



City of Houston Citywide ARC Project

Budget & Fiscal Affairs Committee

March 6, 2012

Finance Department

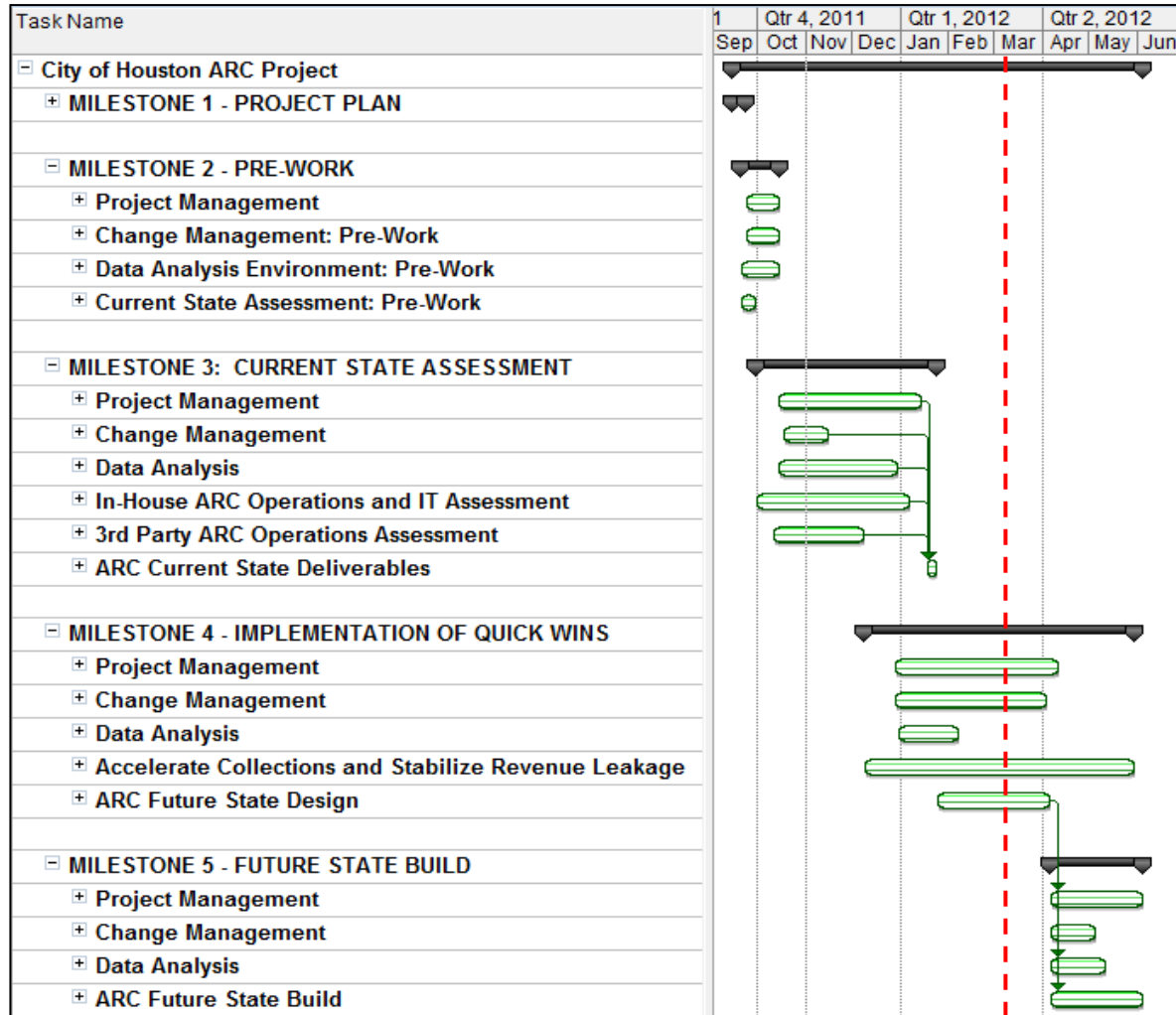
Kelly Dowe, Director

Bruce Haupt, Deputy Assistant Director



Project Timeline

We are in the implementation phase, executing quick wins and designing long-term infrastructure and processes



