

**The City and County of San Francisco
Office of the Treasurer & Tax Collector**

Annual Report

Fiscal Year 2008-09



Honorable José Cisneros, Treasurer

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LETTER FROM TREASURER JOSÉ CISNEROS



Welcome to the 2008-09 Annual Report for the Office of the Treasurer & Tax Collector. In November of 2005 I was elected by the people of San Francisco to serve as Treasurer – the City’s banker, tax collector, collection agent and investment officer. I am proud to have been entrusted with this important role by the San Francisco voters, and I am equally proud to be able to report on another successful year in office.

From a programmatic standpoint, I am very pleased to report that the Bank on San Francisco initiative – our innovative program to address the needs of unbanked residents by moving the marketplace to offer suitable financial products – continued to build upon the success of its initial launch in late 2006. By December of 2008, almost 25,000 San Franciscans had entered the financial mainstream – exceeding the original goal for the two-year pilot. In light of this success, the program has become a permanent program of the Office of the Treasurer. Bank on San Francisco proves that with the right mix of products and outreach, the unbanked can succeed in the financial mainstream.

The 2008-09 year was marked by success within our various taxation and collection units. The Property Tax Section billed, collected, and processed over 450,000 property tax bills and statements resulting in a 13% increase in property tax revenue to \$1.73 billion. The Bureau of Delinquent Revenue had its second consecutive record year, collecting \$90.5 million in fees due to the City. The Business Tax Audit Unit also had an extremely productive year completing 922 audits and generating \$68.2 million in audit deficiency billings – an increase of more than 200% over last year’s total.

The Office of the Treasurer & Tax Collector not only collects all taxes and fees owed to the City; we also invest and safeguard the City’s money. The Investment portfolio averaged \$3.09 billion over the course of the year, earning \$79.1 million with an earned income yield of 2.56%.

The department is also committed to environmental efforts to reduce the use of paper where possible. Our budgetary and technical staff members strive to achieve technological efficiencies, with particular focus on the electronic creation, use, filing, processing, and storage of documents.

The fair and efficient collection of taxes and other revenues due to the City is one of the crucial means to an important end – more money for the things that are important to San Franciscans: better transportation, safer streets, cleaner parks, and improvements in our city schools and programs which help everyone in our community to thrive.

On behalf of the over 200 hard-working staff of the Office of the Treasurer & Tax Collector, I am proud to report on a successful Fiscal Year 2008-09. It is my duty, honor, and pledge to uphold and expand this level of service and excellence in the coming years.

Sincerely,

José Cisneros

MISSION STATEMENT

The mission of the Office of the Treasurer & Tax Collector is:

- ◆ to facilitate voluntary compliance with the tax laws of the City and County of San Francisco by simplifying all processes and procedures and by providing efficient customer service;
- ◆ to collect all taxes and fees due to the City; and
- ◆ to provide safekeeping for all city funds, prudently investing the monies to achieve maximum yield with low risk and high liquidity.

The Office of the Treasurer & Tax Collector serves two basic functions for the citizens of the City and County of San Francisco:

1. *The collection of taxes and other city revenue*

Through the mail, in person at the City Payment Center, and via the Internet, the Office of the Treasurer & Tax Collector collects taxes and other obligations owed to the City including business taxes, property taxes and fees for various business licenses and permits required by the Municipal Code. Tax Collection units collect nearly \$3 billion annually in property taxes, business taxes and license fees. Additionally, the Office of the Treasurer & Tax Collector investigates and collects unreported and delinquent tax obligations. The Office of the Treasurer & Tax Collector also contracts to collect current and delinquent obligations owed to other city departments, such as water and hospital bills.

2. *The oversight of monies before disbursement*

The Office of the Treasurer & Tax Collector manages all city funds in order to gain the maximum return with low risk and high liquidity, including investing the City's portfolio of pooled funds. The Treasurer works with all city departments to ensure that funds are received, deposited and reconciled as quickly and accurately as possible, providing the maximum interest and investment returns for the people of San Francisco. The Treasurer administers and monitors the bank accounts and wire transactions used by all city agencies, contracts with banks for their services, and disburses payments on the City's General Obligation municipal bonds.

HIGHLIGHTS OF FISCAL YEAR 2008-09

High Number of Transactions and Dollars: The Cashier Section processed 1.31 million payments in Fiscal Year 2008-09 totaling \$3.13 billion, an increase of \$130 million over the last fiscal year.

Investment Portfolio: The Investment portfolio averaged \$3.09 billion during the period, earning \$79.1 million and an earned income yield of 2.56% for the fiscal year ending June 30, 2009.

Bank on San Francisco Initiative: Through a unique coalition of sixteen financial institutions, the original goal of banking 10,000 unbanked San Franciscans was met and surpassed. At the end of a two-year pilot, almost 25,000 San Franciscans had opened accounts through the program, with nearly 40% of these accounts opened by clients living in San Francisco's low-income and primarily minority neighborhoods.

Highest Ever Delinquent Revenue Collections: The Bureau of Delinquent Revenue achieved a record high collection total for the second consecutive year, collecting \$90.5 million in fees owed to the City. This represented an 11% increase over the record set the previous fiscal year.

Property Tax Collection Increased: Secured property tax revenue rose by \$195 million to over \$1.7 billion, an increase of 13% over the previous fiscal year.

Audit Deficiency Billings Increased Dramatically: The Audit Unit completed 922 audits generating \$68.2 million in audit deficiency billings, an increase of more than 200% over the previous fiscal year.

Business Tax Regular Collections Increased by Over 10%: Despite the ailing business economy, the Account Services Unit billed and collected \$944 million in business taxes, an *increase* of \$6 million over last fiscal year.

Regulatory Business License Collection: The License Section processed 78,647 license accounts for the Departments of Public Health, Police, Emergency Communications, Fire, and Animal Care and Control, totaling over \$13.3 million – a 14% increase over the previous fiscal year.

Successful Collections through Legal Efforts: The Legal Section was instrumental in collecting \$11.5 million through its diligent efforts in the areas of third party hospital cost recovery liens, unfiled actions, filed actions in state courts, and bankruptcy collection litigation.

Passport Services Remains One of the Nation's Premier Facilities: The Passport Services Unit processed 8,014 passport applications and remained the only public facility in the country to work directly with the federal passport offices in an annex capacity, providing applicants with the immensely popular emergency "Will Call" service.

DEPARTMENT DESCRIPTION

Background

The position of San Francisco Treasurer is an elective office created by the City Charter in 1850. In July 1979, a charter amendment added the office and duties of Tax Collector to the Treasurer's responsibilities. The Office of the Treasurer & Tax Collector serves as the banker, collection agent, and investment officer for the government of San Francisco, the only combined city and county in the state of California.

