



BILLING AND COLLECTION FOR EMERGENCY DEMOLITION

City of Albany, New York
January 1, 2006-December 31, 2007

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Comptroller

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Deputy Comptroller

BILLING AND COLLECTION FOR EMERGENCY DEMOLITION

I. OVERVIEW

We reviewed the City of Albany's experience in recouping expenses paid by the City for the emergency demolition of properties.

The City Code specifies that the commissioner of buildings may order the repair or demolition of unsafe buildings and that the City is entitled to recoup these expenses from the responsible property owners. Our purpose was to ensure that the City is properly recouping expenses of demolition and repairs.

The failure to bill responsible property owners for demolition wastes taxpayers' money and acts as a disincentive to redevelopment. If the City pays the cost of demolition and fails to bill property owners, buyers and owners could actually have the incentive to neglect decrepit properties.

We found that for a significant number of properties demolished at the City's expense, the City failed to issue timely bills for these expenses, failed to follow proper procedures to ensure uncollected money was placed on the tax bill, or failed to bill expenses at all.

We recommend several measures for prompt and accurate billing to ensure proper recovery of these funds. We plan to work with departments to quantify any losses and to prevent future losses.

II. BACKGROUND/PROCEDURES

Within the City of Albany there are hundreds of vacant buildings in varying states of disrepair.

Pursuant to the City Code the commissioner of buildings may order the demolition of buildings deemed to be unsafe or a hazard to the health or safety of the occupants or the public safety and health.

The Department of Fire, Emergency and Building Services through its Division of Buildings is responsible for vacant buildings, including demolition. The Fire Department employs a Deputy Chief for Buildings as well as a Director of Building and Codes.

In a case necessitating emergency demolition, the Department contacts emergency demolition contractors, who review the structures and submit sealed bids, which City personnel reviews and awards to the lowest bidder. The contractor performs the work based on a signed standard City contract.

The City pays the expenses of demolition pursuant to the contractor.¹ The City Code specifies that the City may recoup the costs of demolition from the property owners.

The Fire Department's Buildings Division bills the property owner for the expenses of demolition. A copy of the bill is forwarded to the City Treasurer, who places a lien on the property. If the bill is paid during the year, the Treasurer's office removes the lien. Otherwise, the expense is rolled to the property owner's tax bill. An unpaid property tax bill is turned over to Albany County, which in the following year reimburses the City for taxes and other expenses, including demolition.

III. METHODOLOGY

We reviewed the two-year period beginning January 1, 2006 and ending December 31, 2007.

We analyzed the expense account from which the City paid demolition expenses. We compared properties and amounts paid to the list of properties provided by the Division of Buildings on their Emergency Demolition Lien Report. We compared both lists to the listing of properties maintained by City Treasurer, which is based on billings forwarded by the Division of Buildings.

1. Reviewing the City expense accounts, we compiled a list of properties that had been demolished and for which the City paid the expense of demolition.
2. We requested and received from the Division of Buildings a listing of all properties that were billed for demolition (Codes Emergency Demolition Lien Report 02/27/08). We determined that a number of properties that the City had paid the demolition expense had not been billed to the property owner. In response, the Division of Buildings generated a new list of properties billed (Codes Emergency Demolition Lien Report 4/2/08).
3. We requested and received from the Treasurer, a listing of properties provided by the Division of Buildings, which included properties rolled to taxes and forwarded to Albany County.
4. We requested from the Division of Buildings copies of invoices to property owners for demolished properties.
5. We compared the list of properties for which the City paid demolition costs to the list of properties that the Division of Buildings indicated they had billed property owners. We also compared the list supplied by the Treasurer against the list of properties on the Division of Buildings' report. Finally, we reviewed the list of

¹ There have been significant delays in paying contractors who have performed demolition work on behalf of the City due to the failure of the building department to process invoices, or insufficient funds available to pay contractor expenses. This problem, while material, is outside the scope of this review.

demolitions to our records of vouchers processed for payment to demolition contractors.

Our database includes the following information:

- Spreadsheets constructed with the data from the Buildings reports, data from the AS400 accounts payable system of payments made to demolition contractors and data provided by the Treasurer of billings, payments and unpaid items rolled to property taxes.
- Notes from discussions of procedures with the Division of Buildings and the Treasurer's Office.

IV. DISCUSSION

It is important that the City have in place a system for timely billing of property owners for demolition work. The City can recover virtually all demolition related expenses, because even in cases where property owners fail to pay demolition expenses, the City has recourse through liens, property tax bills, and through Albany County. However, collections are impossible if bills are never issued or are issued long after the work takes place.

Failure to bill property owners for demolition expenses creates an undesirable incentive to purchase and neglect dilapidated properties, since demolition costs would be borne by the City, not the property owner.