▲ Milestones 4 & 5

- Hire of Victor Gonzalez to head AR & Collections in Finance
- Implement Quick Wins
- Execute Future State Design
 - Permitting Project
 - Data Measurement and Skip Tracing
 - Vendor Management
- Ongoing data analyses for ARA - EMS and MCD
- Communication
 - BFA
 - Departments
 - External Vendors



ARC Debt Collectability & Financial Impact

Implementation of quick wins is already leading to incremental revenues being captured

| Revenue Category | Total Debt Outstanding (as of November 2011) | Debt Collectability | | | FY12-13 ARC Projected Incremental Revenue | FY12-13 ARC Actual Revenue To Date |
|---|---|---------------------|-----------------|-------------------------|--|---|
| | | Unrecoverable | Highly Unlikely | Potentially Collectable | | |
| ARA - Burglar Alarm Penalties | \$2,765,352 | \$0 | \$742,248 | \$2,023,104 | \$300,000 | \$43,556 |
| ARA - EMS Transport Fees | \$295,498,224 | \$146,203,107 | \$149,295,116 | \$1,835,879* | \$2,000,000 | \$0 |
| ARA - Parking Citations | \$67,540,683 | \$28,787,000 | \$26,630,018 | \$12,123,665 | \$1,000,000 | \$178,939 |
| FIN - Ad Valorem Property Tax | \$127,236,732 | \$26,009,024 | \$26,946,110 | \$74,281,598 | \$0 | \$0 |
| HFD - Fire Alarm Penalties | \$3,433,728 | \$1,463,178 | \$493,548 | \$1,477,002 | \$1,400,000 | \$0 |
| HHS - Health Clinic | \$4,703,578 | \$4,349,354 | | \$354,224 | \$200,000 | \$0 |
| HPL - Library Fines | \$13,565,946 | \$3,551,805 | \$6,759,284 | \$3,254,857 | \$250,000 | \$0 |
| MCD - Municipal Courts (adjudicated) | \$36,202,507 | \$4,586,257 | \$20,174,260 | \$11,441,990 | \$1,000,000 | \$50,944 |
| PWE - Utility Customers | \$140,867,600 | TBD | TBD | TBD | \$0 | \$0 |
| Permitting Project | | | | | \$3,185,778 | \$90,000 |
| Total | \$691,814,350 | TBD | TBD | TBD | \$9,335,778 | \$363,439 |

- Definitions of debt collectability in the appendix, generally:
 - The older the debt, the ability to collect significantly decreases
 - As debt ages, the cost to collect significantly increases
 - Excluding Ad Valorem collections, 90% of all payments are within the first year of collection activity, 98% of all payments are within the first two years of collection activity
- * Due to disallowed charges on Medicaid and Medicare rates, the expected recovery rate (payments + write-offs) is \$4.2 MM



ARC Project Activities

The team is working across all revenue streams laying the foundation for increased collections