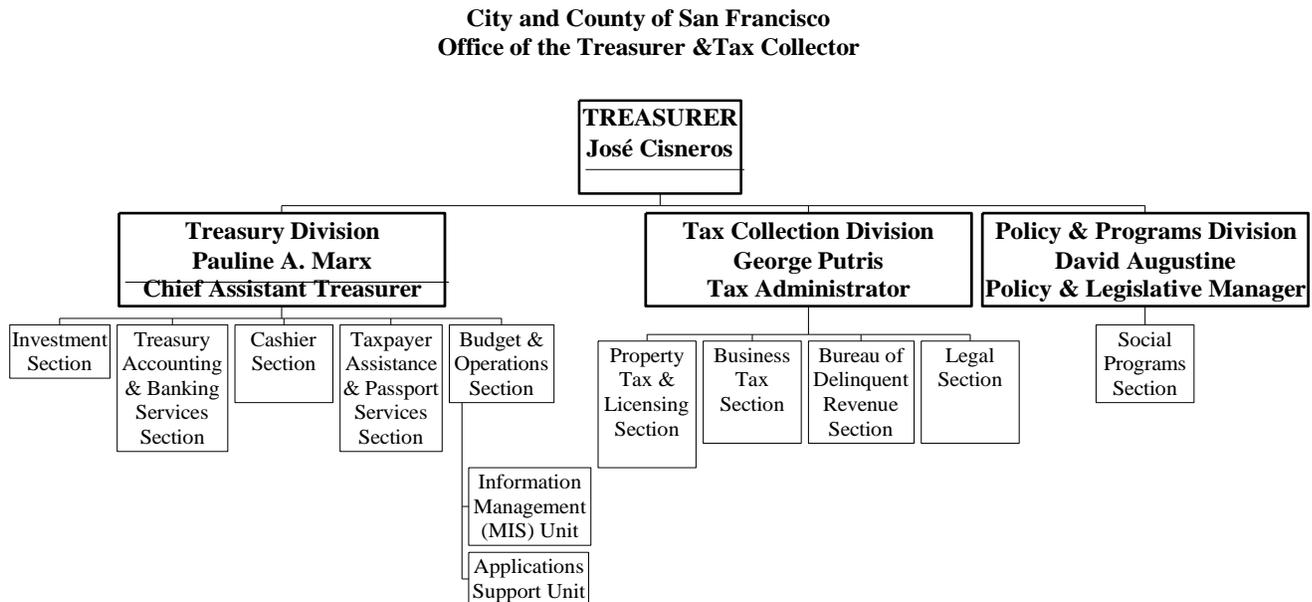
Programs and Services

The Office of the Treasurer & Tax Collector serves the citizens of San Francisco by providing information and services to the public in the following areas:

- Property Tax
- Business Taxes (Payroll, Hotel/Occupancy, Parking, Roofers, Stadium, Utility)
- Business Registration and Regulatory Licenses
- Dog Licenses
- U.S. Passport Application Acceptance
- Water Department Payments
- Recreation and Parks Services (Golf Resident Card, Swimming Pool Scrip)
- Transit Passes (MUNI, BART, Caltrain, Golden Gate Transit, AC Transit, SamTrans)
- Social Programs – Office of Financial Empowerment, Bank On San Francisco Initiative

ORGANIZATIONAL STRUCTURE

The Office of the Treasurer & Tax Collector is organized into three divisions comprised of ten operational sections:



TREASURY DIVISION

INVESTMENT SECTION

The ***Investment Section*** is responsible for managing and investing the City and County of San Francisco's funds to ensure sufficient liquidity to meet all anticipated disbursements. During the fiscal year the section managed between \$3.0 and 3.7 billion in short term fixed income securities.

When purchasing investment securities, the department invests City funds in compliance with City Charter Section 6.106, the California State Government Code Section 53600, and the Treasurer's Investment Policy. It is the policy of the department to invest public funds in a manner that will provide:

- Preservation of capital
- Liquidity to meet the daily cash flow demands of the City
- Investment returns while conforming to all state and local statutes governing the investment of public funds
- Social responsibility

The types of permissible investment securities include Negotiable Certificates of Deposit, Commercial Paper rated at least A-1/P-1, Banker's Acceptances, Federal Agency obligations and U.S. Treasury instruments. Common stocks are excluded from permissible investments. The Treasurer's Investment Section has consistently demonstrated prudent portfolio management with excellent results.

Fiscal Year 2008-09

- ◆ The investment portfolio averaged \$3.09 billion during the period, earning \$79.1 million and an earned income yield of 2.56% for the fiscal year ending June 30, 2009.
- ◆ The portfolio experienced no defaults or events that could have forced a sale; performance relative to the peer group was within the boundaries of expectations.

BANKING SERVICES & TREASURY ACCOUNTING SECTION

The ***Banking Services Unit*** is the primary liaison and supplier of services for all City departments – not just the Treasurer & Tax Collector – regarding banking issues, including:

- Administering lock-box processing, remote deposit services, armored car services, and electronic payment and deposit services (wire transfers, ACH, online banking, positive pay, direct deposit, etc.)
- Setting up contracts with various vendors or partnering banks for banking services, treasury systems, and payment services such as payment application through the web or phone
- Authorizing various departments to transact and perform specific banking activities and allow changes in their existing services; opening and closing bank accounts for various City departments and updating account signers
- Analyzing bank charges for discrepancies or any unusual charges

The *Treasury Accounting Unit* is responsible for reconciling and accounting for the receipt, deposit, and recording in the City's financial accounting system (FAMIS) of all revenues collected by the Office of the Treasurer & Tax Collector. Additional functions include:

- Accounting for encoding errors, missing checks, and other debit notes (such as those for insufficient funds) issued by the bank in relation to deposits made by TTX and all city departments
- Accounting for cash received via Electronic Funds Transfer (EFTs) and other electronic payment transactions on behalf of various city departments (not just TTX) and the state
- Processing absent heir claims and forgery claims
- Conducting numerous specialized services for other units and departments, including the recording of investment transactions, custodial safekeeping for various secure documents, stop payments on warrants issued by the Controller, and maintenance of the City's Shortage and Overage Fund

