To: Ald. Terry Witkowski

From: Aaron Cadle – Legislative Fiscal Analyst

Date: July 12, 2016

Subject: City Debt Collection – Best Practices

Per your request, this memo briefly outlines some of the practices recommended by governmental associations and private debt collection consultants for collecting debts owed to municipalities.

Overview

Among the best practices listed by governmental associations and private debt collection consultants, 3 stand out as overarching and worthy of note – centralized debt collection, outstanding debt portfolio evaluation, and setting collection priorities and skip-tracing.

Centralized Debt Collection

CGI Business Consultants (CGI) recommends city debt collection management be centralized. The firm argues that while a municipal tax collection department (e.g., Milwaukee's Treasurer's Office) can be quite adept at collections, because collections are part of the department's primary function, other departments, like Milwaukee's Department of Public Works, Parking Fund and Fire Department, lack debt collection expertise and are thus likely to be less effective at managing the debt collection process.

CGI maintains all debt collection is basically the same, regardless of the debt's origin, and in the firm's experience, consolidating unpaid debt, along with the responsibility for collecting it, can significantly increase debt recovery.

Outstanding Debt Portfolio Evaluation

GOVERNING Magazine suggests a city retain a private debt-collection consultant to assess the value of its outstanding debt portfolio to determine which debts are collectable, at what cost, potential liquidation rates and the likely market value of uncollected debts if sold rather than written off.

Setting Collection Priorities and Skip-Tracing

GOVERNING Magazine further suggests that municipalities can reduce the number of debts that ultimately are uncollectible by better focusing collection efforts while the debts are still current. Cities are advised to evaluate each debtor's ability to pay based on credit-based scoring models, and then tailoring collection efforts accordingly.

CGI maintains that statistical models have proven highly effective in increasing collections, by identifying and separating debtors likely to self-pay from debts unlikely to pay without more direct collection efforts like wage garnishments or bank levies.

A survey of utilities conducted by West Monroe Partners (Chicago) concluded debt collection is more efficient and less costly if analytics are used to segment debtors into low, medium and high payment-risk pools.

In addition, GOVERNING Magazine advises cities to employ cutting-edge skip-tracing tools and address verification to ensure debtors do not "disappear" before debts are collected.

Best Practices - Other

The following is a summary of other municipal outstanding debt collection best practices gleaned from various sources.

- Review current debt collection practices and set improvement goals as needed.
- Make it easy to pay:
  - The amount owed should be clearly identified on all invoices.
  - Offer multiple payment channels (online payments from bank accounts, credit/debit card payments, PayPal, etc.) for current debts and payment plans.
  - Offer recurring payment channels for automatic credit card/debit card, charges or automatic bank account withdrawals for current debts and payment plans.
- Regularly analyze, age and report outstanding debt portfolios.
- Ensure all debtor information needed for collections (driver's license number, social security number, current address, phone number, etc.) is gathered for delinquent debts.
- Establish clear collection protocols for unpaid debts.
- Start past-due debt collection protocols as early as 30-60 days past due.
- Send delinquent customers final bills and final outstanding account notices before turning accounts over for collection.
- Charge collection fees and interest on unpaid balances.

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