

Centralized Collections

The First Step

Finance and Audit Committee
February 28, 2005

Executive Summary

- First step towards providing customers single invoice for all City services
- Phase one consolidates delinquent collections for five departments
- Customer receives monthly consolidated delinquent invoice
- Improves collection of monies owed to City of Dallas

Background

- The City has proactively addressed severely delinquent accounts by either referring them to the City Attorney's Office or partnering with outside Collections Agencies
 - Linebarger Goggan Blair & Sampson, LLP (LGB&S) collects for Courts fines and land based receivables including Weed, Demolition and Secured & Closure
 - Library contracts with Unique Management to collect accounts delinquent 55 days and older with a minimum balance of \$35
 - Miscellaneous accounts receivables are referred to Penn Credit, the City's delinquent contractor

Background

- Our approach in handling accounts past due from one to 120 days has been more conventional
 - Departments generally send one to three notices requesting payment
 - Collections activities are dispersed among many departments, with little integration, reliance on inefficient technologies, and a general lack of emphasis on collections activities
 - These factors have resulted in less than optimal collections for the City of Dallas

The City of Dallas is Implementing a New Program.....

Which will benefit:

- Citizens
 - Putting your tax dollars to work efficiently
 - Asking all who owe us, to pay us
 - Paying what you owe will keep City services flowing and keep the tax rate lower
- City Management
 - Simplify access to Accounts Receivable balances citywide
 - Enhance control over one of the City's most important assets, Accounts Receivable
 - Avoid doing business with individuals and companies that owe the City monies
 - Increase revenue through focused collections activities
- City Departments
 - Focus on critical service delivery objectives while the Centralized Collections Unit collects fees and fines
 - Continue to provide quality service to customers
 - Provide citywide debtors list
 - Improve collection rates

Success Stories of Centralized Collections Efforts

- “With many local governments relying on revenue other than taxes, the importance of collecting revenue has received the attention it deserves. In St. Petersburg, Fla., for example, a consolidated collection program has helped lower the property tax rate in each of the past six years.” *Source: City putting emphasis on Collections, by George Friedel, *American City & County*, (Oct. 1997)*
- “Working within a budget of \$3.74 million, the Division collects more than \$30 million annually. To date, the Division has collected 78% of the unpaid receivables referred for collections. The focus is on creating consequences for not paying...” *Source: City of San Diego Website*
- “Evanston (IL) withholds city services from individuals or companies that don’t pay their bills. When people apply for city permits or licenses, their names are run through a computer to see whether they’re on a city-wide debtor list. Such debts may include anything from parking tickets to property taxes. Except for life and safety services, the city will not provide services to debtors until their bills are paid. In its first month, the program was responsible for \$11,000 worth of bill collections.” *Source: Evanston cuts off its bad customers, by Alan Greenblatt, *Governing*, (Apr. 2002)*
- The State of Maryland’s Central Collection Unit “has debts for over 400 State Agencies, with a dollar value in excess of \$600 million. During FY 2002, over \$51.8 million was collected. Over the years, the number of referrals has grown as agencies became aware of the services available from CCU”. *Source: State of Maryland Central Collection Unit, *Delinquent Accounts Handbook**

The Ultimate Goal

Centralized A/R Management

Centralized Billing

Centralized Cashiering

Centralized Collections



This is How We Will Do It

- Establish a Centralized Collections Unit (CCU) staffed by a team of dedicated professional collectors that will be housed in Dallas Water Utilities, Special Collections division
- Provide them with the tools they need to do the job
 - State of the art technology to create a centralized database
 - Subscription to collection services
 - Leverage city assets; tax, water, courts, library databases
- Reward based on performance
 - Establish measurable standards that are achievable
 - Motivate through incentives
- Establish partnerships with client departments
 - Create Service Level Agreements to make all parties accountable
 - Create Collections Plan based on the size of the account and the associated risk for collecting the receivable
 - Work with departments to implement a continual review and refinement of the collection work plan for their portfolio

This is How it Will Work

- Departments will send the initial bill to the debtor and send “Bill Ready Data” to the centralized collections unit
- CCU will process the data
 - Validate the address information
 - Inspect the completeness of the data; update when necessary
 - Match the debtor information across revenue streams
- Consolidate fees on a single invoice for collections purposes if the debt becomes delinquent
- CCU will prioritize accounts into classifications to maximize collections activities
- The accounts will be worked in accordance with the Service Level Agreement established with the department
- CCU will send consolidated delinquent invoice to debtors
 - Statement will be mailed monthly or more frequently depending on the debt and risk of collection
 - The statement will be mailed separately from the Water bill until consolidated billing is achieved with the replacement of the Water billing system
- Accounts will continue to be referred to the City’s external collections agencies according to the terms of current contracts

