



Accounts Receivable Status And Collection Efforts

City Council Briefing
April 19, 2006



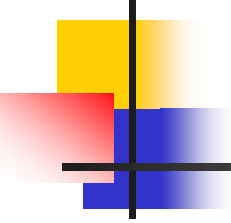
Purpose

- Update Council on the status of Accounts Receivable as of February 2006
- Previously briefed November 10, 2003
- Describe the types of receivables collected by the City of Dallas
- Discuss current and delinquent collection processes and efforts
- Recommend changes to the City's Delinquent and Uncollectible Accounts Receivable Policy



Accounts Receivable Overview

- The City of Dallas annually **bills almost \$1.2 billion** in charges for services, fines, fees and taxes
- The City **collects \$1.1 billion annually**
- This represents **95% of billed charges**
- **88.8% of revenues have a collection rate in excess of 99%**
- Unlike businesses, municipalities are restricted by certain State and Federal laws which limit the ability to collect
- Although the ultimate goal for the City is to maximize revenues, there are other policy goals regarding collection
 - Improving quality of life by demolishing run-down houses and apartments, and providing ambulance service to those that cannot pay for the service



Two Ways to Look at Accounts Receivable

1. The receivable balance in the “accounting” system
2. The receivable balance detail in the “billing” systems



Receivable Balance Reported in the Accounting System

- All cities are required to follow Generally Accepted Accounting Principles (GAAP)
 - Report only those amounts with a high probability of collection
 - An account which is uncollectible is written off from the accounting system
 - The City of Dallas does not record receivables which are greater than 2 years past due since they are considered by GAAP as uncollectible
 - Following these requirements Accounts Receivable are 2% of total assets



Receivable Balance Reported in the Billing Systems

- The City maintains a detailed list of accounts receivable by customer in various billing systems
 - For most systems, these represent the total amount ever billed since the system was installed
 - Billing systems date as far back as 1987
 - Property tax bills go as far back as the 1950s
 - Are considerably more than the amount reported in the financial statements
 - Includes accounts considered uncollectible



Types of Receivables

- The City of Dallas collects revenue for various services, fines and fees including:

	<u>% of Total Revenues</u>
- Water utilities payments	45.2%
- Property taxes	42.1%
- Code- mow/clean/demolition/multifamily	0.1%
- Aviation fees	2.6%
- Landfill fees	1.5%
- Court fines & fees	2.7%
- Parking fines	0.4%
- Emergency Medical Services (EMS) fees	0.9%
- Library fines	0.0%
- Other Miscellaneous fees	4.5%
- Total	100.0%



Performance of some Receivables

- A significant portion of the revenues have a 99% or more collection rate
 - Water 45.2% 99.5%
 - Property Taxes 42.1% 99.2%
 - Landfill Fees 1.5% 99.4%
 - Total 88.8% 99.3%
- 88.8% of the revenues have a collection rate of 99.3%



Water Utilities Billing

- Water Utilities Department billing system bills for water, wastewater, sanitation, and stormwater services rendered
- An outstanding balance is considered delinquent after it is more than 30 days from the date of the bill
- Two notices are sent by regular mail
 - On the 78th day a termination notice is mailed
 - Customer called on the 80th day
- After 85 days, water service is discontinued
 - Collection efforts continue even after DWU discontinues service
- After 325 days account is referred to PENN Credit Corporation
- Collection rate of 99.5%



Property Taxes

- Liens automatically attach to property
- Collection efforts for property tax are outsourced
 - City consolidated the property tax collections with Dallas County in FY2000-2001
 - Dallas County mails tax statements November 1st
 - Dallas County collects payments and posts to customer accounts
 - Dallas County contracts with Linebarger Goggan Blair & Sampson, LLP to collect past due taxes
 - Personal Property over 90 days past due
 - All others over 5 months past due
 - 20% collection penalty added to receivable, making collection cost-free to the City
- The value of the property may be less than the lien, affecting ultimate collection
- Collection rate of 99.2%



Land Based Fees

- City can file liens for unpaid land based fees such as paving assessments and code compliance violations including mowing, cleaning & demolition costs
 - Liens filed on properties for these services can/will delay the collection of outstanding charges
- City contracts with Linebarger Goggan Blair & Sampson, LLP to collect past due land based receivables
- **Collection rates are impacted by policy decisions designed to improve the quality of life in the community**
 - The purpose for enforcing code compliance violations is to improve community safety and quality of life
- Collection rate of 40%



