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Centralized Collections Management

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1. Executive Summary

Tough economic times create increased expectations of enhanced revenue productivity from government debt receivables. Within this context, more and more states are moving to centralize their collection function within government, with positive results. Once a centralized collection environment is created for state debts, the service can also be expanded to provide support for the collection of local government debt.

The experiences in other states demonstrates that in a centralized collection environment in which economies of scale are present, significant efficiencies can be gained-allowing government to collect more of the liabilities that are owed. This is true even if agencies currently responsible for the debt collection operate efficiently and maximize their individual results. The one exception may be the state revenue or tax agency. Often the tax department has the volume and statutes in place to be operating efficiently. However, even the collections performance for the tax debt could be improved through centralization. Acting alone these agencies likely lack the economies of scale to bring the tools, workflow processes, and technologies needed to materially improve collections for the state.

With a statewide Centralized Collection Operation (CCO) that leverages data sources, administrative levy authority, and better case management tools, there is strong evidence to suggest that significant improvement in results can and would occur. The net result is an increase in revenues from delinquent debts, as well as a significant improvement in the return on total investment for the state. The improvement opportunities identified would require cooperation and coordination between the CCO and the agencies who establish the debts.

While further analysis must be done to determine the timing and amount of expected increased revenues, the experience in other jurisdictions suggests that a 10 to 35 percent increase in revenues should be achievable, depending on the debt type and the processes and tools currently utilized. With appropriate statutory authority and buy-in from other agencies, the state could expect to achieve benefits within six months of beginning an implementation.

1.1 Observations for Centralized Debt Collections

We offer these general observations for a CCO that is being created to debt:

- **Legal authority.** In order to be successful, the CCO will need legal authority to perform collection actions on the state's behalf. The most effective collection authority typically provided to the state tax agencies. We would recommend similar authority be provided for the collection of debt assigned to the CCO.
- **Debt condition.** Typically when compared to the profile of tax debts, most non-tax debts will have a lower average balance and be owed at a higher frequency by distressed individuals and businesses. These features will drive the collections strategy and process and likely suggest a streamlined process to provide the highest ROI for the state.
- **Private Collection Agencies (PCA) usage.** A number of agencies likely currently make significant use of private collection agencies. While this makes sense for a department that does not have collection operations, it is likely producing a suboptimal result for the state. The CCO would likely have the ability to collect a meaningful portion of cases without PCA assignment, thereby increasing overall collections and eliminating the need for the state to pay a commission on the easier cases. Once the department completes its process, it would then likely be beneficial to apply a PCA approach to further increase collections.

- **Managed services operation.** Given typical IT staffing challenges, a managed services approach to the technology infrastructure is likely worth considering. This would allow the CCO to implement the technology infrastructure faster and at a lower risk. Once in place, the state could decide at a later time to take over the operations. This would also allow the state to enter into a contractual service level agreement to assure ongoing performance and to assure full control of the operations.
- **Deferred payment approaches.** There are a number of options the state could employ to defer the cost of establishing a centralized debt collection operation. Through contractual models such as benefits funding, the state can defer paying for the new technology infrastructure until after the benefits have been achieved. Other states have contracted with private companies who will invest in the new technology and then wait to be paid for their efforts out of the increased revenues collected.
- **Local debt collection and court debt collection.** Once established, this centralized collections function could also be made available to local cities and counties that have delinquent debt. They could send debt to the CCO to collect on their behalf, allowing the state to retain a cost recovery fee. Likewise, the state courts could also utilize this process in order to increase collections and decrease costs.
- **Centralized data sharing: value beyond collections.** The centralized collection model would establish a statewide data repository about the state's citizens. While this information will be valuable for the collections process, it will also have value beyond collections. This asset will be available for any authorized department.

1.2 Document Organization

The remainder of the document is organized as follows:

- Section Two makes the case for centralizing state debt collection.
- Section Three provides an overview of what the centralized collection program would look like, along with key dependencies.
- Section Four describes the operational models to be considered and contrasts their advantages and disadvantages.
- Section Five discusses implementation topics such as the timeline for establishing a new model, legal authority needed, and some of the pertinent actions that need to be taken regardless of operational model chosen.
- Section Six discusses the return on investment the state should be able to realize from this approach, including additional research that is needed in order to provide a better estimate.
- Section Seven provides examples of centralized debt collection from other states.

2. The Case for Centralized Debt Collection

2.1 Why Centralize?

Agencies have a variety of specific rules and regulations that govern their collection process-but most processes have the same components. Agencies generate correspondence, attempt some form of phone contact, manage assignment of cases to outside collection agencies, write off debt, perform skip tracing, and deal with bankruptcy issues. However, the playing field is very uneven-primarily in the areas of access to advanced collection tools, access to high-quality data that can aid the collections process, and the capability and authority to perform involuntary collection actions. Also, agencies may only have staff members who perform collections part-time, without the opportunity to develop expertise and practiced processes that would offer higher yields and greater efficiencies.

Most agencies presumably have billing functions within its legacy systems, but billing and actively collecting are different. These billing applications are typically focused on accounting processes and lack capabilities needed to actively collect delinquent debt. Some of the capabilities that are lacking in many legacy billing systems include a more robust workflow engine, the capability to leverage risk scoring for account segmentation, and self-service channels for installment payment agreements.

Consolidating the collection functions can reduce redundancy, significantly increase collections, and streamline and standardize the collections process at a vastly superior level of efficiency and effectiveness. Several states have centralized collection functions for tax and non-tax debt within various departments. For example:

- Michigan centralizes this function within the Michigan Department of Treasury
- Ohio centralizes this function with their Attorney General
- California centralizes many debts types at the Franchise Tax Board
- Colorado centralizes this function with their Department of Personnel and Administration.