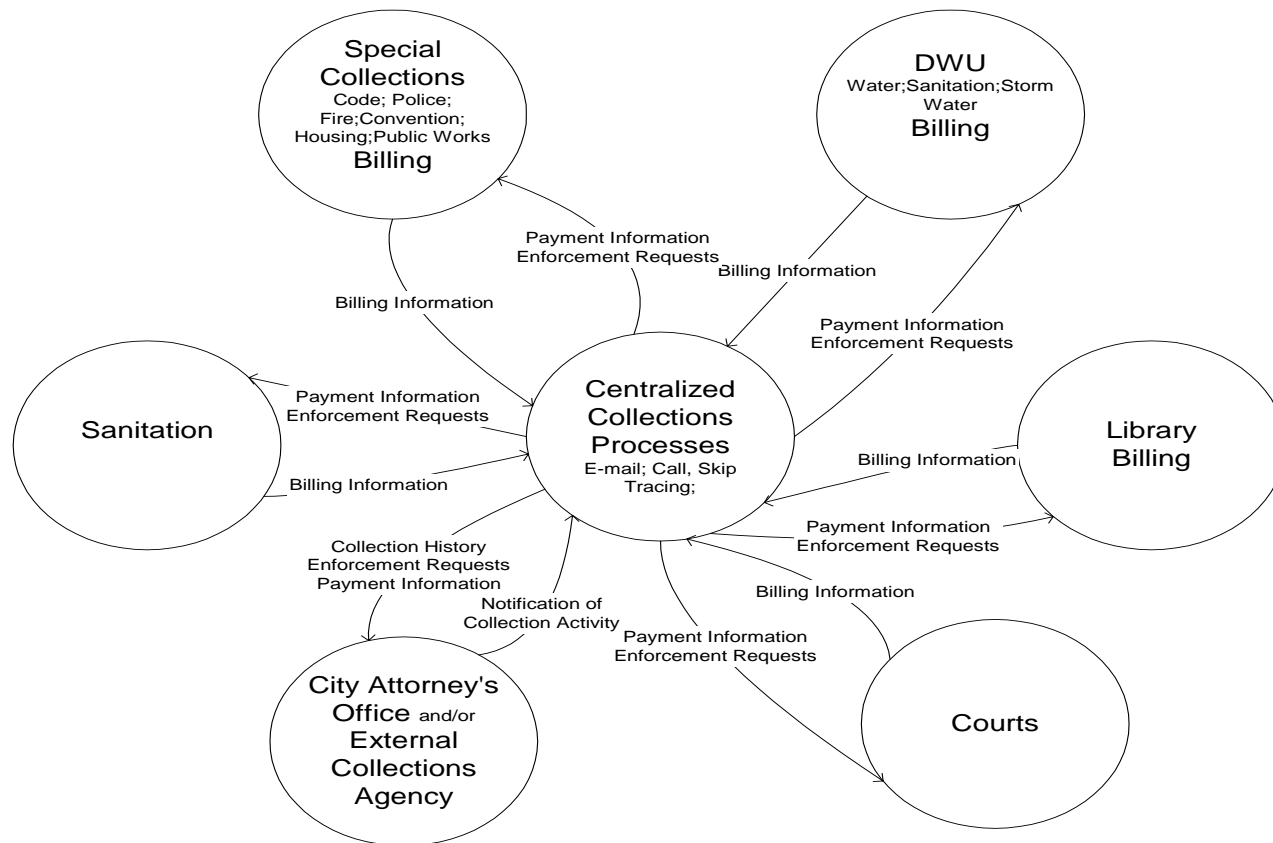
This is How it Will Work

Departments included in CCU at start up

Area	Asset to CCU	CCU Impact
DWU - Water	<ul style="list-style-type: none"> - Best source of customer information - Accurate telephone numbers for 70% of customers 	<ul style="list-style-type: none"> - CCU will begin collections activities after 15 days - Accelerate receipt of payment for outstanding balance on 26% of receivables that currently remain unpaid after 15 days
Library	<ul style="list-style-type: none"> - Customer information - Centralization efficiency 	<ul style="list-style-type: none"> - Consolidation of small fines with other debt owed makes it cost effective to pursue debtor, thereby increasing collections rate for Library fines
Sanitation	<ul style="list-style-type: none"> - Centralization efficiency 	<ul style="list-style-type: none"> - Dedicated team of collectors will perform collections activities and allow Sanitation staff to focus on core business functions
DWU - Special Collections	<ul style="list-style-type: none"> - Major area of centralization of billing, cashiering and collections 	<ul style="list-style-type: none"> - Dedicated team of collectors will be provided proper tools and training to increase effectiveness of collections activities
Courts	<ul style="list-style-type: none"> - Customer information - Access to external databases that can be used to locate debtors 	<ul style="list-style-type: none"> - Allow Courts staff to focus attention on other Court programs and enforcement priorities