Aviation Fees

- Aviation Department Billing System bills for rent, concessions, fuel flow fees, landing fees, security badges and miscellaneous service charges
- Past due letters are sent after 30 days
- After 60 days, tenant site visits are conducted or additional letters are sent
- After 90 days, more aggressive correspondence is sent; this may include default or termination notices in accordance with lease contract provisions
- Balances remaining unpaid are referred to the City Attorney's Office
- Collection rate of 96.9%



Landfill Fees

- Landfill Fees are charged to commercial and non-residential haulers to dispose of waste at McCommas Bluff Landfill and Bachman Transfer Station
- Over \$16.1 million was charged by Sanitation department for private disposal fees – of this amount:
 - \$3.7 million was collected in cash/checks at disposal facilities at time of service;
 - \$189K billed to City departments and
 - \$12.2 million was billed to commercial haulers
- About 15 companies represent 90% of billed revenue with the remaining 10% from approximately 110 accounts
- Collection rate of 99.4%



Court Fines and Fees

- Fines and fees are authorized for violations of State law and City ordinance – criminal (Class C misdemeanors) and ordinances offenses with civil penalties
- Not all of the money collected stays with the City – 27% of the outstanding receivable is due to the State and the collection agency
- Individuals have 21 days from citation date to pay in full or request an alternative allowed by law to resolve case
 - Includes request court date, request 30 day extension to pay, drivers safety program, deferred adjudication, time payment program, work release and community service
 - Juveniles, age 17 and under at offense date, must be scheduled for court
 - 33% of Citations are dismissed due to compliance or other reasons



Court Fines and Fees

- If case is not resolved by day 21
 - Case goes into warrant status
 - A warrant notice is sent by Court and Detention Services
 - Case is sent to the Centralized Collection Unit
 - Telephone contact is attempted
 - Two delinquent collection letters are sent if telephone contact is not established
 - If case is not resolved by day 83, the case may be eligible to be sent to the collection firm-City contracts with Linebarger Goggan Blair & Sampson, LLP
 - Collection activities include series of demand letters, personal & automated telephone contact, and extensive skip-tracing / research to locate debtors
 - 30% statutory collection fee added to receivable, making collection program for citations after 06-17-2003 cost free to City
 - Approximately 45% collection rate



Parking Fines

- Parking violations were changed from criminal to civil offenses in 1988 and are authorized in Chapter 28 of the Dallas City Code
- Ticket processing and collections was outsourced beginning in 1988 and collection rates improved from 25-30% to 60-65%
- City employees enforce parking regulations and conduct administrative appeals – ticket processing/collections and meter/lot operations have been outsourced to Affiliated Computer Systems (ACS) since July 2005
- Multiple payment options available:
 - Pay by cash, check or credit card
 - Pay in-person at City Hall, Parking Services Office (1200 Ross Avenue) or Auto Pound; by web; by phone; or by mail
- Courtesy notice is mailed seven days after the ticket issuance



Parking Fines

- Individuals have fifteen days from issuance to pay or contest a citation through an administrative appeal process – failure to pay or contest results in the addition of a penalty and mailing of a Default notice
- Process has historically used a four notice process – Courtesy, Default, Final and Collections
- Contractor is used to locate and update bad addresses
- Electronic ticket writers are used by PWT Parking Enforcement to improve accuracy of ticket information
- Fleet program allows companies with at least 35 vehicles to receive a single invoice for tickets encouraging prompt payment
- Vehicles are eligible for booting and towing with three or more delinquent tickets in a calendar year
- 68% collection rate



EMS Fees

- EMS Fees are charged when ambulance services are rendered
- **City does not deny EMS service to individuals who owe the City or are unable to pay for this service**
- Collection rate is impacted by Medicare and Medicaid restrictions
- The unique and complex nature of Medicare, Medicaid and insurance billings requires industry knowledge to improve collectibility
- City contracts with Southwest General Services for initial and delinquent collection of fees
- 58.8% collection rate



Library Fines

- Library Fines arise when library materials are not returned within the allotted period of time
- Library's primary purpose is to retrieve materials
- Value of delinquent collections includes cost of replacement materials
- City contracts with Unique Management Service to collect both fines and library materials
- Very few (less than 1%) of the delinquent accounts have more than 50 books outstanding
- Unique Management Service collection/recovery rate is 40.4%



Improvements have been made To the Collections Process

- The City has recently made many improvements to the collection process
- Improvements made within the last 2 years are indicated with “*”
- Significant enhancements include
 - * Centralized Collections Unit
 - Use of third-party collectors
 - Litigation by the City Attorney’s Office
 - * Enhanced Courts collection efforts
 - * Enhanced Parking Collection efforts
 - * “Single Bill” concept and other new billing systems
 - Other collection efforts



What is the City Doing to Improve Collections?