This model allows for significant economies of scale and provides the focus of a dedicated department to collect monies owed to the state. Consolidating the collection function allows for both process and technology improvements like these:

- Dedicated collections staff offers the organizational ability to develop best practices
- Centralization of common business functions, such as skip tracing and bankruptcy filing, into a single unit reduces the cost of duplicating the business process across multiple agencies
- Standardization of collections-related tools and technology reduces maintenance costs, if a single application replaces multiple applications spread across state government
- A single case management system built for collections provides a wide set of capabilities:
 - A robust and flexible workflow engine that can be easily configured and adjusted to changing business conditions
 - A correspondence engine capable of generating advanced pieces of correspondence, such as payment plan coupons and involuntary collection actions, that can be maintained without IT staff involvement
 - Telephone technologies to support both inbound and outbound phone calls
 - Case management and workflow capabilities that support a number of different treatment streams

- Web-enabled 24/7 self-services for debtors, stakeholders and authorized third parties
- Centralized statewide management reporting capabilities for more accurate reports across the entire collection portfolio while requiring less manual work to consolidate information from the individual agencies.

A tremendous value in centralizing business functions is the ability to consolidate debts into a single case. Creating a single case for a debtor facilitates the collection process by providing a unified view to all receivables owed across multiple agencies—thereby reducing duplication of effort. It also allows for case assignment, prioritization, and decision-making based on the total liabilities owed. Multiple advantages exist in consolidating the debtor information:

- A collector can place a single phone call and talk to the debtor about multiple receivables during the same conversation
- A single payment plan, instead of multiple payments plans, can be initiated and monitored for the debtor
- A single action, such as a lien or a levy, can be generated and managed
- Correspondence can include all debts owed, reducing the volume of correspondence to be stored and thus reducing storage and staff resource costs
- Customer service can be improved by providing a single point of contact for debt resolution management
- Debtors can make one call to resolve all of their outstanding debt issues

The model also allows for improved process areas at the collection portfolio level. Increased volume allows for better leveling of collection staff. And, a single point of staff contact for private collection agencies will help their efficiency in case management. Finally, with a single collections entity, enforcement tools such as liens, bank levies, wage garnishments, and professional license revocations can be standardized.

2.2 General Characteristics of Non-tax Debts

Based on experience in a number of states, we would expect that the majority of delinquent non-tax government debt is owed by individuals and businesses that are financially distressed. Compared to tax debts, the average balance due per debtor will likely be lower. Thus, for a high percentage of cases, it will not be cost effective to undertake labor-intensive collection actions.

However, typical non-tax collection business processes do rely heavily on manual activities. In order to take an involuntary collection action, such as issuing a wage garnishment, an expensive manual process takes place to gather the critical financial data, typically not automatically matched or made automatically available. Automated collection case management applications would be productive, but given the often decentralized nature of collections operations, this investment would not be cost effective for each agency.

The overall strategy to improve collections, reduce costs and speed up the collection process is clear. The cornerstones of the new collection processes should be automation, better access to debtor financial data, and the ability to collect non-tax debts using the same statutory tools as provided for tax debts. This strategy suggests centralization of collections activities. A CCO would be able to gather critical debt and debtor information data that could be used to collect liabilities efficiently and effectively.

The expanded use of financial data, new automated collection case management applications and business process improvements have proven to increase collections in multiple jurisdictions. There is no question that this strategy would produce increased revenues.

3. Overview of Centralized Debt Collection

A centralized collection function will streamline the collection of debts, allowing the state to collect many debts through a straightforward process. Once processes and governance issues have been coordinated and established, the new collection program will collect more money at a lower cost than current processes.

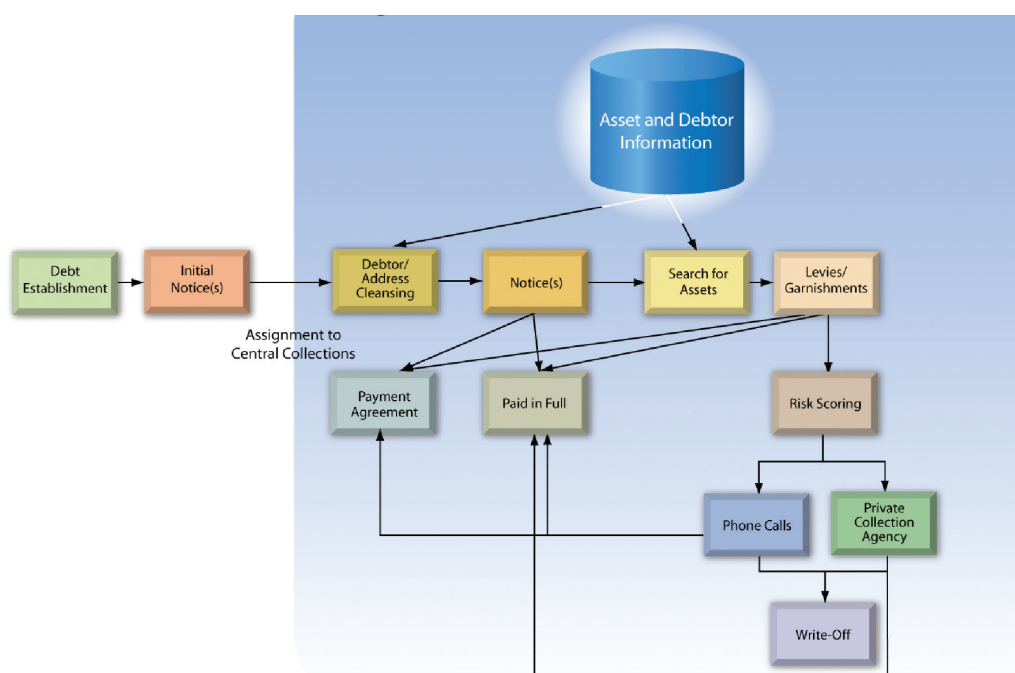
A key goal is to collect money in the most efficient and effective manner, and to do so in a way that is fair, open and transparent to the taxpayer and public. There are many approaches that can be taken to collect debt. Depending on the characteristics of the debt types and the age of delinquency, specific tools and approaches will be most cost effective. There is no one-size-fits-all approach. However, by creating a policy structure supported by technology that will automatically assign the case to the most cost-effective treatment stream, the state can collect more, collect it faster, and do so at the lowest cost.