| Revenue Category | ARC Project Actual Revenues | Key Accomplishments |
|---|---|---|
| ARA - Burglar Alarm Penalties | \$43,556 | <ul style="list-style-type: none"> Initiated focused effort on collecting against multi-location businesses Initiated IVR (automated call) campaign on old debt Skip traced accounts previously unnamed & mailed invoices |
| ARA – EMS Transport Fees | \$0 | <ul style="list-style-type: none"> Finished initial analysis Pursuing reinstatement of EMS Mileage Fee in order to collect on Medicare and Medicaid Kicked off City/ACS Lean Six Sigma project focused on improving EMS billing and collections |
| ARA - Parking Citations | \$123,995 \$54,944 | <ul style="list-style-type: none"> Implemented credit bureau reporting for “boot-eligible” debtors (\$75K received from accounts > 2 years old) Legal notices sent to 1,805 vehicle owners resulting in \$54,944 in revenue Developing legal action approach for top 20 delinquent accounts (>\$5K delinquent) |
| FIN - Ad Valorem Property Tax | \$0 | <ul style="list-style-type: none"> Developing vendor performance metrics |
| HFD - Fire Alarm Penalties | \$0 | <ul style="list-style-type: none"> Investigating using Firehouse data to augment false fire alarm address information Investigating permit process changes to identify and invoice businesses after plan review |
| HHS - Health Clinic | \$0 | <ul style="list-style-type: none"> Transitioned Clinic billing process redesign responsibilities to the HHS Performance Management team and assessed new Clinic Management Information System |
| HPL - Library Fines | \$0 | <ul style="list-style-type: none"> Reduced invoice due date from 45 to 30 days Increased skip tracing hit rate 5-7% due to TXDL and DOB information Modifying debtor reminder notices and revising invoice and juvenile application |
| MCD - Municipal Courts (adjudicated) | \$50,944 | <ul style="list-style-type: none"> MCD implemented contract terms where COH collects 30% fee from day 61 – 90 Working with Legal on scofflaw efforts (targeting counties with scofflaw programs already in place) MCD authorized sending collections letters to defendant’s actual address |
| PWE – Utility Customers | \$0 | <ul style="list-style-type: none"> Assisting with RFP evaluation |
| Permitting Project | \$90,000 | <ul style="list-style-type: none"> Pilot Project collecting on non-permitted businesses with HHS, HFD, and ARA |
| Total | \$363,439 | |



ARC Project Activities – EMS Mileage Fee

Removal of the mileage fee causes \$1.6MM Medicaid dispute and \$1.5MM loss in Medicare and Medicaid revenue

Background: On November 16, 2010, in an effort to bring EMS transport fees in line with the cost of service, council approved a revision to Section 4-13 that raised the base EMS transport to \$1,000. In addition to the base fee increase, the previous mileage fee was removed.

State Medicaid Reimbursement in Dispute without Mileage Fee: Currently, the Medicaid program administered by the State of Texas is programmatically set-up to only accept transports with associated mileage costs. The City currently has a 2-year grace period to appeal and potentially collect on the claims currently in dispute. However, beyond two years, the appeals process will no longer be an option. The City is currently pursuing all means with the State in order to resolve these disputes, but without a resolution, the City expects a \$700 thousand to \$1.6 million dollar decrease in collections on an annual basis.

Loss in Medicare and Medicaid Fee Revenue: The mileage fee is a critical component of the payment structure for Medicare and Medicaid. Not charging a mileage fee has caused decreased collections on the ~40% of EMS transports paid by Medicare and Medicaid, equal to an annual loss of \$1.5 million.

| Impact | Opportunity Costs |
|---|----------------------------|
| Annualized Medicaid Amount Withheld and Potentially Unrecoverable if Dispute is Not Resolved | \$ 1,600,000 |
| Annual Loss in Collections without Mileage Fee: | <u>\$ 1,500,000</u> |
| ▲ Medicare | \$ 500,000 |
| ▲ Medicaid | \$ 1,000,000 |
| ▲ Total Potential Impact (Annual) | \$ 3,100,000 |