- * City established a Centralized Collections Unit (CCU) FY 2004-05
 - Currently staffed with three experienced collectors
 - The ultimate goal is to provide one bill for all delinquent amounts owed to the City
 - Certain outstanding delinquent receivables are currently being collected through CCU
 - Court Fines and Fees
 - Security Alarm
 - Damage to City Property
 - Portable Water Meters



What is the City Doing to Improve Collections?

- * Centralized Collections Unit (continued)
 - Future efforts include
 - Library (May 2006)
 - Landfill (2006)
 - Utilities (2008)
 - All other billings will be added after implementation of new city-wide billing system
 - This division collected approximately \$1.5 million from October 2005 through March 2006
 - An average of \$550 is collected per hour by each collector



What is the City Doing to Improve Collections?

Use of third-party collectors

- The City contracts with third-party collectors (see Appendix Slide 45 for list of collectors)
 - Resource for specialized knowledge and collection techniques
 - Can report delinquent accounts to credit bureaus
- When it is advantageous to the City, third-party collectors are also used for initial billing and research
 - Southwest General bills and collects for EMS
 - * ACS collects Parking Fines
 - Dallas County bills and collects Property Taxes



What is the City Doing to Improve Collections?

Use of third-party collectors (continued)

- Delinquent taxes are referred to Linebarger Goggan Blair & Sampson, LLP for collection
 - Upon Linebarger's recommendation, Council adopted new legislation (December 2005) allowing personal property to be referred 3 months earlier to expedite collections (after 90 days delinquency)
 - Last year Linebarger collected over \$19.8 million for the City through the following efforts:
 - 6 demand mailings, including 73,962 letters,
 - Filing 1,795 lawsuits for the City & resolving 2,166 lawsuits,
 - 544 seizures/warrants, and
 - Setting 336 properties for Sheriff's Sale.



What is the City Doing to Improve Collections?

Use of third-party collectors (continued)

- Delinquent court fines & fees are referred to Linebarger no earlier than 60 days by State Law from the time they become delinquent
 - * April 2004, Council adopted new legislation allowing 30% "Add-On" collection fee to citations issued after 6-17-2003
 - \$20.9 million has been collected since April 2002



What is the City Doing to Improve Collections?

Use of third-party collectors (continued)

- EMS billings and collections are handled by Southwest General (SWG)
 - * Implemented a new Electronic Patient Care Reporting (EPCR) system, giving the Fire Department the ability to provide more complete and thorough documentation to SWG for collection
 - * Set up business associate agreements with all of the primary hospitals to exchange patient information
 - * Can view information previously obtained by identifying patients previously transported
 - Understand reimbursement processes for Medicare, Medicaid and commercial insurance payers



What is the City Doing to Improve Collections?

Litigation by the City Attorney's Office

- Litigation

- City refers uncollectible accounts of \$1,000 or more to the City Attorney's Office for collection
- Accounts less than \$1,000 are not cost effective for them to collect due to cost of legal action

- Judgment Liens

- Liens placed on individuals
- Unlike other liens, judgment liens are not specific to a property, but can be placed on any non-exempt property owned by the individual



What is the City Doing to Improve Collections?

Courts Collection Efforts

- * Implemented the Failure to Appear Program – places a hold on the renewal of the driver's license when a defendant fails to appear
- * Reduced the payment plan policy from 24 months to 3 months
- * Conducted an all day training session in late 2005 for all deputy clerks to provide improved collection techniques
- * Implemented SB 1863, effective April 1, 2006, that enforces improved court collection efforts
- * Extended the window operations to expand the collection capability of each window at 2014 Main St.
- * Improved the information on the Courts website regarding payment options
- * Improve process to receive payments by mail, increasing Courts' ability to service more customers paying at 2014 Main St.
- * Implemented HB 2885 by filing all outstanding returned checks/stop pays with the District Attorney's Office for collection through 1999



What is the City Doing to Improve Collections?