For example, a number of agencies likely use private collection agencies as their primary collection vehicle. While that may make sense for a department that does not have the resources to automate collections, in most instances that should not be the first option. In many cases, the debt can be easily collected through billing or other methods (such as a wage garnishment). Using this method, the state would be able to collect 100 percent of the liability without paying a commission. It may be appropriate to send these cases to a private collection agency, but it should be looked at within the full context of the collection lifecycle, and utilized if low-cost approaches that would not require a commission to be paid are exhausted.

3.1 Recommended Process

New collection workflows will be designed to focus on automating the majority of all collection activities and leveraging the use of data and predictive models. Consolidated billings and collections actions will be utilized where feasible. Common collection support functions, such as gathering of address and phone information, will be centralized. The process we suggest is shown conceptually in Exhibit 1 and described following.

Exhibit 1 — High-level centralized collections framework



Each department would remain responsible for the establishment of its debts. Once the debt is established, each department would typically send one or more notices to the debtor in order to collect the money quickly. The state would establish a threshold for a number of days for this collection activity (for example, 60 days), after which time the debt would be turned over to the CCO.

The CCO would then use its data repository of address information to locate the best address for the taxpayer and begin issuing a limited set of notices. If the taxpayer responds to the notice with a request for a payment agreement, the CCO would record and automatically monitor the agreement. Agreements could be taken over the phone by a collector. Additionally, with an appropriate infrastructure-in a 24/7 mode, agreements could be taken with a touch-tone telephone or over the Internet.

If the notices do not achieve collection, then the CCO would leverage a centralized repository of employer and bank information to issue levies or garnishments on the state's behalf. In addition, where warranted, a lien would be filed in the home county of the taxpayer.

If payment still was not achieved, then the case would be scored for assignment. Based on the risk score, the cases would be assigned for phone treatment, field action or may be assigned to a PCA. Essentially, the cases with the highest ROI would be assigned for proactive collection treatment. If the taxpayer fails to pay in full after the variety of treatments were attempted, then the case would be written-off.

This centralized collection process would also provide the following capabilities:

- **Automated review for written-off debts.** When a debt is written-off, the liability is still typically owed. The state performs the write-off because there is a low likelihood of payment, and further collection activities are not warranted. However, because the debtor still has a liability, the automated system would continue to monitor for a new levy source (typically an employer). If the debtor develops an ability to pay, the system would automatically identify the debtor for collection. This would allow the state to collect revenues from written-off cases.
- **Automated offset of state payments.** This process would offer offset capabilities to automatically monitor for state payments being made to debtors, such as tax refunds or payments to vendors. In these cases, the payment would automatically be intercepted to pay off the liability.

Finally, the state must review the legal authority of the CCO to collect debts to assure that the department has the authority to perform the same collection actions now available for tax debts. The authorities needed are described in greater detail in Section 5.3.

3.2 Private Collection Agency Management

While not pointing to any state or department in particular, we make the general observation that the private sector has historically done a better job than the public sector in managing private sector collection agencies to maximize return on investment. Government agencies typically hire one or more private collection agencies and give them an equal share of accounts. Agencies do not typically implement additional processes to drive the PCA to increase their collection rates.

In contrast, private sector debt holders more often maximize the return from collection agencies by hiring a number of different agencies (three to eight) and induce competition among them. In this way the best agency is rewarded with additional cases, and each PCA must continually earn additional business. In addition, best practices include reassignment to a second or third PCA when the debt is not collected from the first placement. With each subsequent placement, an increasing commission rate is provided. The reason for the higher commission is that a second placement (or third placement) is older and harder to collect. The PCA is offered a higher commission rate as incentive to work the case more diligently.

After each rating period (monthly or quarterly), a scorecard system would be used to determine how many cases would go to each PCA during the next period. Each PCA would be rated on their effectiveness with different inventories, and the percentage of cases that goes to each PCA is adjusted based on performance. In this way, each PCA competes against each other for a larger share of the future inventory. Best practices show that this approach increases overall performance. It is also important for each PCA to know that their client will reduce their share of cases or stop sending them any cases at any time, if their performance falters.

4. Operational Models

There are three primary operational approaches that could be used to implement a centralized collections model: state managed and operated, private vendor managed on behalf of the state, and private collection agency outsourcing. This section describes each of these and compares their advantages and disadvantages.