ARC Permitting Project – Revenues & Next Steps

Citywide permitting observed as having significant revenue leakage opportunities

| Dept | Permit Category | FY12 Current Budget | Revenue Leakage (One-Time) | Revenue Leakage (Renewal) |
|---------------|-------------------------------|----------------------|----------------------------|---------------------------|
| ▲ ARA | ▲ Burglar Alarm Permits | \$ 6,000,000 | \$ 480,467 | \$ 409,393 |
| | ▲ Commercial Permits | \$ 4,220,776 | \$ 632,615 | \$ 482,240 |
| | ▲ Alcohol | | \$ 516,915 | \$375,540 |
| | ▲ Transportation | | \$41,000 | \$32,000 |
| | ▲ Other | | \$74,700 | \$74,700 |
| | ▲ Solid Waste Franchise Fees | <u>\$ 5,568,000</u> | <u>TBD</u> | <u>TBD</u> |
| | | \$15,788,776 | \$1,113,082 | \$891,633 |
| ▲ HFD | ▲ Fire Alarm Permits | \$ 288,205 | \$ 1,607,300 | \$ 1,205,475 |
| | ▲ Special Fire Permits | <u>\$ 5,000,000</u> | <u>TBD</u> | <u>TBD</u> |
| | | \$ 5,288,205 | \$1,607,300 | \$1,205,475 |
| ▲ HHS | ▲ Ambulance Permits | \$ 316,950 | \$ 36,000 | \$ 28,800 |
| | ▲ Fats/Oils/Grease Permits | \$ 1,616,788 | \$ 103,776 | \$ 103,776 |
| | ▲ Food Service Permits | \$ 5,225,200 | \$ TBD | \$ TBD |
| | ▲ Source Registration Permits | \$ 1,156,200 | \$144,600 | \$144,600 |
| | ▲ Swimming Pool Permits | <u>\$ 789,000</u> | <u>TBD</u> | <u>TBD</u> |
| | | \$9,104,138 | \$284,376 | \$277,176 |
| ▲ HPD | ▲ Auto Dealers Permits | \$ 3,119,975 | \$ 181,020 | \$ 165,600 |
| ▲ PWE | ▲ Building Code Permits | \$ 32,366,100 | TBD | TBD |
| | ▲ Occupancy Fees | \$ 4,157,400 | | |
| | ▲ Sign Permits | <u>\$ 1,711,700</u> | | |
| | | \$ 38,235,200 | | |
| ▲ SWM | ▲ Dumpster Permits | \$ 2,600,000 | TBD | TBD |
| Total: | | \$ 74,136,294 | \$3,185,778 | \$2,539,884 |

Key Activities

▲ Piloting Permit Non-compliance Audit

- Conducting pilot with HFD, HHS and ARA
- Prepared notices for 100 non-compliant businesses per department
- Drafted non-compliance notice package
- Created informational FAQ packet for City staff
- Mailing notices and monitoring results for actual revenue leakage and procedural gaps

▲ Continuing Project Due Diligence

- Documenting all permits and licenses
- Identifying non-compliant businesses

Next Steps

▲ Full Permit Non-Compliance Audit

- Launch non-compliant business audit citywide
- Develop plan for non-responsive businesses



ARC Permitting Project – Vision

In addition to revenue leakage, we are helping build the customer centric vision of the Houston Permitting Center

Vision

Customer service

- ▲ Focus on making the process for permitting and licensing more customer centric
- ▲ One standard set of information collected at one singular point in time
- ▲ A customer number or business “registration” usable across all departments

Interdepartmental collaboration

- ▲ United, cohesive City of Houston permitting strategy presented to the general public
- ▲ Cohesive back end, information gathering software system
- ▲ One virtual and physical location for all permits
- ▲ Fully integrated and cross-trained staff

Processes and Procedures

- ▲ Clear, concise and easily accessible guidelines for businesses
- ▲ Ample self-service options both online and at the HPC
- ▲ Elimination of extraneous or duplicate requirements

Non-compliance

- ▲ Implementation of a citywide methodology for finding non-compliant businesses
- ▲ Institution of late fees and/or penalties for non-compliant businesses