Fiscal Year 2008-09

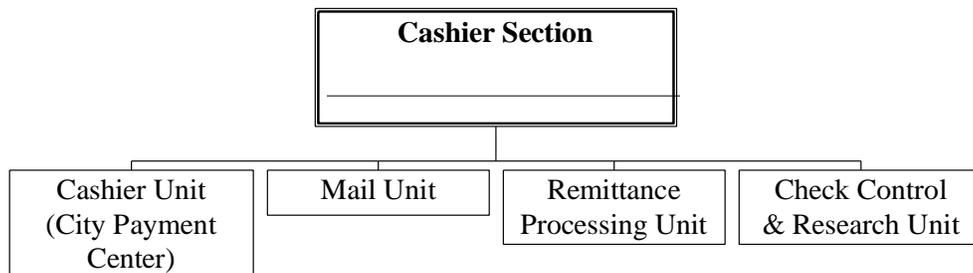
- ◆ Issued a Request for Proposals for the implementation of a Treasury Workstation system that will help integrate and streamline numerous treasury functions in the areas of Investment, Banking Services, and Treasury Accounting
- ◆ Negotiated a new contract for the installation of ATMs in city buildings including City Hall, the Hall of Justice, and the new Laguna Honda Hospital
- ◆ Negotiated a new contract for the acceptance of credit cards, debit cards, and electronic check payment of various taxes, fees, and licenses via the Internet and by phone
- ◆ Implemented an Internet Bill Payment service for Property Taxes, automating the deposit of physical checks received from taxpayers paying through "home banking"
- ◆ Increased technical efficiency in communication among city departments by promoting electronic communication for wire notifications; converted the section's various manual files to an electronic tracking system and provided online banking access to various departments for the retrieval of bank reports and monthly statements
- ◆ Provided oversight to the department's other accounting units to ensure sound accounting practices and procedures
- ◆ Recommended technical and procedural changes in the Property Tax Redemption system that helped increase efficiencies and implement tighter controls in posting payments

CASHIER SECTION

The **Cashier Section** is responsible for accepting and processing all types of tax payments, registration and license fees. These items include payments received through the mail, presented in person, paid by credit card or wire, and via the Internet. The Cashier Section also processes payments for the Department of Public Works, the Public Utilities Commission, and the Emergency Communications Department, and receives and banks deposits from several city departments.

In addition to processing payments, the Cashier Section provides goods and services to the general public as well as to city employees. The Cashier Section is an authorized vendor for Golfer's Resident Cards and swimming pool scrip tickets on behalf of the Recreation and Parks Department, and numerous types of public transit passes and Parking Meter Debit Cards for the San Francisco Municipal Transportation Agency.

The Cashier Section is comprised of four units that work together to process and post all payments:



The **City Payment Center Cashier Unit** accepts payments from taxpayers, sells transit items, issues taxi driver "A Cards" and Golfer's Resident Cards, receives deposits from other city departments and processes mail payments. The **Mail Room Unit** sorts, opens, verifies, and distributes mail for the Office of the Treasurer & Tax Collector, Water Department and the Port of San Francisco. The **Remittance Processing Unit** processes water bills and other tax payments using high-speed National Cash Register (NCR) remittance machines. This unit also researches water payments received without account numbers or payment stubs. The **Check Control and Research Unit** researches and processes unidentified tax payment stubs for all sections of the Office of the Treasurer & Tax Collector.

Fiscal Year 2008-09

- ◆ The Cashier Section processed 1,311,817 million payments, totaling over \$3.13 billion. The Remittance Unit processed 1,101,927 million of these payments (46% of which consisted of water bills collected for Water Department) while 209,890 payments were processed over the counter.
- ◆ The Check Control and Research Units processed a combined total of 104,945 items.

| Cashier Collections Fiscal Year 2008-09 | | |
|---|-------|---------|
| Revenue Type | Items | Dollars |

| | | |
|---|------------------|----------------------|
| Real Estate Taxes | 415,206 | 1,802,780,536 |
| Business & Payroll Taxes and Fees | 133,466 | 397,769,373 |
| Parking, Utility Users, & Hotel Occupancy Taxes | 15,523 | 363,829,613 |
| Sales Tax & Others State Collections | 50,933 | 191,777,570 |
| Water Bills | 600,758 | 316,115,708 |
| Emergency Communications Fees | 840 | 43,349,054 |
| Regulatory License Fees | 34,477 | 10,861,830 |
| Development Impact Fees and Others | 60,614 | 8,163,556 |
| Total | 1,311,817 | 3,134,647,240 |

| Payment Type | Items | Dollars |
|--------------------------------|------------------|----------------------|
| Online | 19,168 | 45,636,270 |
| Credit card - IVR | 3,827 | 14,312,477 |
| Credit card - over the counter | 12,259 | 5,098,279 |
| Cash, checks | 1,276,563 | 3,069,600,214 |
| Total | 1,311,817 | 3,134,647,240 |

TAXPAYER ASSISTANCE & PASSPORT SERVICES SECTION

The *Taxpayer Assistance (TPA) Unit* offers assistance in San Francisco’s business registration, property tax, licenses, city services, collection notices, and other matters of general assistance. Staff members with extensive training provide efficient and courteous service in a variety of capacities – in person at various service counters located within the City Payment Center, over the phone by means of a 45-hour-per-week call center, and through electronic and traditional written communications. Senior staff members also perform outreach to a variety of community, neighborhood, and business organizations, educating the public about local requirements and available city resources. This section embodies the department’s philosophy that customers’ needs are a priority and that the public should receive quality service and accurate information in a timely manner.

The *Passport Services Unit* was created in 1999 to serve as an acceptance office for U.S. Passport applications. Staff members serve as authorized acceptance agents, verifying the identity of passport applicants, ensuring that all required documentation is submitted, accepting payment for the passport and related fees, and serving as an information resource for the public regarding passport issuance and legislation. The Passport Services unit has earned a reputation as the premier passport acceptance facility in Northern California. It is the primary referral for passport services in the Bay Area by the federal Passport Agency’s regional office, for whom the unit serves in an annex capacity. The unit continues to simplify the passport application process each year for thousands of travelers and new citizens.

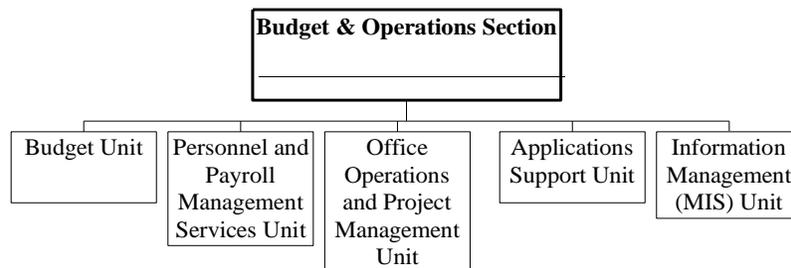
Fiscal Year 2008-09

The TPA and Passport Services Section had a busy and productive year while maintaining its unfaltering emphasis on customer service.

- ◆ TPA processed over 7,000 new business registrations and responded to well over 100,000 customer inquiries through service counters, customer service phone lines, email, and written correspondence.

