billed from April 2020 through August 2021, for a total of 4,084 Accounts Receivable Unit accounts, has an outstanding balance of the Base Fees/Fines amount of \$3.4 million and an additional \$1.3 million in owed interest, penalties, and collection expense for a total owed amount of \$4.7 million. Under the recommended pilot Accounts Receivable Amnesty Program, participants that pay their base bill will have their interest, penalties and collection expense waived, with a total estimated amount waived up to the full \$1.3 million. It is important to note waiving the interest, penalties and collection expense for this population of accounts is not a significant revenue loss for the City, as historically the City has received a relatively small amount of these additional monies, which are not budgeted. Table 3 below details the projections.

TABLE 3

Accounts Receivable Amnesty Program	
Total Outstanding Fees & Charges April 2020 to August 2021	\$4,707,526
<i>Less Estimated Waivers</i>	
Interest	(\$427,528)
Penalties	(\$745,942)
Collection Expense	(\$120,639)
<i>Subtotal Estimated Waivers</i>	(\$1,294,109)
<i>Less Amnesty Program Expense</i>	
Personnel Expense (Temporary Staffing - Analyst I/II)	(\$142,000)
Outreach & Collateral Materials (Mailings, Translation)	(\$50,000)
<i>Subtotal Amnesty Program Expense</i>	(\$192,000)
<i>Subtotal Estimated Waivers & Amnesty Program Expense</i>	(\$1,486,033)
Net	\$3,221,417

With the leadership of the Public Works Enterprise GIS Team and support from the Information Technology Department, the Accounts Receivable Unit superimposed a subset of the unpaid accounts' anonymized addresses on the San José Equity Atlas BIPOC and Income combined score map. The subset represents the 877 unpaid accounts (21%) from the April 2020 to August

2021 time frame located within areas with an equity index of 10¹¹. Attachment A shows this subset graphically.

EVALUATION AND FOLLOW-UP

The Finance Department Revenue Management Division focuses on City-wide invoicing and collections of the majority of fees and charges, including the collection of any consequent late fees and interest levied as allowed by the San José Municipal Code. The Finance Department will develop and manage the Program, in coordination and collaboration with the City Department(s) responsible for the respective service, fee or charge (Program Team). To the extent that the temporary staffing and mailing costs are not able to be absorbed within the Finance Department's existing budget, a future budget action may be brought forward to provide sufficient capacity, potentially partially offset by revenues from the base fees and fines received from the amnesty program.

The Program Team will analyze each category of fee and charge to identify whether the specific category is eligible for the Program, as some categories may be precluded from participation due to existing governing legislation and/or San José Municipal Code restrictions. As part of this analysis, the Program Team will identify those areas with higher equity indices and, in partnership with the administering City Department and the City Manager's Office of Communications, develop outreach and collateral materials specific to the area(s) and category(ies), advising of the available Accounts Receivable Amnesty Program. Follow-up outreach efforts will be made and payment options, including payment plans, will be offered as appropriate. The Program success rate will factor in metrics such as number of accounts paid, balances paid, and amount of waivers, and will be reported to the City Council with the 2022-2023 Mid-Year Budget Review.

COORDINATION

This memorandum was coordinated with the City Manager's Budget Office.