Parking Collection Efforts

- * Established an interdepartmental Parking Review Task Force to develop recommendations to improve ticket collections
- * Added www.dallasparkingtickets.com domain for web payments
- * Included an insert in the April Dallas Water Utility bills notifying residents how to check for and pay tickets
- * Sent letter to employees notifying them how to check for and pay tickets
- * Added a pay station and customer service center at the Auto Pound
- * Added three new notices: boot-eligible notice, second collection agency notice and one-year reminder notice
- * Began sending notices for tickets issued between 1996 and 2000



What is the City Doing to Improve Collections?

Parking Collection Efforts (continued)

- * Began sending notices for tickets with partial payments
- * Initiated credit bureau reporting for plates owing greater than \$500 in delinquent fines
- * Added cameras to electronic ticket writers to support appeal process
- * Increased boot staff from two to four officers; purchased 14 additional boots; extended booting hours to include evenings and Saturdays
- * Automated the fleet program and began recruiting companies to enroll
- * Enrolled City vehicles in the fleet program – employees receiving tickets are responsible for payment



What is the City Doing to Improve Collections?

Parking Collection Efforts (continued)

- * Revising notices to include Spanish
- * Web posting list of Top 100 offenders – updated weekly
- * Scheduling City Marshal visits to top offenders
- * Expanding credit bureau notices to include all plates owing greater than \$100
- * Including parking ticket info in new employee orientation
- * Conducting annual sweep to identify City employees with tickets and require payment subject to disciplinary action
- * Recommending increase to the boot fee to \$100 and additional \$20 penalty assessed 31 days after first penalty
- * Identifying worst offenders owing greater than \$1,000 and filing civil lawsuits to collect
- * Deploying AutoVu license plate recognition camera to improve ability to locate boot-eligible vehicles



AutoVu License Plate Recognition Camera System Video



What is the City Doing to Improve Collections?

- * Working toward a “Single Bill” Concept
 - A system combining all current and outstanding invoices for a single person or business
 - Replace Water billing System-“Pay 1” during the next 18 to 24 months
 - Water
 - Wastewater
 - Sanitation
 - Stormwater
 - All other fees and charges
 - One invoice for all fees and charges
 - Exceptions
 - Property Taxes
 - Court Fines and Fees



What is the City Doing to Improve Collections?

- * Replacing other billing systems that will tie to the “Pay 1” System
 - Courts System
 - Expand the IVR functionality to include the ability to make payments using the web and kiosks
 - Complete replacement of the mainframe case management system is also underway
 - Vendor responses to RFCSP for replacement of IVR system currently being reviewed
 - Library System
 - The Library system will enhance the Library patrons access to information and provide staff with greater access to financial information
 - Projected implementation date: FY 2007
 - Development Services System-Posse
 - Special collection System-Posse



What is the City Doing to Improve Collections?

Other Collection Efforts

- City can discontinue the service until payment is made, such as the Water Department
- Reviewing methods to collect delinquent amounts owed to the City from vendors and staff
 - Staff will cross-check agenda items against delinquencies
 - New contracts will not be issued to vendors until delinquent bills are paid
 - All new vendor contracts will contain an offset provision, allowing the City to deduct future delinquent monies owed from payments
 - Most existing vendor contracts already have this provision
 - City can deny contracts to vendors with delinquent balances
 - * Make delinquent debt payment a provision for City employment
 - Conducting annual sweep to identify employees with delinquent bills and require payment subject to disciplinary action
- Payment methods have been increased to include credit cards, on line payments, pay by phone, payment at numerous locations around the City



Decision Point

- In spite of our best efforts, we still have many accounts in the billing systems that remain uncollected
- Continuing to carry bad debt in the billing systems misleads those who may rely on this information
- Outcomes of collection efforts are affected by policy decisions such as:
 - The greater good to society (land-bank foreclosures and demolition of dangerous structure)
 - The desire to effect positive change, both in communities and in individuals (return library materials)
 - Humanitarian policies (EMS services and water service not disconnected in summer months)
 - The point of diminishing returns by continuing those efforts