- **State managed and operated.** Under this approach, the state would be responsible to establish the centralized collections function within one selected department. While the new CCO would likely contract with a private vendor to install and implement the hardware and software to support the new collections function, the CCO would be fully responsible for the operation and maintenance of the system thereafter. Once implemented, the department would then own, operate and maintain both the technology infrastructure and staff the collection function to support the ongoing activities.
- **Private vendor managed on behalf of the state.** Under this approach, the CCO would contract with a private vendor to provide a turnkey solution. The vendor would implement, operate, and maintain the new IT infrastructure for the CCO. The vendor would then be responsible for maintaining and operating the system for a set period of years. At the end of that time, the state could take over the operations of the system, or continue to have a private vendor manage the system. In addition, the vendor could also be responsible for providing a set of collection staff to respond to phone calls and letters, in order to further support the operations.
- **Private collection agency outsourcing.** Under this approach, rather than building any infrastructure, debts would be given to private collection agencies to perform the collection. Under this approach, the state would pay a commission for all debt collected by the PCA.

Exhibit 2 shows the advantages and disadvantages of each of the approaches.

Exhibit 2 — Three operational models compared

| | State Managed | Vendor Managed | Private Collection Agency |
|-----------------------|--|--|---|
| Key Advantages | <ul style="list-style-type: none"> • Some costs, such as the computer software, could be deferred until after revenues are achieved | <ul style="list-style-type: none"> • Most costs could be deferred until after revenues are achieved by requiring the vendor to be paid only out of new revenues • Low state staffing required • Shifts responsibility to a skilled and experienced vendor • State costs are fixed and can be planned for • Short time to implementation • State can mandate service level agreements | <ul style="list-style-type: none"> • Low state staffing required • Lowest up-front cost and effort • Most costs could be deferred until after revenues are achieved because PCAs will be paid a commission only from revenues collected • State costs are exclusively tied to revenue collected |

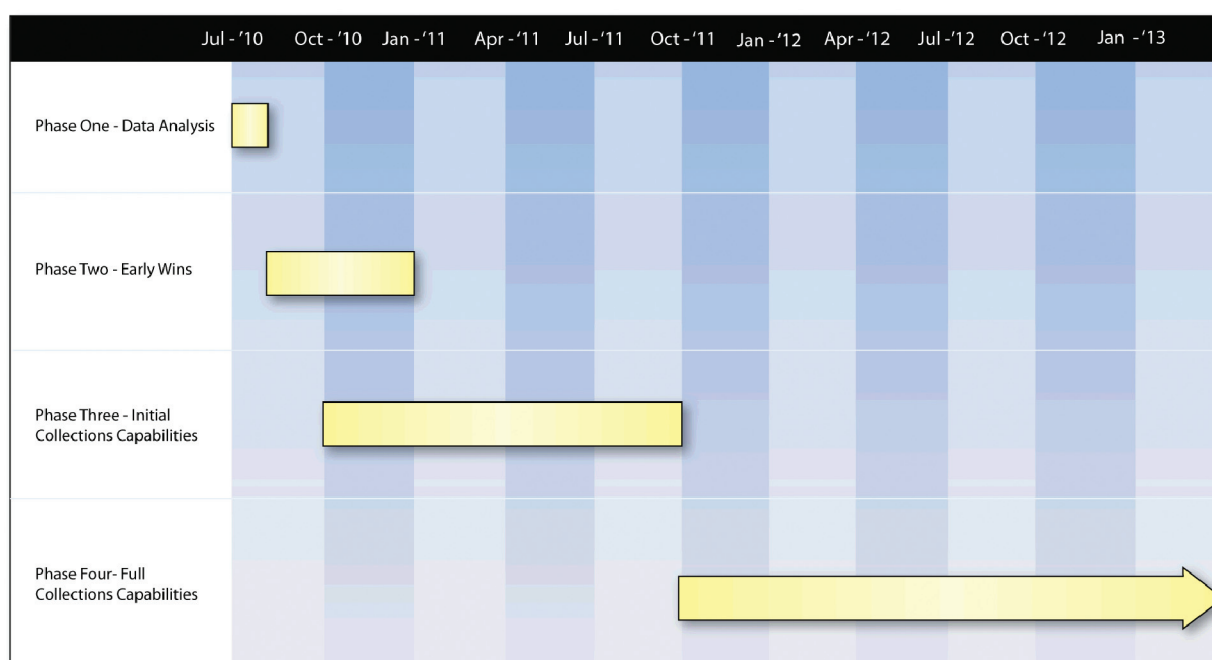
| | CCO Managed | Vendor Managed | Private Collection Agency |
|---------------------------------|---|---|--|
| Key Disadvantages | <ul style="list-style-type: none"> • Highest staffing required • State staffing costs variable • Longest time to implementation | <ul style="list-style-type: none"> • Would require work for state staff to take this over (if desired) when the vendor managed contract is complete | <ul style="list-style-type: none"> • Difficult for state staff to take this over when the PCA contract is complete—no infrastructure would be in place • Collection agencies typically focus on easiest cases • State would pay a commission on cases that could be easily collected (or are collected now without a PCA) • Loss of control over operations, since cases are worked exclusively by a vendor • Highest long term cost, because all revenues would be subject to a commission |
| Estimated Benefits | <p>High</p> <ul style="list-style-type: none"> • State will work easiest cases, and send others to PCA for additional revenue • State will be able to perform automated collection actions on an ongoing basis on written-off cases if new asset sources are identified | <p>Highest</p> <ul style="list-style-type: none"> • State will work easiest cases, and send cases remaining uncollected after automated processes are exhausted to a PCA for additional revenue • State will be able to perform automated collection actions on an ongoing basis on written-off cases if new asset sources are identified • The State will have ongoing input from the vendor to continually improve collections processes | <p>Moderate</p> <ul style="list-style-type: none"> • Likely increase over current collections through centralized management and better PCA management |
| Cost of Collections | <p>Low</p> <ul style="list-style-type: none"> • State staff will only have limited responsibilities—responding to phone calls and letters • PCA commission will only be required on cases that cannot be collected through automated processes | <p>Low</p> <ul style="list-style-type: none"> • State (or vendor) staff will have only limited responsibilities of responding to phone calls and letters • Vendor costs fixed over time and can lower the State's overall cost of operation • PCA commission will be required only on cases that cannot be collected through automated processes | <p>Higher</p> <ul style="list-style-type: none"> • State will have to pay a commission on all cases |
| Time to Achieve Benefits | <p>Moderate</p> <p>Through an Early Wins approach, benefits achieved within six months—time to implement the full infrastructure, though could be longer than through a vendor managed approach</p> | <p>Fast</p> <p>Through an Early Wins approach, benefits achieved within six months</p> | <p>Fastest</p> <ul style="list-style-type: none"> • While the overall long-term benefits will be lower, PCA contracts can be quickly established <p>Note: PCA assignment can be used as a strategy of an early wins phase for the other two models.</p> |