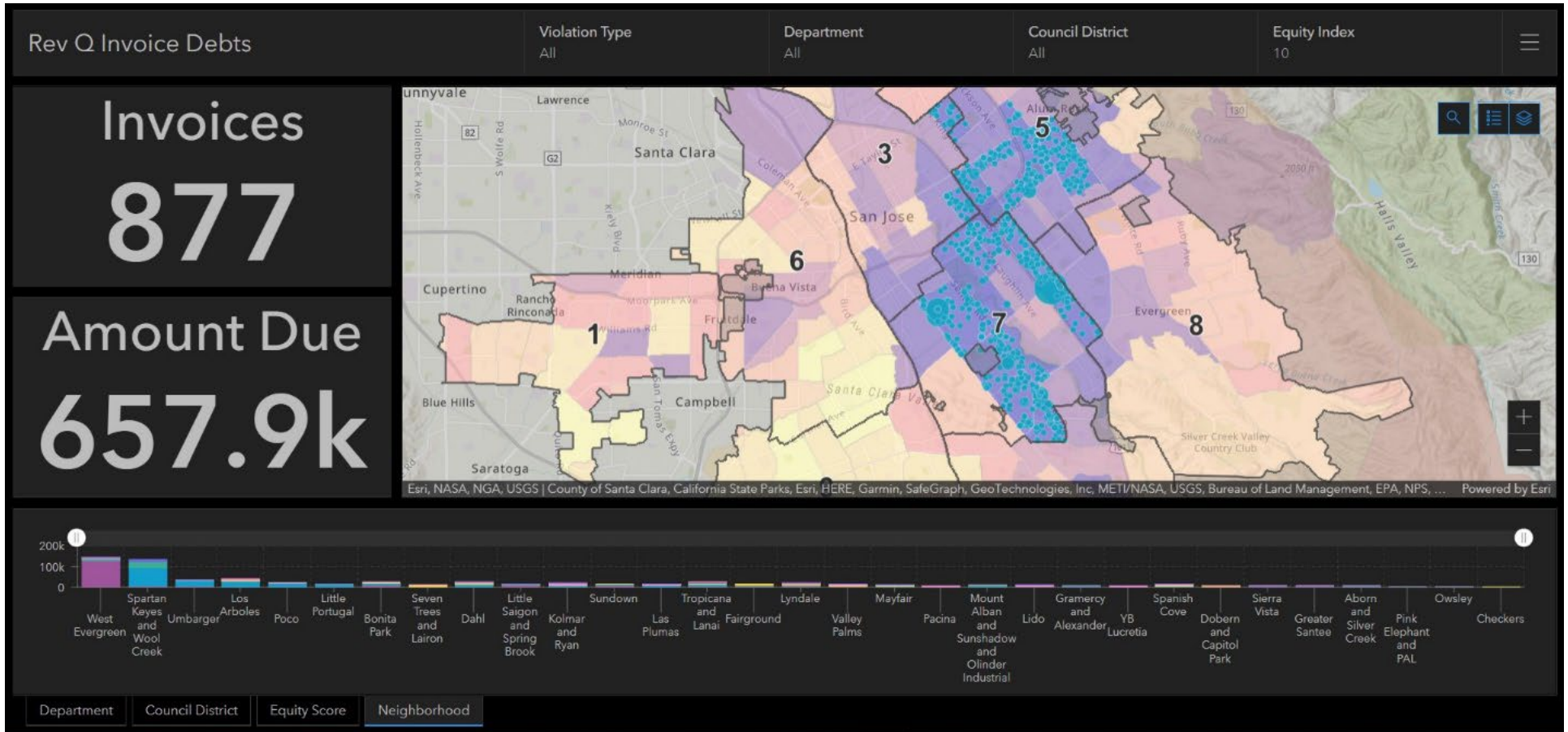
/s/
JULIA H. COOPER
Director of Finance

For questions, please contact Luz Cofresi-Howe, Assistant Director of Finance, at luz.cofresi-howe@sanjoseca.gov or (408) 535-7041.

Attachment A: Outstanding Fees & Charges April 2020 to August 2021 – Unpaid Accounts with an Equity Index of 10

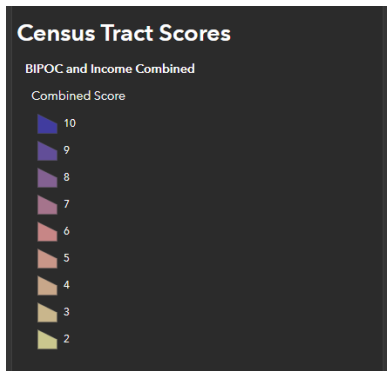
¹¹ The equity index is a calculated score based on race and income. The combined score (range from 2 to 10) of the race and income indicates that the higher the number, the higher the concentration of both people of color and low-income households in the selected census tract.

Attachment A
Outstanding Fees & Charges April 2020 to August 2021
Unpaid Accounts with an Equity Index of 10



COMBINED SCORE

The combined score (range from 2 to 10) of the race and income tabs indicate that the higher the number, the higher the concentration of both people of color and low income households in the selected census tract.



This image superimposes delinquent Accounts Receivable accounts on the San José Equity Atlas BIPOC and Income combined score map to identify those areas with higher equity scores, as defined by the map. The *Census Tract Scores* legend to the left demonstrates equity indices on the map from 2 to 10, with 10 being the highest. The blue dots on the map indicate the anonymized address of delinquent Accounts Receivable accounts, with outstanding fees and charges billed from April 2020 through August 2021, and an equity index of ten, the highest possible.