



# Accounts Receivable Status And Collection Efforts

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City Council Briefing  
April 19, 2006



# Purpose

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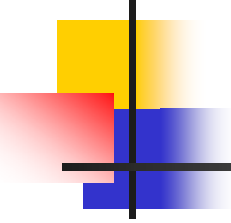
- Update Council on the status of Accounts Receivable as of February 2006
- Previously briefed November 10, 2003
- Describe the types of receivables collected by the City of Dallas
- Discuss current and delinquent collection processes and efforts
- Recommend changes to the City's Delinquent and Uncollectible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



# Accounts Receivable Overview

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- 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

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



# Receivable Balance Reported in the Accounting System

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- 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

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- 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

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- 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

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- 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

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- 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 78<sup>th</sup> day a termination notice is mailed
  - Customer called on the 80<sup>th</sup> 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

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- 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

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- 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

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- 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

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- 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

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- 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

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- 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

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- 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

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- 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

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- 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

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- 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

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- 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?

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- \* 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?

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- \* 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?

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## 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?

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## 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?

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## 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?

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## 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?

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## 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?

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## 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?

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## Parking Collection Efforts

- \* Established an interdepartmental Parking Review Task Force to develop recommendations to improve ticket collections
- \* Added [www.dallasparkingtickets.com](http://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?

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## 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?

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## 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



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# AutoVu License Plate Recognition Camera System Video





# What is the City Doing to Improve Collections?

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- \* 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?

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- \* 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?

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## 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

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- 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

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- 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

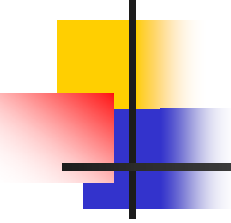


# Issues Affecting the City's Ability to Collect

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- 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?



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- 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

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- 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

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- 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

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# Supplemental Information

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- Recommended Write-off Procedure
- Third-party Collectors



# Recommended Write-off Procedure

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- 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

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- 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