5. Implementation Considerations

5.1 Timeline

It would be advantageous for the state to implement a phased approach to allow the state to recognize increased revenue quickly. Other states that have implemented collections projects have achieved benefits in less than six months. This approach will enable the state to achieve a long-term vision of a centralized collection infrastructure with minimum risk and with limited up-front funding. The suggested implementation approach involves four phases, as shown in Exhibit 3 and described below.

Exhibit 3 — Notional implementation schedule



Phase One—For the first phase, the state or a selected vendor would conduct a detailed analysis of the state's debts. It is important to understand the magnitude and quality of the debts along with the high-level approach to collections that is currently used on these debts. This analysis would focus on the following:

- **Debt size and age.** For each department and debt, it is important to know the size and age of the debt to determine the opportunity available.
- **Statutory collection authority.** It may be the case that the state has different statutes covering the collection of different debt types. It is important to understand the statutory authority in place for the collection of each debt type.
- **Quality and collectability of the debts.** This analysis would review the quality of the debt (how accurate is the debt and debtor information). For example, a number of debts may not have detailed information on the debtor that owes the liability.

- **Current collection process.** In order to better understand the revenue opportunity, this analysis would determine the current process used to collect these debts.

This analysis will be used to identify the collections opportunity for each debt, along with any issues that need to be addressed before cutover. This analysis will also result in an estimate of the increase in collections and/or decrease in cost (by debt type) that is available.

Coming out of this analysis, we would expect a detailed recommendation on the ordering and prioritization of implementation of each debt type within the centralized collection model. This phase would be expected to last four to six weeks.

Phase Two—This is the early wins phase. We would expect that the debt analysis will reveal a significant amount of low hanging fruit: revenues that could be collected quickly while the centralized debt collection operation was put in place. Examples include, work on returned mail to get the debts mailed to the correct debtor, involuntary collection actions for individuals that have previously received their due process, and new collection strategies for cases requiring collection action.

This process would likely be able to produce measurable results within three to six months from the start of the project and could help demonstrate the value of this initiative to external stakeholders.

Phase Three—During this phase, the focus will be on expanding the collections infrastructure in terms of both debt types and capabilities.

As part of this phase we will likely want to focus on the agencies and debt types with the highest revenue opportunity for the state. We would expect that this phase would cover the top three to five debt types or agencies. This would allow the team to focus on the highest benefit areas first, rather than be distracted initially by other lower priority debt types.

In this phase, we would expect that the state would follow three implementation threads:

- **Implement a collections case management system—**This new system would focus on billing, including returned mail correction, and on administrative levies and garnishments. In order to accelerate this initiative, this could be implemented in a hosted environment by an external vendor on secure equipment that maintains the highest levels of security and data confidentiality.
- **Build interfaces with state agencies—**One of the important ways that this program will generate revenue is through the intelligent use of information already within the state enterprise. A number of agencies have information useful for the collections process, including bank information, employer information and address and telephone numbers. These interfaces will centralize this information, respecting the taxpayer's rights and privacy, but utilizing this information to increase collections and reduce the cost of recovery.
- **Establish service level agreements and a governance model—**As the centralized collections process is established, it will be important to establish processes to transmit debts between agencies, and for coordination of approaches to support questions from the taxpayer. This task will establish a process for the governance of the new collections approach.

Phase Four—This phase would expand the infrastructure implemented as part of phase three. Three key initiatives would be implemented during this phase:

- **Expanded debt management—**This implementation would focus on bringing on cases from additional agencies and debt types into the centralized system. A schedule would be developed to add additional debt types into the operations. The order would be based on the availability of data from the department, and the expected increase in revenues available.

- **Expanded collections case management capability**—This implementation will focus on providing additional capabilities into the collection enterprise, such as professional license revocation, debt set-off, skip tracing, etc.
- **Centralized data warehouse for information sharing**—The data warehouse will centralize skip tracing, employment, banking and bankruptcy data from various sources that will be available to the central collection unit and other participating agencies.

During this phase, the state may choose to offer this service to local jurisdictions and/or the courts. By this point, the state will have an efficient collections function that is repeatable for other government debts. Local jurisdictions could use the state function to perform administrative levies, skip tracing, or even just billing. Through a standard process, the local jurisdiction could send the debt to the state and pay for the service out of a portion of the collections. The commission that would be paid to the state would offset state costs and further leverage the collections infrastructure created.