- ◆ The Passport Services Unit processed 8,014 passport applications, earning \$200,250 in revenue for the City. There was a decrease of 15-20% in passport volume as compared to recent years. This decline in passport volume was mirrored in application volume across the country, with the recession causing a notable decrease in travel. The unit continues to be the state’s only public facility to work with the federal passport offices to provide emergency “Will Call” service to passport applicants, a vital and successful service that has been immensely popular
- ◆ Over 90% of customers who voluntarily submitted “Customer Service Feedback” surveys ranked the TPA and Passport Services units’ overall service as either “Excellent” or “Good”, marking the tenth consecutive year exceeding a 90% approval rating for service.
- ◆ TPA staff participated on several community panels and conducted regular monthly workshops in conjunction with the Small Business Administration on “Starting a Small Business in San Francisco”.

BUDGET & OPERATIONS SECTION



The former Administration Section went through a reorganization in Fiscal Year 2008-09, initiated by the addition of twelve technology staff members to the department. The twelve staff were formerly employees of the City’s Department of Technology who supported the Office of the Treasurer & Tax Collector’s property tax, license and business tax systems. Due to their dedication to these applications, the City officially transferred the staff to the Office of the Treasurer & Tax Collector. The growth in technology positions represents the direction of the department’s dependency on solutions that automate tax and collection processes.

To best support the integration of the application staff into the organization as well as exploit the power of having both information management and application staff working alongside one and another, the office created a new **Budget and Operations Section**. The functions within this group are as follows:

The **Budget Management Unit** staff and senior managers develop the department’s annual budget in collaboration with the managers in the ten separate operating sections. A major component of the budget is work orders with other City and County departments and other government entities. The unit interacts with the Mayor’s Office and Controller’s Office in regard to budget approval, mid-year reports, hiring, and new initiatives. The unit conducts cost analyses for various initiatives throughout the department. The operating budget for Fiscal Year 2008-09 was \$26 million.

The **Personnel and Payroll Management Services Unit** is responsible for the recruitment and hiring of department personnel, employee compensation and employee records. The unit also provides management with recommendations relating to personnel decisions, interpretations regarding civil service regulations, and guidance with regard to disciplinary and accountability matters. The Personnel staff monitors Workers’ Compensation cases and ensures compliance with

the American with Disabilities Act, Affirmative Action and the Family Medical Leave Act. The Payroll staff processes daily attendance data and prepares and submits bi-weekly time rolls.

The ***Office Operations and Project Management Unit*** is a new unit that supports two different functions. The first area is Office Operations, which provides support to all sections by providing office supplies, equipment and other minor furnishings, arranging for maintenance of copiers and other office equipment, and managing a large inventory of forms, envelopes and statements. This unit coordinates department-wide trainings. The second function is department-wide business process reengineering and project management for IT application development and migrations and application roll-out. In addition, this unit handles IT contracts and Requests for Proposals.

The ***Applications Support Unit*** is responsible for the business tax, property tax and license applications. Managing both the maintenance of these city-based applications as well as continuous improvements and revisions based on new city legislation, this unit responsible for all the technology related to collecting city revenue – business tax, hotel tax, parking tax, access line tax, business licenses, unsecure personal property and property tax. This unit coordinates with the Controller’s Office, and Department of Technology regarding reporting and application requirements.

The ***Information Management (MIS) Unit*** provides the department with full-time centralized support for all technological equipment, systems, and applications, including specialized mainframe and web-based applications for banking, investment and other business and finance-related functions. The MIS unit is also responsible for the system administration of the department’s local area network (LAN) and wide area network (WAN) services at the department’s two locations – City Hall and 875 Stevenson Street.

The MIS unit coordinates custom programming issues, service requests, production support maintenance and security issues with the Department of Telecommunication, vendors and consultants. The unit is also responsible for maintaining server resources and web design and content. MIS also supports the Cashiering and Remittance and Bureau of Delinquent Revenue’s licensed applications. MIS ensures that sufficient documentation is maintained for all existing financial systems, and continues to work with the Office of the Controller and other city departments to refine emergency preparedness plans and procedures.

The unit serves as the critical nerve center for online applications, integration of various tax and collection systems, and IT knowledge management.

Fiscal Year 2008-09

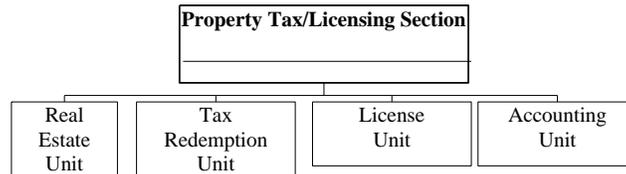
- ◆ Launched New Employee Hire Orientation, which provides new hires information regarding the organization, its mission, and specific benefits and operating practices
- ◆ Hired 25 employees
- ◆ Instituted new practices for supply management that better pool supplies to avoid over ordering and excess inventory

- ◆ Managed the move from 401 Van Ness Avenue to 875 Stevenson Street, which relocated over half of the organization's employees
- ◆ Developed and launched a "Home Banking" application for secured, supplemental, escape, and redemption real estate payments
- ◆ Developed Link2Gov interfaces for secured, supplemental, escape, and redemption real estate payments
- ◆ Designed and deployed new in-house tax bills and statements for delinquent secured, supplemental, escape, and redemption taxes
- ◆ Designed and rolled out major enhancements to the redemption and unsecured personal property applications
- ◆ Implemented a new Access Line Tax & Utility User Tax statement filing and payment collection system
- ◆ Completed critical phase of the department's "Harvesting Project," which automates daily updates to delinquent accounts and other components of the delinquent revenue collections application
- ◆ Designed and rolled out major enhancements to audit system for audit assignments, calculation of interest, penalties and administrative fees, and for printing audit letters and reports
- ◆ Implemented an automated system for uploading of statement filings for Hotel, Parking, Access Line & Utility User taxes

TAX COLLECTION DIVISION

PROPERTY TAX & LICENSING SECTION

The *Property Tax & Licensing Section* is made up of four primary units:



The *Real Estate Unit* bills, collects and processes payments for regular, supplemental, and escape tax bills for secured and unsecured taxes, including numerous special assessments. These include fees for Community Benefit Districts, Business Improvement Districts, Rent Board, Apartment and Hotel License, Alarm Registration and False Alarm penalties, parcel tax measures, and tax liens. It is also responsible for processing approved refund requests for overpayments and duplicate payments of these collections.