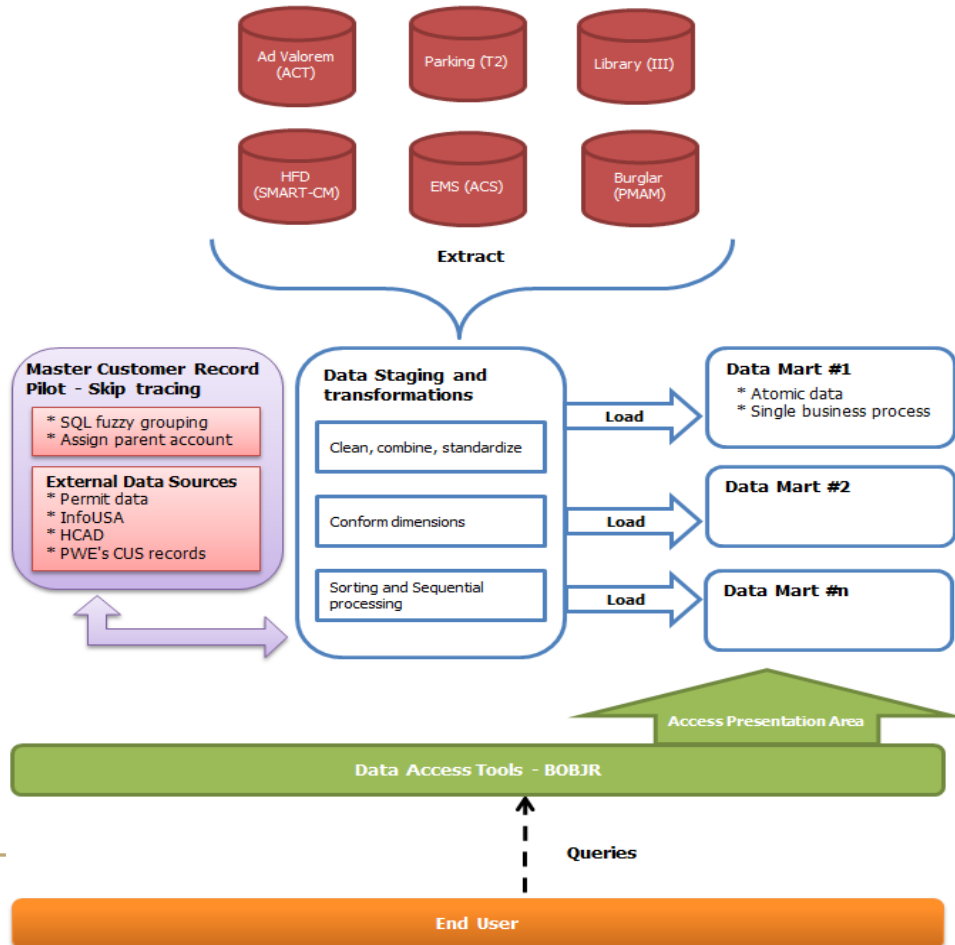
The screenshot displays the NYC Business Express website. At the top, there is a navigation bar with links for Residents, Business, Visitors, Government, Office of the Mayor, Search, Email Updates, and Contact Us. Below this is a secondary navigation bar with 'Sign In', 'Create New Account', and 'Set Text Size' options. The main content area features a grid of service tiles: 'EasySTART' (View common startup scenarios), 'REQUIREMENTS WIZARD' (Create & save custom scenarios), 'REQUIREMENTS INDEX' (Search by Government Agency), 'APPLY ONLINE' (Get licenses, permits, certifications), 'MAKE PAYMENTS' (Pay for violations & settlements), 'INCENTIVES ESTIMATOR' (See if your business qualifies), 'CHECK STATUSES' (Look up property jobs & info, more...), and 'MY ACCOUNT' (View your saved info & scenarios). To the right of these tiles is a large graphic with the text 'PLAN & START OPERATE & EXPAND' and a bar chart with an upward-trending arrow. Below the main content area, there is a 'SIGN IN' section with email and password fields and a 'Sign In' button. Next to it is a 'DID YOU KNOW?' section featuring a 'NYC Business Feedback Survey' and a 'Take the survey' link. On the far right, there is an 'EasySTART' section with a link to 'Learn the requirements for starting common types of businesses in New York City' and a 'Follow Us Online' section with Facebook and Twitter icons. The footer of the page includes 'Internet | Protected Mode: On' and a 100% zoom indicator.