5.2 Governance Decisions

From an implementation perspective, there will need to be a significant number of decisions made as to the governance of the new collections model. The CCO would look to the best practices from other states, and work with all of the affected stakeholders to determine the best process for the state. These decisions include the following:

- **Data sharing.** Agreements would need to be in place to define who owns the information, how to use the information, and what limitations are placed on the usage of the information
- **Cost reimbursement.** Rules for reimbursement of costs for the centralized collection function would have to be addressed
- **Timing for placement.** Agreements on when and how debts will be referred need to be addressed
- **Enabling legislation.** The state would need to evaluate what legislation is needed to support the centralized collection function
- **Cashiering and Accounting.** Cashiering and accounting processes need to be defined
- **Multiple Debt Types.** Policies and procedures to handle cases with multiple receivable types will need to be defined
- **Correspondence.** New correspondence will need to be written. There is strong evidence that well written correspondence actually increases dollars collected
- **Training.** Training will need to be provided on the new collections processes, including debt-specific training

5.3 Legal Authority Needed

It is likely that different agencies currently have different legal authorities available to them for debt collection. Under a framework of varied legal authorities, a centralized collection process will be more difficult to operate and would have a negative impact on expected revenues collected. Therefore, the state should consider rules that allow liabilities to be treated under one regimen for collections purposes when they are assigned to the CCO. This would allow them to process all delinquent liabilities under the same rules that are currently followed for tax debt.

We would recommend that rather than the state creating a new set of authorities in this area—that the state simply authorize the CCO to perform all collection functions as if they were a tax debt. We choose tax as the best candidate since states typically have the most collection authority for tax debts. The California Revenue and Taxation Code Section 19280 and Maine Revised Statutes Title 36, Paragraphs 111 and 112 provide excellent examples that other states could follow.

This authority would also allow the CCO to utilize any state information currently available for the delinquent collections process for the collection of debt. Without this authority, the department could potentially be placed in a position where it could not use all of the information it gathers to collect on certain debt types.

Typically the CCO enhances the collection of debts by performing administrative wage levies, bank levies and liens without having to file a physical judgment in a local court. This practice has proven to be the single most effective enforcement tool for collecting receivables in the later stages of delinquency. It has also allowed states to dramatically improve the cost-effectiveness of their collection programs. For agencies without this authority, obtaining a judgment requires them to compile information pertaining to the debt, fill out the needed forms, and adhere to a series of manual labor-intensive steps in order to obtain a judgment from the court. When the judgment is obtained, the department can then move forward with legally enforced collection activities such as bank account seizure and wage garnishment. We recommend that the state avoid this labor-intensive court judgment process and supply the CCO with the authority to conduct administrative levies.

Finally, the state will need to establish cost reimbursement rules for the centralized collection function, such as authorizing the CCO to charge a reasonable cost recovery from the actual collections cost. Other states appear to allow their CCO to charge approximately 15 to 20 percent as a cost recovery fee.

5.4 Obtaining Expanded Data Access

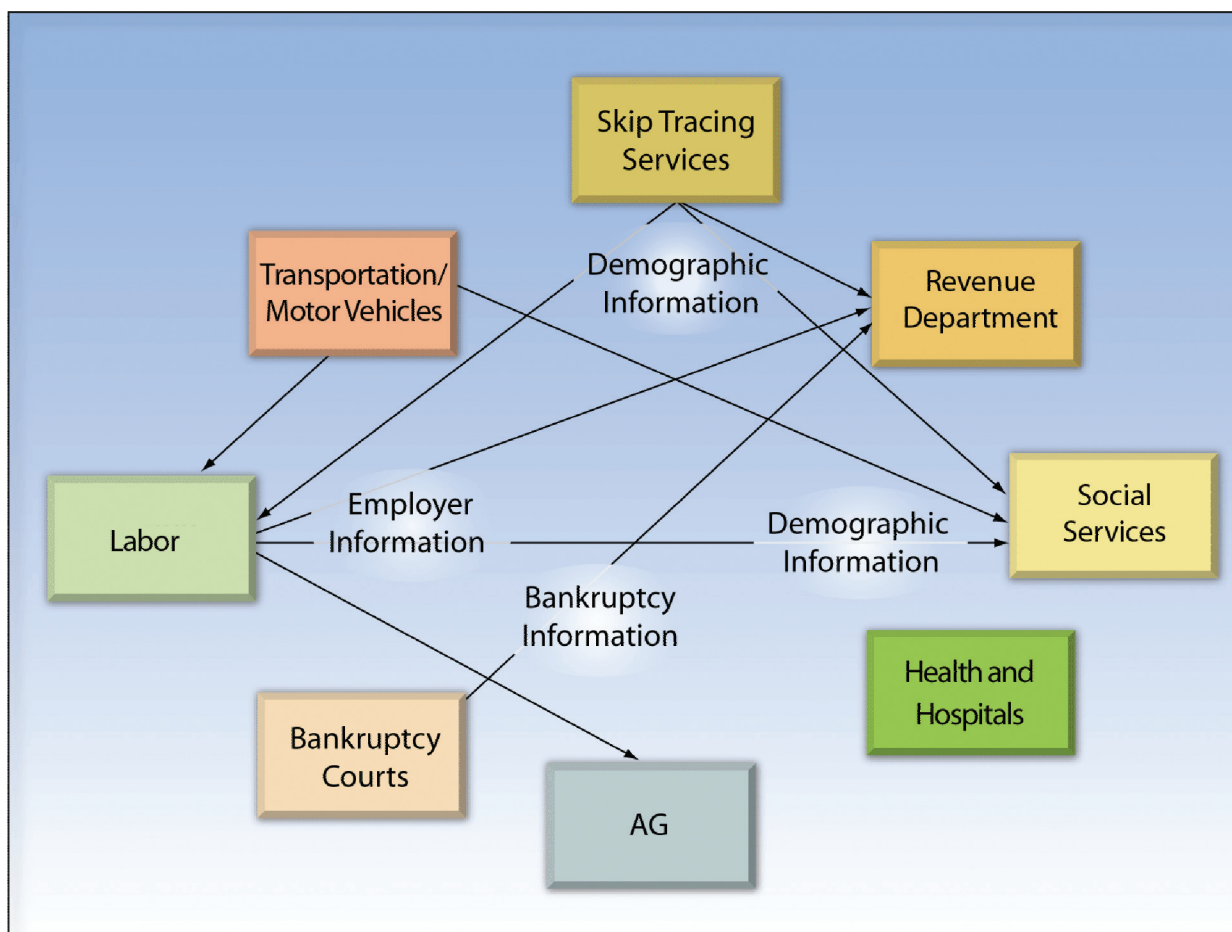
Access to reliable data is one of the items that separate an average performing collection organization from a high performing collection organization. Valid demographic information is essential for the letter and telephone contact process, while banking information and employer information can be used in the levy process.