Fiscal Year 2008-09 (Real Estate Unit)

- ◆ Billed and collected over 450,000 property tax bills and statements. Property tax revenue increased by more than \$195 million (13%) over the previous fiscal year.
- ◆ The timely collection rate for secured property taxes was 97.70%, third highest among the 58 counties in the State of California.

| Secured Property Tax Delinquency Rate 5-Year Comparison | |
|--|------------------|
| Fiscal Year | Delinquency Rate |
| 2004-05 | 1.10% |
| 2005-06 | 1.19% |
| 2006-07 | 1.42% |
| 2007-08 | 2.06% |
| 2008-09 | 2.30% |

- ◆ Supplemental property tax collection decreased by more than \$14 Million (18%) from the previous fiscal year due to the declining economy and a significant decrease in the amount of new construction of commercial properties.
- ◆ The collection rate for the Apartment House License, Hotel License, and Rent Board Fees on the Secured Property Tax bills was 98.15%.
- ◆ Beginning with the billing of the fiscal year 2008-09 delinquent secured property tax bills, “home banking” bill payment service was offered to taxpayers as an additional payment option using a new 9-digit account number provided on the property tax bill. This unique identifier is expected to reduce the number of unallocated payments and expedite the processing of property tax payments.

- ◆ Effective May 1, 2009, the Property Tax & Licensing Section took over the responsibility of issuing tax certificates for condominium conversion. In fiscal year 2008-09, a total of 73 tax certificates were issued with a total revenue collection of \$2,920.
- ◆ Also effective May 1, 2009, the Accounting Section merged into the Property Tax & Licensing Section in an effort to streamline accounting functions and processes and to expedite the submission of collection reports.

The ***Tax Redemption Unit*** bills, processes and computes payments for prior years' delinquent secured property taxes and maintains complete records on taxes being paid under five-year installment plans. It is also responsible for conducting the annual public auction sale of tax-defaulted properties subject to the tax collector's power to sale.

Fiscal Year 2008-09 (Tax Redemption Unit)

- ◆ The redemption tax operating system was enhanced to expedite the payment process. New redemption statements were created to provide information to taxpayers in a clearer, more accurate fashion.
- ◆ The unit conducted a successful public auction sale of 56 tax-defaulted properties with a total revenue collection of \$626,645.

The ***Business License Unit*** collects, records, and reports regulatory business license fees mandated by the San Francisco Municipal Code, Part III. It is also responsible for the recording, balancing, reconciling, and reporting of all business license payments and dog license payments, as well as alarm registration fee and false alarm penalty payments due under the Police Emergency Alarm Ordinance.

Fiscal Year 2008-09 (Business License Unit)

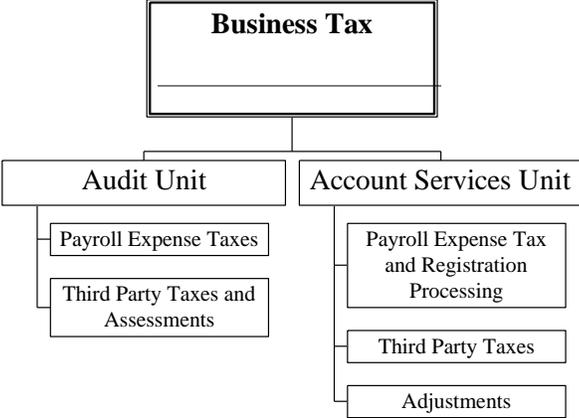
- ◆ The License Unit processed 78,647 license accounts totaling more than \$13.3 million for the following departments and commissions: Police, Fire, Public Health, Emergency Medical Services, Emergency Communications, Animal Care and Control, Entertainment Commission, Taxi Commission. This represents an increase of over \$1.6 million (14%) from last fiscal year's revenue of \$11.6 million. The monetary increase was due primarily to an overall increase in license fees as well as the addition of some new licenses.

The ***Accounting Unit*** provides accounting services to the Property Tax and Licensing Section. The section batches, balances, posts and performs daily and monthly reconciliation of property tax and license fee collections, and reconciles transactions on the City's Financial Accounting Management Information System (FAMIS). The Accounting Unit also generates various collection reports for the department and for the Office of the Controller. The primary goals of the Accounting Unit are to:

- Provide adequate internal control systems to safeguard the City's assets
- Ensure payments are recorded timely and accurately
- Provide reports to other city agencies

BUSINESS TAX SECTION

The **Business Tax Section** of the Office of the Treasurer & Tax Collector is responsible for the assessment and audit enforcement of the business registration fee, payroll expense tax, roofers’ vehicle tag fee and third party taxes for parking, hotel, and stadium operators, utility users, access line, as well as for emergency response fees and Hotel Tourism Improvement District payments. The Section is comprised of the two distinct units – the Account Services Unit and the Audit Unit.



The **Audit Unit** is comprised of three audit teams dedicated to performing payroll expense tax audits as well as parking and hotel third party tax compliance audits.

Fiscal Year 2008-09

- ◆ The Audit Unit completed 922 audits (771 payroll, 107 parking, 44 hotel) – a 2% decrease from the previous fiscal year’s total of 943. These audits generated \$68,269,222 in audit deficiency billings, an increase of 211% over the previous fiscal year.

| Audit Impact (5-Year Average) | | | | | | |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-----------------------|
| | FY 2004-05 | FY 2005-06 | FY 2006-07 | FY 2007-08 | FY 2008-09 | 5-Year Average |
| No. of Audits | 540 | 531 | 556 | 943 | 922 | 698 |
| Audit Hours | 19,116 | 21,195 | 17,738 | 25,023 | 27,094 | 22,033 |
| Average Hours per Audit | 35.4 | 39.9 | 31.9 | 26.5 | 29.4 | 31.5 |
| Audit Billings | \$3,713,716 | \$5,170,684 | \$7,109,403 | \$21,939,773 | \$68,269,222 | \$21,240,560 |
| Average Billing per Audit | \$6,877 | \$9,738 | \$12,787 | \$23,266 | \$74,045 | \$30,413 |

| Audit Deficiency Billings 5-Year Comparison | | | | | | |
|--|--------------------|--------------------|--------------------|---------------------|---------------------|---------------|
| Type of Audits | FY 2004-05 | FY 2005-06 | FY 2006-07 | FY 2007-08 | FY 2008-09 | % Inc/Dec |
| Payroll Expense Tax | \$3,318,035 | \$3,666,933 | \$6,900,876 | \$1,869,969 | \$6,977,613 | 273.1% |
| Parking Tax | \$373,283 | \$417,592 | \$1,039 | \$9,730,429 | \$1,180,567 | -87.9% |
| Parking Tax - Prior Year Adjustment | | | | | \$(2,390,977) | |
| Hotel Tax | \$22,398 | \$1,086,159 | \$207,489 | \$10,339,375 | \$62,502,019 | 504.5% |
| Total Billings | \$3,713,716 | \$5,170,684 | \$7,109,404 | \$21,939,773 | \$68,269,222 | 211.2% |

- ◆ The year's "Top 10" deficiency billings netted a total of over \$65.2 million, as compared to \$17.1 million the previous year.

| Business Tax Large Deficiency Audits Top 10 Billings - FY 2008-09 | | | |
|--|-----------|-------------|---------------------|
| TAXPAYER | NUMBER | AUDIT TYPE | AMOUNT |
| Online Travel Company | 6 | Hotel Tax | 62,879,489 |
| CPA Firm | 2 | Payroll Tax | 1,327,801 |
| IT Services Company | 1 | Payroll Tax | 690,419 |
| Internet Services Company | 1 | Payroll Tax | 358,330 |
| TOTAL | 10 | | \$65,256,039 |

- ◆ The Audit Unit collected \$13,483,809 in audit billings, an increase of 206% over the previous fiscal year.