ARC Data Measurement & Skip Tracing Overview

Consolidating customer account information into a single data warehouse (Business Objects) will allow the City to better manage collections activity and collections vendors against key performance metrics.

ETL Process for Data Warehousing



▲ Key Systems for Data Consolidation

- Six systems are part of initial transfer from the source systems to Business Objects
- Data will be joined and transferred with all relevant customer, status, and financial fields

▲ Data Consolidation Processes

- Data inputted into the Business Objects environment will be cleaned, combined, and standardized
- Debt attributes are developed in order to allow “slicing and dicing” the data for reporting (ex. citation status, citation date, citation type, business vs. residential)
- Data is stored in data marts to allow analysts to run reports and perform analysis

▲ Long Term Vision

- Provide uniform data across revenue streams for easier AR reporting
- Track internal and external vendor collection performance
- Create customer master ID that ties accounts together across revenue streams



ARC Data Measurement & Skip Tracing Activities

We have already begun developing the framework for the infrastructure to support measurement & reporting

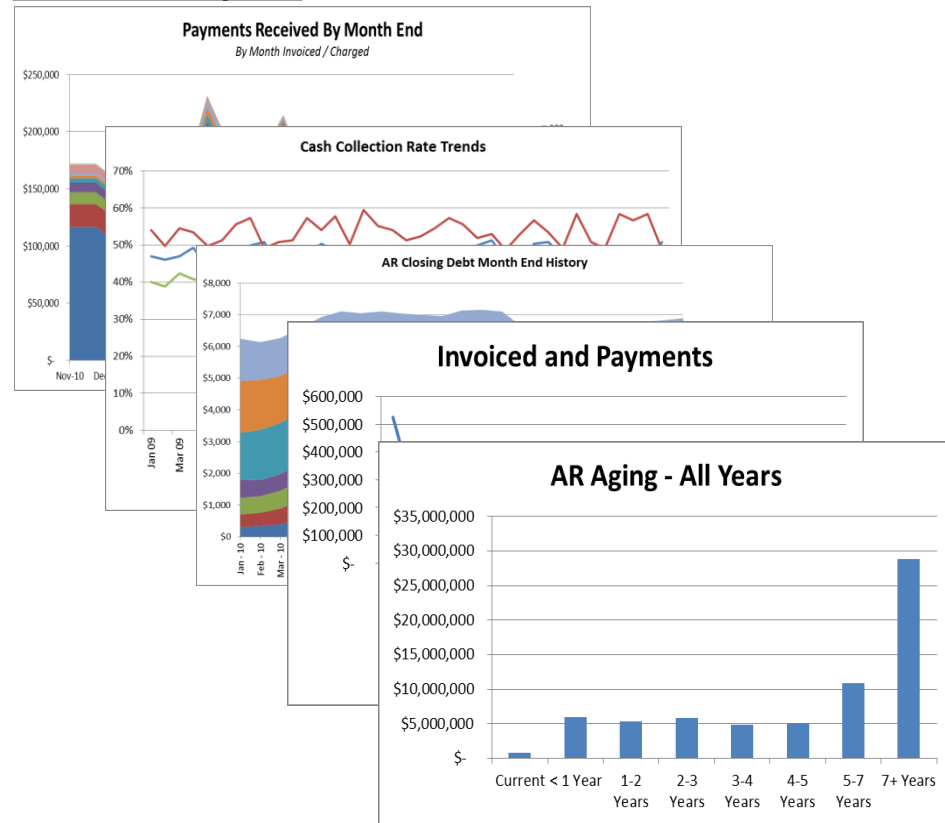
▲ Key Accomplishments

- Began development of blueprint documents to record data in each revenue stream's subsystem
- Identified standard monthly reports to track across all revenue streams (AR Aging, AR Month End Outstanding Debt, Collection Rates, Billing vs. Payments, Payments, Collection Trends Over Time)
- Began obtaining consensus and approval with departments on reports and data fields to pull into data warehouse

▲ Next Steps

- Begin planning pilot of using matching logic to create a "master customer ID" across several revenue streams in order to determine citywide feasibility
- Continue dialog with external IT consultants for implementation of Business Objects interfaces and data warehouse
- Finalize and obtain consensus on financial metrics to track using Business Objects
- Work with vendors to develop collection activity metrics and agreement on metric targets

Illustrative Reports



ARC Collections Vendor Management

A coordinated and consistent Collections Vendor Management Program provides visibility across departments, alignment towards shared goals as well as clear expectations and benefits for the City.