Information sharing is typically limited under a decentralized collection approach. For example, when one department is doing business with a debtor and has current contact information, another department may concurrently be spending significant efforts to locate the same debtor. One department might receive and process the bankruptcy notifications but another department that is servicing the same debtor fails to receive the notification and potentially misses an important date in the bankruptcy filing process.

When sharing does occur, the integration between the agencies is point-to-point—each department must establish a communication channel with another department on a one-by-one basis. Agencies maintain individual interfaces to single agencies, driving up the cost of collections. For example, the motor vehicle department, an excellent source of address information, must maintain multiple interfaces to send updates on address information to other agencies. The result is a complicated, inefficient and expensive process for sharing information across state agencies.

Based on our experience, communication between many state agencies in this type of environment for debt collection is done point-to-point. Exhibit 4 illustrates the point. Certain agencies such as a Workforce Commission (State Department of Labor in some states), which should be an excellent source of employer information, might have to maintain multiple interfaces to send updates on employers to other agencies. Smaller agencies (from a collections perspective) such as a Department of Social Services (Department of Human Services or Health Care Services) might have limited access to essential information, such as valid SSNs, that other agencies may have available but are not currently sharing. The result is likely a complicated and confusing integration model at the enterprise level.

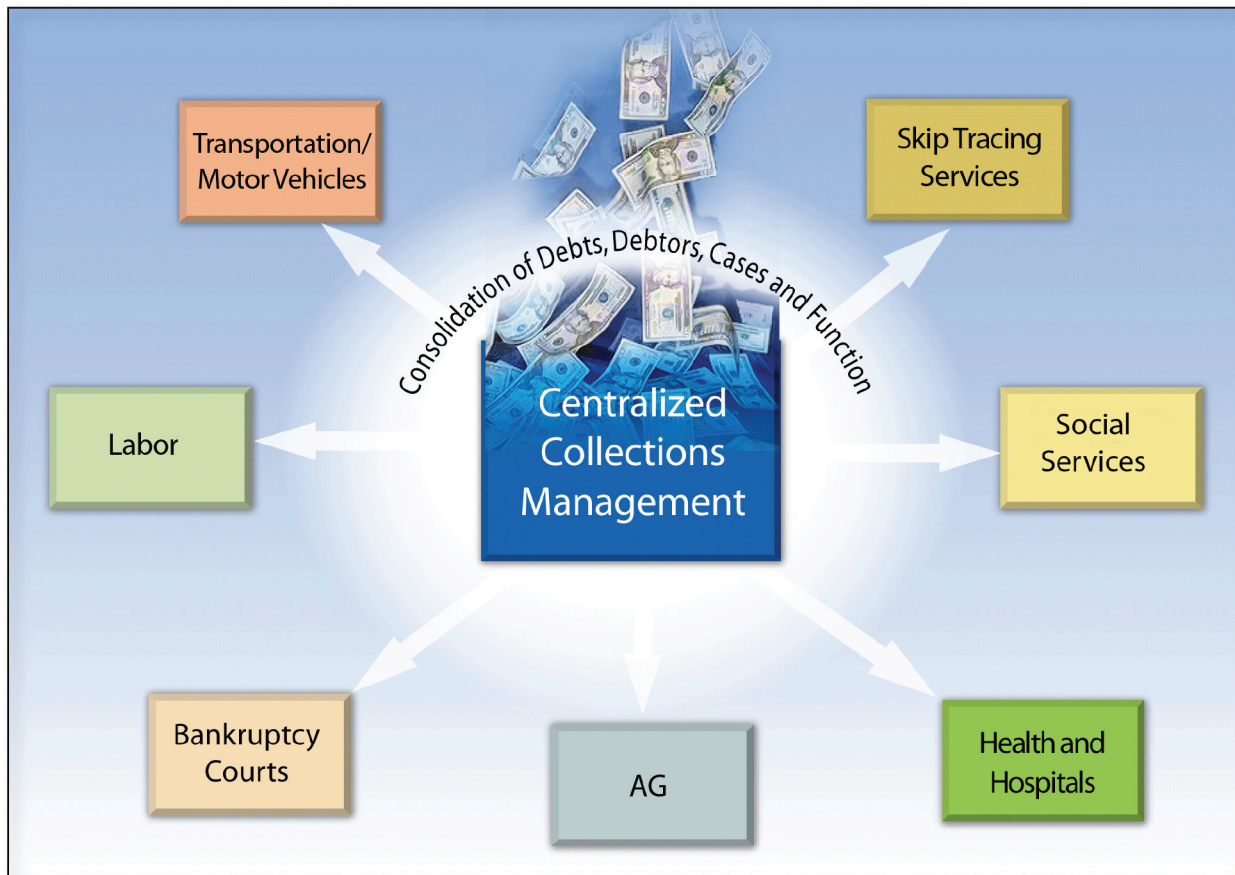
Exhibit 4 — Integration point-to-point example