The *Account Services Unit* is responsible for administering, maintaining, and processing accounts for the following:

- Annual Business Registration Renewals
- Quarterly and Semi-Annual Payroll Tax Prepayments
- Annual Payroll Expense Tax Filings
- Business Payroll Expense Tax Determinations
- Monthly and Quarterly Hotel, Parking, Utility Users and Access Line Taxes, and Hotel Tourism Improvement District payments
- Issuing Hotel and Parking Certificates of Authority to Collect Third Party Taxes
- Requests for adjustments, extensions and refunds
- Processing of various tax credits, waivers, and exemptions

Fiscal Year 2008-09

- ◆ Despite the ailing business economy, the Account Services Unit billed and collected over \$944 million in Business Taxes, a slight increase over the previous year total of \$938 million.
- ◆ Worked closely with the City Attorney's Office and with Application Support to develop the new Access Line Tax on the BTS system.

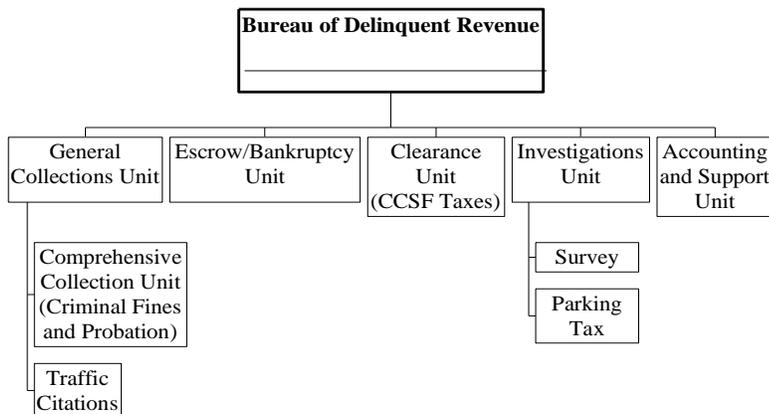
| Business Tax Account Services FY 2008-09 | | | |
|---|-------------------------------|-----------------------------|------------------------------|
| Tax Type | # of Statements Mailed | # of Payments Posted | \$ of Payments Posted |
| Payroll Tax Year 2008 | 17,970 | 9,286 | \$344,495,703 |
| Business Tax Registration FY 09-10 | 95,701 | 74,088 | \$6,846,840 |
| Payroll Determination Tax Year 2007 | 4,698 | 502 | \$9,027,825 |
| Payroll Tax Prepayments 2008 | 1,100 | 1,111 | \$57,519,705 |
| Payroll Tax Prepayments 2009 | 10,379 | 7,816 | \$158,578,970 |
| Hotel Tax | 2,532 | 1,354 | \$216,940,413 |
| Parking Tax | 2,170 | 2,309 | \$58,947,676 |
| Utility Users Tax | * 1424 | 2,030 | \$82,016,746 |
| Access Line Tax | 1,340 | 227 | \$10,403,912 |
| Total | 135,890 | 98,723 | \$944,777,790 |

* Utility Users Tax Statements were mailed beginning April 2009

BUREAU OF DELINQUENT REVENUE

The **Bureau of Delinquent Revenue (BDR)** is the official collection arm of the City and County of San Francisco. It is authorized to collect all accounts receivable over \$300 and at least 90 days overdue. Current departmental clients include: San Francisco General Hospital, Laguna Honda Hospital, Department of Public Works, Adult Probation, Fire Department, Mayor’s Office of Community Development, Department of Parking and Traffic, City Planning, Ethics Commission, Trial Courts, Recreation & Parks, and the Water Department, as well as collections for criminal court fines, security alarm registrations, and false alarm fees.

The Bureau of Delinquent Revenue is divided into five primary units, each of which has separate and distinct roles:



The **General Collections Unit** processes delinquent accounts from various departments. A majority of accounts are referred from S.F. General and Laguna Honda hospitals. Additional accounts are referred from Department of Public Works, the Mayor’s Office, Recreation & Parks,

the Water Department, the Housing Authority, Emergency Services, and the Redevelopment Agency. The collection process of this unit includes small claims filings, judgment renewals, and post-judgment execution. In addition to the filing of creditor's claims in the Probate Court, the unit also recovers funds owed to the county hospitals and paramedics from third party liability by filing medical liens with attorneys and/or the courts.

As part of this larger unit are the Traffic Citations sub-unit and the Comprehensive Collection sub-unit. These units handle the collection of accounts referred by the State of California – San Francisco Superior Court. The Comprehensive Collection Unit operates remotely from the Hall of Justice at 850 Bryant Street, combining efforts with the state of California in the collection of current and delinquent criminal fines and fees as well as Adult Probation fees and fines and victim restitution.

The ***Escrow/Bankruptcy Unit*** researches, compiles data and files claims on any outstanding debts owed to the City and County once escrow or bankruptcy is filed. The unit's extensive database research begins when notices are published or notices are received. All title company demands are referred to this unit. The unit's primary function is to issue a clearance (of all delinquent city and county debts) to sellers.

The ***Clearance/Business Tax Unit*** works with business owners and with the Business Tax and Property Tax sections to collect or resolve delinquent business-related taxes, such as payroll expense taxes, registration fees, and unsecured personal property taxes, as well as the various city licenses. All outcomes are resolved in a manner equitable to both the customer and the City.

The ***Investigations Unit*** ensures that taxpayers comply with city and state tax regulations. The unit operates in support of all sections in the Tax Collection Division and is responsible for a wide range of enforcement activities including: surveys, surveillance, seizures, summary judgments, collection of third party taxes, notices of violations, and citations. In addition, this unit is responsible for enforcement of compliance with parking tax collection standards under the City's Revenue Control Equipment Ordinance. Within this unit is the ***Survey Group***, in which investigators are assigned to systematically research, inspect and interview unregistered city businesses, in addition to business with potentially high unreported revenue.