V. RESULTS

- Between January 1, 2006 and December 31, 2007 the City paid \$567,243 for the demolition of 25 properties. Based on the Codes Emergency Demolition Lien Report (dated 2/27/08) 12 of these properties, totaling \$210,022, were not billed to property owners.
- Codes staff upon being informed of the discrepancy between bills paid and billing to property owners generated an additional report dated 4/7/08, that reflected billing for the 12 missing properties. However, the period of time between demolition and the billings on the report averaged more than 210 days and ranged from 50 to 530 days.
- Of the 25 properties for which the City paid the expense of demolition, the Treasurer's Office has no records from the Buildings Division² on 12 of them totaling \$256,373.

² The transfer of billing information to the Treasurer is a particularly important step, since it is upon receipt of this information that the Treasurer adds the bill to property taxes and the transfer of records to Albany County (which ensures collection).

- ❑ The 4/7/08 billing report showed an additional 18 demolitions totaling \$366,560 occurring during the period reviewed and January and February 2008, none of which have been received by the Comptroller's office for processing payment. Of these, 15 (totaling \$302,970) have been or are to be paid for by the Albany Community Development Agency.³
- ❑ Expenses of 15 of the buildings demolished upon the order of the City during this period were paid for by the Albany Community Development Agency. However, the Agency has no formal agreement with the City for paying these expenses, has not sought board approval to pay these expenses, and has no established criteria for paying demolition related expenses or assuring reimbursement from responsible parties.
- ❑ The Buildings Division of the Fire Department creates billings to responsible parties only after paying contractors for demolition expenses. Delays in paying demolition contractors have caused substantial delays in billing responsible parties and forwarding billings to the Treasurer for creating necessary liens.
- ❑ It is difficult to match demolition expenses by property against funds received, since the relevant revenue account includes funds from a variety of sources and individual deposits to that account combine other sources of revenue.

VI. FINDINGS:

Condition: The City has failed to recover from property owners substantial expenses incurred by the City for the demolition of unsafe buildings.

Cause: The City's Buildings Division appears to have failed to bill property owners or failed to remit record of billings to the Treasurer's Office to ensure collection.

Criteria: City Demolition expenses are fully recoverable and should be billed immediately following the City incurring expenses of demolition.

Effect: City has failed to properly recoup several hundred thousand dollars in expenses to which it is entitled. Failure to recover expenses from responsible property owners can deter needed redevelopment and create an undesirable incentive to buy and neglect properties in need of redevelopment.

Recommendation: The City should put in place a procedure to ensure that property owners are billed immediately following any emergency demolition. The procedure should ensure that a copy of the billing be forwarded to the Treasurer. It should also

³ The Albany Community Development Agency (ACDA) is an urban development agency, which is a blended component unit of the City of Albany. For more information on ACDA, please see the City of Albany website (www.albanyny.gov) or contact the Albany City Comptroller at 518-434-5023.

require that any voucher processed to pay demolition contractors contain a copy of the invoice sent to the responsible property owner.

Condition: There have been significant delays in billing responsible parties following the order of demolition.

Cause: The City does not have in place adequate procedures to ensure accurate and timely billing of property owners after incurring the expenses of demolition. Also, the City currently bills property owners only after paying contractors and there have been substantial delays in paying contractors.

Criteria: City demolition expenses are fully recoverable and should be billed immediately following the City incurring expenses of demolition.

Effect: The City may fail to receive funds due in the year they should be received or may fail to receive funds owed altogether.

Recommendation: The City should put in place a procedure to ensure property owners are billed immediately following any emergency demolition. The procedure should ensure that a copy of the billing be forwarded to the Treasurer. It should also require that any voucher processed to pay demolition contractors contain a copy of the invoice sent to the responsible property owner.

Condition: The Building Division appears to have failed to inform the Treasurer of all demolitions and billings for demolitions paid for with City funds.

Cause: The Buildings Department appears to not have followed a procedure of systematically billing property owners and copying the Treasurer on all demolition work.

Criteria: The list of demolished properties maintained by the Treasurer's office contain substantially fewer properties than the number of property for which the City paid demolition costs. City demolition expenses are fully recoverable and should be billed immediately following the City incurring expenses of demolition. The Treasurer must be copied on all billings so that a lien can be placed on the property and collection can be assured.

Effect: If the Treasurer is not informed of demolition expense, then a lien is not produced, the expense is not rolled to taxes nor collected from the County resulting in lost revenue for the City.

Recommendation: The Buildings Division should put in place a system to automatically create a receivable at the time that demolition takes place, bill property owners following demolition, copy the Treasurer, and include a copy of invoice to the responsible property owner when vouchering to pay the demolition contractor.

Condition: The City's current system for recording revenue makes it difficult to compare demolition expense, to reimbursement of these expenses.