This is How it Will Work

Centralized Collections Model



What We Can Accomplish

- Increased revenue
- Invoices for customers
- Move towards Consolidated billing
- Reduction in third party costs of collections
- Reduced duplication of efforts
- Improved access to receivable amounts

Why We Are Doing This

Benefit One: Collection of Existing Accounts Receivable

* Accounts Receivable Balance on Target Accounts	CCU Collects 2.75%
\$15,620,653	\$429,568

- *The City's accounts receivable balance for only the departments included in this plan as of September 30, 2004
- Target A/R balance reported is two years old or less
- This collections effort would be a one time only revenue impact for CCU
- Collection rate based on analysis of targeted accounts receivable and a review of historical collection rates
- Details provided in Appendix A

Why We Are Doing This

Benefit Two: Collection of Annual Accounts Receivable

*Annual Amount Billed Less Amount Collected	CCU Collects 30%
\$6,900,000	\$2,070,000

- *For the departments in this plan, the average difference in the amount billed and the amount collected per year was \$6.9 million
- According to Municipal Treasurer's Association, Department of Commerce reported that the chance of collections for receivables 1 to 365 days old is at least 30%
- Details provided in Appendix B

Associated Costs

- Start up costs:
\$198,956
- Incremental ongoing costs for FY04-05:
\$175,760
- Incremental annual ongoing costs:
\$351,520

Associated Costs

Cost Estimates	Total Costs		Incremental Costs	
	One Time	Recurring	One Time	Recurring
Staffing - New Staff		\$142,020		\$142,020
Staffing - Existing Positions		\$327,640		
Technology - Software and Services	\$97,876	\$5,820	\$97,876	\$5,820
Technology – CIS	\$101,080	\$13,680	\$101,080	\$13,680
Payment Processing		\$40,000		\$40,000
Operational Expenses		\$150,000		\$150,000
Total	\$198,956	\$679,160	\$198,956	\$351,520

- For staffing cost estimates, City benefits are applied to median base salary plus bonus amounts as advertised for professional collector positions
- New staff includes collections manager and one experienced collector position
- Incremental costs are a subset of the total costs of the program that are not in the current budget and will be shared equally between DWU and the General Fund

What We Are Doing to Make This Happen

- Human Resources has developed a model to provide incentive for collectors based on performance
- Dallas Water Utilities has identified existing staff positions to fulfill the resource requirements for the centralized unit; six existing DWU staff will be transferred to the unit and four vacant positions will be advertised as collector positions with one of them being the collections manager
- DWU has identified the functionality necessary for collections software to support the centralized collections unit
- CIS is working diligently to identify and create interfaces to and from a software product that will provide the required functionality
- Procurement is working to procure collections software
- City Attorneys are reviewing existing law and drafting guidelines as to the “Risk of Consequences” for not paying the City
- City Auditor has reviewed the plan
- Working with Departments to define the “To Be” process model for collections

Implementation Schedule

Activity	Target Completion
Hire Collections Manager	March 23, 2005
Procure Software	March 9, 2005
Litigation Program Defined	March 23, 2005
Establish Unit	March 23, 2005
Begin Collection Calls	March 23, 2005
Implement Software	May 2, 2005
First Consolidated Invoice Mailed	May 9, 2005

Appendix A

Targeted Existing Accounts Receivable

Description	Targeted Amount for Collections	Estimated Collections Percentage	Estimated Collections Amount
Beer Lic	\$16,863	15.00%	\$2,529
Liquor Lic	\$13,970	15.00%	\$2,096
Weed Cutting	\$1,143,612	0.30%	\$3,431
Secured Closure	\$228,889	0.80%	\$1,831
Demolition	\$1,629,444	0.30%	\$4,888
Security Alarm Fees	\$3,131	16.30%	\$510
Multi family	\$10,838	0.80%	\$87
NSF Fees	\$2,120	0.30%	\$6
Civil Penalties	\$44,567	0.20%	\$89
High Rise inspect	\$8,490	11.70%	\$993
Business Loan	\$59,231	0.50%	\$296
Home Loan/Mortgage	\$30,906	0.80%	\$247
Hotel/Motel	\$1,002,034	16.20%	\$162,330
Short Term Vehicle	\$178,282	16.20%	\$28,882
Paving	\$4,608,819	1.70%	\$78,350
	\$1,170,000	0.80%	\$9,360
Commercial Container	\$162,536	8.00%	\$13,003
	\$4,946,640	1.70%	\$84,093
	\$360,281	10.00%	\$36,028
Total	\$15,620,653	2.75%	\$429,568