The ***Accounting and Support Unit***. The ***Accounting Group*** prepares financial reports for the section, department and the Controller's Office, posts payments, adjusts and balances accounts, and performs related accounting duties. The ***Support Group*** performs data entry, tracks check controls, provides counter service, distributes mail, scans documents to various delinquent account records, and performs other clerical functions.

| BDR Annual Collection By Unit 5-Year Comparison | | | | | | | |
|--|----------------|----------------|----------------|----------------|-------------------|--------------|-----------------|
| Fiscal Year | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | Total | Yr. Avg. |
| General Collections | 12,537,899 | 14,905,889 | 17,792,005 | 20,275,072 | 20,455,683 | 85,966,548 | 17,193,310 |
| Escrow/ Bankruptcy | 8,682,233 | 8,585,756 | 10,037,881 | 11,815,766 | 14,600,604 | 53,722,241 | 10,744,448 |
| Clearance | 25,521,445 | 24,001,773 | 20,781,035 | 28,742,110 | 32,819,372 | 131,865,735 | 26,373,147 |
| Investigations | 11,725,929 | 18,985,078 | 16,454,579 | 21,618,076 | 21,768,032 | 90,551,694 | 18,110,339 |
| Business Tax Admin. Fee | 681,929 | 413,514 | 1,785 | 670,020 | 803,078 | 2,570,326 | 514,065 |
| UPP Admin. Fee | 68,654 | 121,367 | 3,121 | | 105,229 | 298,371 | 59,674 |
| TOTAL BDR COLLECTIONS | 59,218,089 | 67,013,377 | 65,070,406 | 83,121,045 | 90,551,998 | 364,974,916 | 72,994,983 |

Fiscal Year 2008-09

- ◆ The Bureau of Delinquent Revenue achieved a record high collection total for the second consecutive year, collecting \$90.5 million in fees owed to the City. This represented an 11% increase over the record set the previous fiscal year.

A breakdown of delinquent revenue collected by unit is as follows:

| Unit/Area | Collections |
|------------------------|---------------------|
| General Collections | \$20,275,072 |
| Escrow & Bankruptcy | \$11,815,766 |
| Clearance/Business Tax | \$28,742,110 |
| Investigations | \$21,618,076 |
| Administrative Fees | \$670,020 |
| TOTAL | \$83,121,044 |

- ◆ Each of the Bureau's collection units posted significant increases in collections over the previous fiscal year.
 - The Clearance Unit collected \$32.8 million in delinquent business-related taxes, a 14% increase over the last fiscal year. This increase was largely attributable to the additional staff assigned to the collection of delinquent business accounts and unsecured property taxes and the result of automating the collection process of business tax accounts. The unit doubled the number of payments received in the previous fiscal year.
 - The Escrow/Bankruptcy Unit collected \$14.6 million, a 23% consecutive increase over the last fiscal year. This increase was largely attributable to the continuous high volume of sales of property with recorded delinquencies, and the many businesses filing bankruptcies under Chapter 11, or business reorganization.
 - The General Collections Unit collected \$20.4 million by collecting 49,400 payments. The year's collection remained steady despite the many state and federal regulations affecting the collection of medical accounts. The Comprehensive Collection Unit's collaboration with the S.F. Superior Court efforts moved the County from ranking 58th – last in the state – to 27th in this area of collections.

- The Investigations Unit collected a total of \$21.6 million. Despite a shortage of staff, the collection amount remained consistent from last year's result. The unit has dedicated a full time investigator to parking tax to develop strategies to enforce this third party tax collection, which is anticipated to bring positive results for Fiscal Year 2009-2010.
- All units benefited from an improved performance plan outlining the duties of each unit in a more specific manner, and developing a more defined role for each employee of the bureau. The units are constantly cross-trained to better serve the SF community in the collection of the various types of delinquent revenue forwarded to the bureau. The result of the cross-training is that each unit does not limit their collection approach to their assigned accounts, but they network the functions of the other units as well. The use of a "dialer" continues to enhance the collection process, as does the improved interface of the department's BTS and CUBS systems.

LEGAL SECTION

The **Legal Section** files collection actions in the courts and litigates delinquent accounts within the Treasurer & Tax Collector's jurisdiction when other collection efforts have failed. Legal Section represents the department in (1) negotiating payment of hospital cost recovery liens with patients' attorneys; (2) filing responses to rejection of BDR creditor claims in probate court and bankruptcy court; and (3) filing responses in state court actions against the department that may jeopardize the payment of real estate taxes, such as partition actions, judicial foreclosures. Legal Section also serves as legal advisor on collection issues. In this role, Legal Section attorneys often provide case-specific advice to section supervisors and line staff, as well as formal written legal advice memoranda to the Tax Administrator and section supervisors on legal issues relevant to the department's collection activities.

Fiscal Year 2008-09

The Legal Section was instrumental in collecting \$11,501,960 from the following activities:

- ◆ Third Party Hospital Cost Recovery Liens – \$4,259,647.96: Legal Section provided negotiation services, legal advice, appearances at settlement conferences and Worker Compensation Appeals Board hearings on 128 specific lien cases.
- ◆ Unfiled Actions – \$6,473,031.48: This category includes a variety of collection services
 - Negotiation of direct payment from the debtor;
 - Negotiations of installment payment contracts with the debtor (five cases);
 - Preparation of the Tax Collector Decision on administrative hearings of taxpayer petition for appeal of business tax deficiency determinations (27 cases).
- ◆ Filed Actions in State Courts – \$63,374.47: Legal Section filed four collection actions in the state court system, each leading to either payment stipulation or judgment.
- ◆ Bankruptcy Collections – \$705,906.03: Legal Section provided negotiation services and/or filing of legal papers in Bankruptcy Court (six cases).

| Collections for FY 2008-09 | |
|------------------------------------|---------------|
| Type | Amount |
| Hospital Lien Collections | 4,259,647.96 |
| Unfiled Actions | 6,473,031.48 |
| State Court Complaints & Judgments | 63,374.47 |
| Bankruptcy | 705,906.03 |

POLICY & PROGRAMS DIVISION

SOCIAL PROGRAMS SECTION

In September 2006, Mayor Gavin Newsom and Treasurer José Cisneros launched Bank On San Francisco - the first program in the nation to address the needs of unbanked residents by moving the marketplace to offer suitable financial products. Through a unique coalition of sixteen financial institutions, the original goal of banking 10,000 unbanked San Franciscans was met in just one year. At the end of a two-year pilot, almost 25,000 San Franciscans had opened accounts through the program.