Criteria: The City should have in place a system for reconciling expenses of demolition against funds recovered from responsible property owners.

Cause: Revenues collected from demolition expense are deposited in a revenue account that receives funds from other sources.

Effect: The City has a difficult time auditing whether expenses are being properly billed and revenue adequately collected.

Recommendation: The City Comptroller should work with the City Treasurer to create a new revenue account for the deposit of demolition related expenses. The revenue, expense accounts should be reviewed regularly to ensure adequate reimbursement.

Condition: Community development has paid for a substantial demolition work ordered by the City, but the City has failed to recoup money from property owners and neither the City nor the Agency has in place a system to ensure that when funds are received that they are remitted to the Community Development Agency.

Criteria: City demolition expenses are fully recoverable and should be billed immediately following the City incurring expenses of demolition. ACDA must recoup from the City any revenue received from properties where ACDA paid demolition expenses.

Cause: The City does not have in place adequate procedures to ensure accurate and timely billing of property owners after incurring the expenses of demolition, whether paid for by the City or by ACDA. Neither ACDA nor the City have in place a mechanism to make certain funds recovered are remitted back to ACDA

Effect: The City and ACDA may fail to receive funds due in the year they should be received or may fail to receive funds owed altogether. The City could be recovering ACDA paid expense and not remitting revenue to ACDA.

Recommendation: ACDA should have criteria for use of block grant and other funds for City demolition. The agency should seek board approval for any such actions. Where the agency is paying the demolition expenses that are recoverable, the agency should have in place a system to ensure revenues recovered are remitted to the agency.



To: Hon. Thomas P. Nitado

From: Robert C. Forezzi, Sr., Fire Chief
Hon. Betty J. Barnette
Michael Yevoli

Re: Billing and Collection for Emergency Demolition Draft Audit

Date: May 14, 2008

The principle departments referred to in the draft Billing and Collection for Emergency Demolition Audit met on May 6, 2008 to discuss findings in the aforementioned document and respectfully submit the following in response:

Condition: The City has failed to recover from property owners substantial expenses incurred by the City for the demolition of unsafe buildings.

- Collection for all outstanding amounts through dates referred to in audit have been assigned to Corporation Counsel for immediate action to recoup cost.
- Liens will only be used as a last resort after aggressive collection efforts have been employed to recoup the monies from the property owner.

Condition: There have been significant delays in billing responsible parties following the order of demolition.

- Property owners will be billed immediately following emergency demolition order.¹
- Treasurer's Office will be notified by e-mail of any emergency demolitions, to ensure timely issuance of demolition bill to property owner.
- Effectively immediately all bills for demolition will be issued to the property owner by the Office of the Treasurer.
- In addition, the above information along with a copy of the emergency declaration is now stored in a shared network folder accessible to the Treasurer's Office, Fire Department and ACDA staff.

Condition: The Building Division appears to have failed to inform the Treasurer of all demolitions and billings for demolitions paid for with City funds.

- Effectively immediately the Treasurer's Office will be notified by e-mail of any emergency demolitions in addition to the information being stored in a shared network folder.

Condition: The City's current system for recording revenue makes it difficult to compare demolition expense, to reimbursement of these expenses.

- The City currently utilizes Account A00002550 to deposit any money collected from responsible property owner to reimburse the City for expense incurred as the result of building demolitions, safety inspections or board-up of a vacant building.

Effective immediately the City will assign deposits for the above-mentioned revenue as listed:

A00002550 – Safety Inspections

A00002552 – Demolition Fees

A00002553 – Board-Up Fees

Condition: Community Development has paid for a substantial demolition work ordered by the City, but the City has failed to recoup money from property owners and neither the City nor the Agency has in place a system to ensure that when funds are received that they are remitted to the Community Development Agency.

- The Community Development Agency will propose program guidelines for the use of CDBG block grants and other agency funds used by the City for demolitions. The purpose of the program will be to assist the City with the eradication of slum and blight, and the unsafe conditions of abandoned and condemned structures. The guidelines will include provisions for the use of agency funds, adequate reporting and monitoring requirements based on the types of funds used (i.e. CDBG, State funds, or locally generate program funds). The guidelines will identify the roles and responsibility of the agency and each involved City department. The intent of the program is to recapture program dollars to build a revolving pool of funds to help ensure that each year appropriate funds are in place to achieve the program's purpose. The agency will present the proposed program guidelines to the agency board for approval
- Currently the agency has in place systems to recover dollars and ensure compliance with federal guidelines. All demolitions paid by the agency have been properly documented and accounted for.

ⁱ It should be noted that all property owners were billed for demolitions prior to this audit where the contractor's had been paid by the city or ACDA. Prior to the City payment to the contractor all work must be completed included any sidewalk repairs, water terminations, etc.