Issues Affecting the City's Ability to Collect

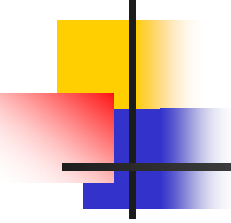
- Legal requirements may affect collection efforts
 - State laws affect municipalities' collection efforts
 - Requires water service may only be disconnected for nonpayment of water and wastewater services
 - Limits ability to place hold on vehicle registration
 - Federal requirements may limit a city's ability to pursue collection efforts
 - Ambulance fees may be waived by Medicare
 - Bankruptcy (excluding court fines and fees)
 - Home owners older than 65 who defer property taxes
 - Library fines for juveniles
- Even with exhaustive collection efforts, some accounts are difficult or impossible to collect
 - Deceased individuals – heirs are difficult to locate
 - Indigent
 - Age of the account



Issues Affecting the City's Ability to Collect

- Other factors may affect the City's ability to collect
 - City can terminate service in some instances, but residents may decide to continue without service
 - Court defendant owing fines and fees has other non-monetary options, such as compliance, setting case for court, deferred adjudication or serving jail time instead of paying
 - Parking tickets may be issued to visitors, making collection unlikely
 - Environmental hold may have been placed on property, making seizure an undesirable option
- The cost of pursuing collection may be more than the total amount owed
 - Cost of mailing notices;
 - Plus the cost of "skip tracing" or the task of finding the debtor when they have moved from the current address;
 - Plus the cost of litigation.

What Should We Do With the Delinquent Accounts on the Billing Systems?



- The City's billing systems should more closely match the accounting system receivable balances
- State law, where applicable, allows a city the ability to archive certain past due accounts from the detailed billing system
 - Governed by State Records Retention Schedule
 - Does not prohibit future collection of those accounts
 - Allows the City to focus on accounts more likely to be collected
 - Archival would occur 3-years after accounts meet accounting rules for deletion (accounts which are 5-years delinquent)
 - As a responsible government, City will pursue collection efforts over this 5-year period
 - Requires policy adoption
 - Excludes certain property tax, land based receivables and court fines and fees
 - See Appendix Slide 43 for detailed recommended procedures



Recommendations

- Pursue all allowable collection efforts
- Receivables will be briefed every two years
- State Legislative Initiatives
 - Allow vehicle registration hold for delinquent parking tickets
 - Broaden criteria for boot and tow eligibility to include all vehicles with delinquent tickets totaling at least \$100
- City Council Action Recommended – 4/26/2006
 - Revise City Code to increase the boot fee from \$55 to \$100, establish an additional \$20 penalty and require a \$500 criminal fine for damaged/stolen boots
 - Amend ACS contract to provide AutoVu camera system to identify boot-eligible vehicles, staffing for Auto Pound pay station and two additional City boot officers; assign new fees/penalties to pay for enhanced services



Recommendations

- Propose future update to Administrative Directive “Delinquent and Uncollectible Accounts Receivable”
- Where applicable, recommend change to allow accounts 5-years past due and over to be archived and removed from the billing systems and cease collection efforts



Questions



Supplemental Information

- Recommended Write-off Procedure
- Third-party Collectors



Recommended Write-off Procedure

- Accounts are sent to a third party collector
- Third party collector will attempt to collect balances owed to the City
- After two years, third party collector will provide a report of accounts determined to be uncollectible
- The report will be reviewed by staff in the department which initiated the bill
- Department Director will approve the initiation of write-off procedures at year-end
- Accounts will be written-off for financial statement purposes
- Three years after year-end of write-off approval, the account will be removed from the Departments' records and archived
- Excludes certain property tax, land based receivables and court fines and fees



Third Party Collectors

- Southwest General
 - Bills and collects for EMS
 - Researches whether Medicare or Medicaid can be billed
 - Contacts hospitals to obtain missing patient information
- ACS
 - Collects for Parking Fines
 - Will report delinquent parking fines to credit bureau beginning May 1, 2006
- Unique Management Service
 - Collects outstanding Library Fines and Books
- Dallas County
 - Bills and collects Property Tax
- Linebarger Goggan Blair & Sampson, LLP
 - Collects delinquent Court Fines and Fees, Property Tax and Land Based Receivables
 - 30% fee collection fee added to Court Fines and Fees results in no cost to the City
 - 20% collection penalty added to property tax results in no cost to the City
- PENN Credit Corporation
 - Other delinquent accounts 120 days to two-years
 - Reports delinquent activity to credit bureaus
 - Uses specialized software to improve number of checks clearing the banks