Conventional banking products and policies are not designed to meet the needs of lower-income clients. To bring unbanked San Franciscans into the mainstream it was apparent that two things had to change: checking account products needed to be modified, and the bank policies that were keeping residents from accessing the system had to be revised. By combining the influence of government, the regulatory power of the Federal Reserve Bank, the reach of community groups and the market drive of mainstream financial institutions, San Francisco became the first city in America to actively *move the marketplace* of available financial products and services to better serve the unbanked market. Treasurer José Cisneros began this process by challenging every financial institution in San Francisco to partner with the City to create Bank on San Francisco, an initiative that would:

- Change bank policies to increase the supply of account options for the unbanked market
- Raise awareness among consumers about the benefits of account ownership
- Provide quality financial education to San Franciscans

By December of 2008, almost 25,000 San Franciscans had entered the financial mainstream – exceeding the original goal for the two-year pilot. In light of this success, the program has become a permanent program of the Office of the Treasurer & Tax Collector.

Fiscal Year 2008-09

◆ By the end of 2008, the program outperformed goals for accounts opened both years:

- Accounts currently open and active: 24,714
- Total accounts opened: 31,347
- Percentage of accounts currently active: 80%
- Average account balance: \$980
- Estimated annual savings to San Franciscans: \$19,771,200

DEPARTMENTAL BIOGRAPHIES

Treasurer José Cisneros

In September 2004, Mayor Gavin Newsom appointed José Cisneros as *Treasurer* for the City and County of San Francisco. As Treasurer, he serves as the City's banker and chief investment officer, managing all tax and revenue collection for San Francisco. He was elected to a full term in November 2005.

Treasurer Cisneros is proud to lead an accomplished and effective city department. Under his tenure, the office has achieved the lowest-ever property tax delinquency rate in the history of San Francisco. This means more services for the people of San Francisco, and lessens the pressure to increase taxes. Treasurer Cisneros has also achieved high investment returns, outpacing other large California counties—while preserving the safety and liquidity of the City's money. He is also proud of the excellent customer service offered to the people of San Francisco, which has consistently been rated “excellent” or “good” by more than 90% of those surveyed.

Treasurer Cisneros strongly believes that his role of safeguarding the City's money extends to all San Francisco residents. In January of 2005 Treasurer Cisneros led the implementation of the Working Families Credit Program, an innovative public/private partnership providing a tax credit to qualified San Francisco families. More than 9,500 of the City's lowest-income working families have received over \$2 million from the program, which provides a match to the federal Earned Income Tax Credit. Treasurer Cisneros continues to expand his role as a financial educator and advocate for low-income San Franciscans through creating innovative programs aiming to give all city residents access to a bank account and lessen the need for check cashers and payday lenders.

Prior to his appointment, Treasurer Cisneros served as Deputy General Manager for the San Francisco Municipal Transportation Agency. In this capacity, he managed MUNI's \$7 billion capital program designed to repair, replace and enhance system assets – including the 3rd Street Rail extension serving Chinatown, Mission Bay and the residents of Bay View and Hunters Point. Before working at MUNI, Treasurer Cisneros served as a member of the MTA Board of Directors and was instrumental in creating Proposition E, the Muni Reform Charter Amendment.

Treasurer Cisneros has a strong business background in the private sector, previously working for IBM Corporation and Lotus Development Corporation as a Senior International Product Manager. Prior to this, he was an Assistant Vice President at Bank of Boston where he managed financial product portfolios valued at over \$100 million.

George Putris, Tax Administrator

Tax Administrator George Putris is a lawyer who has spent his career specializing in taxation law. Through both private practice and public service, he has gained extensive experience in the areas of federal income taxation, property taxation, state and local taxation, tax litigation, municipal finance, tax-exempt organizations and tax legislation. Immediately prior to undertaking the position of Tax Administrator, Mr. Putris practiced law in the San Francisco City Attorney's Office, where, as Deputy City Attorney, he served primarily as counsel to the Office of the Treasurer & Tax Collector.

Mr. Putris is a graduate of the Martin Luther King, Jr. School of Law at the University of California, Davis. He also has an LL.M. degree in Taxation Law from New York University. He received his BA degree from the University of California, Berkeley. Mr. Putris is a member of the California Bar Association. He is the Chair of the Legislative Committee of the California Association of County Treasurers and Tax Collectors.

Pauline Marx, Chief Assistant Treasurer

As **Chief Assistant Treasurer**, Pauline Marx serves as Deputy to José Cisneros and manages the investment, banking, cashiering, remittance, customer service, and administrative functions for the Office of the Treasurer and Tax Collector.

Pauline Marx joined the Office of the Treasurer and Tax Collector in January, 2005 after serving nine years with the City of Emeryville as Finance Director and Treasurer. In Emeryville her duties included management of the City's accounting and revenue collection functions, budgeting, debt and investments, and the City's information technology efforts.

Pauline Marx grew up in New York City. She has a bachelor's degree from the University of Michigan and an MBA from Yale School of Management. She has lived in the San Francisco bay area since 1979, working for both investment banking firms and local governmental agencies, always focusing on the intersection of business and public policy at the local government level.

Ms. Marx serves on the board of directors of the California Society of Municipal Finance Officers and is a Certified California Municipal Treasurer.

David Augustine, Policy & Legislative Manager

David serves as liaison to the Board of Supervisors and city agencies, as the department's public information, records, and media officer and manages the department's innovative social programs. David has helped implement Bank on San Francisco and the Working Families Credit program, with a focus on legal aspects and programmatic design. David started working for the Treasurer in 2005, and previously practiced municipal finance law in San Francisco and worked for the New York City Mayor's Office.

David is a native of the San Francisco Bay Area. He holds a B.A. in Political Science from Swarthmore College, and a J.D. from Stanford Law School. He is a member of the California State Bar.

KEY CONTACTS

| | | |
|--------------------------------|-----------------|----------|
| Treasurer | José Cisneros | 554-4478 |
| Tax Administrator | George Putris | 554-4874 |
| Chief Assistant Treasurer | Pauline Marx | 554-5260 |
| Policy and Legislative Manager | David Augustine | 554-7601 |

Section and Unit Managers:

| | | |
|---|---------------------|----------|
| Applications Support Unit | Darryl Yee | 554-0828 |
| Banking & Treasury Acctg. Svcs. Section | Janet Tolenada | 554-5263 |
| Budget & Operations Section | Tajel Shah | 554-4506 |
| Bureau of Delinquent Revenue | Margarita Rodriguez | 554-4413 |
| Business Tax Section | Florence Mar | 554-4608 |
| Cashier Section | Sonia Martinez | 554-4490 |
| Chief Investment Officer | Newlin Rankin | 554-4487 |
| Information Management (MIS) Unit | Darrell Ascano | 554-4438 |
| Legal Section | Robert Fletcher | 554-4492 |
| Property Tax & Licensing Section | Francis Nguyen | 554-4448 |
| Taxpayer Assistance & Passport Services | DJ Dull-MacKenzie | 554-4643 |

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