▲ Collections Vendor Management Program Objectives

- Ensure alignment of collections vendors to the City's key business goals and objectives – namely increased revenue due to higher collections
- Increase overall collections for the City through improved policies, procedures, and management of internal collections activity and external vendors supporting the collections processes
- Provide visibility and accountability for current collections activities aimed to collect against outstanding debt
- Provide oversight and support across all revenue streams focused on improving collections activities in order to drive higher overall collections for the City

▲ Collections Vendor Management Program Key Components

- Internal Performance Oversight & Support (including citywide reporting and standardization)
- Vendor Performance Management (including performance metrics and performance review meetings)
- Supporting Technology
- Strategic Sourcing
- Communication

▲ Key Accomplishments

- Developed and began review of draft collections vendor management program framework
- Began development of collections vendor management framework training
- Began discussion of vendor management concepts with some vendors

▲ Next Steps

- Begin reviewing framework with revenue streams and incorporating input
- Begin rollout of vendor management framework to selected vendors to obtain input and refine (including metrics, targets, and reporting)





ARC Definitions

Debt Collectability: Internal City payment trends show that 90% of payments are received on debts less than one year in age and 98% are received on debts less than two years in age. An incredibly small amount of payments are received on debts older than two years and payments are practically non-existent for debts older than five years. General private industry practice is to send debts to collections at 90-120 days in age, and write off debts at one year in age as they are considered unrecoverable at that point (assuming accounts were aggressively worked in the first year).

Unless otherwise specified for a revenue stream (e.g. FIN-Ad Valorem, HHS-Clinics, and EMS), the general definition of collectability applies:

- **Unrecoverable** – Debts over five years in age. It is **extremely** unlikely that the City will ever be able to collect on these debts. The cost to recover even a very small % of the debt would likely far exceed the value collected. This is due to weaker enforcement tools, very poor customer contact information, aged systems technology, and extremely unreliable data.
- **Highly Unlikely** - Debts between two and five years in age. It is highly unlikely that the City will be able to collect on these debts. The cost to recover even a small % of the debt would likely exceed the value collected. This is due to weak enforcement tools, very poor customer contact information, aged systems technology, and unreliable data.
- **Potentially Collectable** - Debts under two years in age. These debts currently outstanding will be difficult to collect on, but a portion is potentially collectable out to the second year (primarily since the debts are not aggressively worked in the first year currently versus best practices). The cost to recover these debts is generally not greater than the value of the debt and the City should pursue collections.

Scofflaw Program: Section 702.003 of the Texas Transportation Code provides that a county tax assessor-collector may refuse to register a motor vehicle, if the department receives under a contract, information from a municipality that the owner of the vehicle has an outstanding warrant from that municipality for failure to appear or failure to pay a fine on a complaint that involves the violation of a traffic law.

Skip tracing: The term "skip" refers to the person being searched for, and is derived from the idiomatic expression "to skip town", meaning to depart, leaving minimal clues behind to "trace" the "skip" to a new location. Skip tracing tactics are employed to locate a subject whose contact information is not immediately known in order to collect on delinquent debts.

Revenue Leakage: Potential revenue owed to the City but not currently captured or reported. For permitting this represents businesses that are not currently identified in City systems as needing a permit that is required by their category of business. Revenue leakage represents opportunities for process improvement and departmental interaction to identify and close the procedural gaps, raise community awareness and collect potential revenues.