Several states have begun moving away from point-to-point interfaces and started combining data and making it available as a common service within a single repository. While most examples of data warehouses are at the department level, there has been a movement recently to encourage information sharing among agencies and implement a statewide data warehouse. For example, the North Carolina Department of Revenue and the California Franchise Tax Board are two agencies trying to address this problem. As part of ongoing projects, they are also implementing a centralized data repository that receives feeds from multiple sources and agencies, updated in a single location for the use of many functions beyond collections purposes. When these projects are completed, the benefits will be significant.

Exhibit 5 illustrates how such a centralized model simplifies and streamlines the flow of information critical to the success of collection programs.

Exhibit 5 — Consolidated data management



This model not only simplifies the inbound storage of information by providing a single reference repository that can be used by multiple agencies, but also facilitates and extends information sharing. Demographic, bankruptcy, and employer information and other associated information is centrally captured from either one master source, such as bankruptcy filings, or from multiple sources, such as demographic updates from DMV and other agencies. As information is captured, various components can be packaged and passed to other state agencies that are servicing the same debtor. In this example, all participating agencies can receive updates of demographics, employer information, and bankruptcies filings.

5.5 External Communication

There is a theory in collections called a “wallet share”. When someone owes you money, they likely owe others as well. Collectors try to collect a higher percentage of what is already in the debtor’s wallet by clarifying that the best interests of the debtor lie with paying that individual or institution. In this regard, a strong external communication plan will in fact directly lead to increased revenues. If citizens believe that the state has increased its aggressiveness in collecting all debts and its willingness to impact debtor credit ratings, some percentage of citizens will voluntarily pay to protect their self-interest.

While most of the state’s citizens will pay because they are financially responsible and/or have a solid sense of civic duty, others pay out of a fear for what will happen if they do not pay. To the extent that citizens understand that the state is embarking down a more rigorous collections path, the state will likely increase its wallet share.

6. Estimating Return on Investment

The increased revenue for the state from this program would be significant. The current challenge to quantifying the increase, though, is the need to better understand both the condition of each debt type and the existing collections process. Depending on the approach that the state takes to collect the debts, each debt type would likely achieve a minimum 10 to 35 percent increase in the amount of delinquent collections achieved.

In order to provide a general example, Exhibit 6 shows a summary of the outstanding receivables in Louisiana as of March 31, 2009. Of course, more can be gained by looking at specific data for your jurisdiction, but this publically available information is presented as an example. Note that this report does not include court debts for the state, as they are considered local debts. However, they are likely significant and are a debt type that is well suited for assignment to a centralized collection function. This analysis shows that there are significant outstanding receivables in Louisiana, and that there is a significant opportunity to increase revenues collected. Some of the debts are currently assigned to private collection agencies, and the state could likely increase the yield from these debts. It is also informative to note that less than 20 percent of the states receivables are from the state Department of Revenue. We have found in most jurisdictions that delinquent taxes represent less than 30 percent of overall state debt.

Exhibit 6 — State of Louisiana receivables as of 3/31/2009

| | Receivable | Collectable | Percent | Uncollectable | Under 180 Days | Percent | Over 180 Days |
|--|------------------------|----------------------|------------|----------------------|----------------------|------------|----------------------|
| LSU Baton Rouge | \$19,072,389 | \$18,278,709 | 96% | \$793,680 | \$14,727,646 | 77% | \$4,344,743 |
| LSU Health Sciences Center—New Orleans | \$13,914,320 | \$13,737,461 | 99% | \$176,859 | \$10,841,223 | 78% | \$3,073,097 |
| LSU Health Sciences Center—HCSD | \$65,739,852 | \$16,310,057 | 25% | \$49,429,795 | \$51,164,247 | 78% | \$14,575,605 |
| LSU Health Sciences Center—Shreveport | \$159,404,748 | \$56,040,000 | 35% | \$103,364,748 | \$108,916,129 | 68% | \$50,488,619 |
| Office of the Attorney General | \$11,358,809 | \$11,358,809 | 100% | \$0 | \$4,114,047 | 36% | \$7,244,762 |
| Department of Transportation and Dvlp | \$50,020,596 | \$50,020,596 | 100% | \$0 | \$2,365,590 | 5% | \$47,655,006 |
| Department of Health and Hospitals | \$732,379,471 | \$297,938,593 | 41% | \$434,440,878 | \$225,249,594 | 31% | \$507,129,877 |
| DSS—Office of Family Support | \$47,775,685 | \$42,740,456 | 89% | \$5,035,229 | \$2,407,546 | 5% | \$45,368,139 |
| Corrections | \$14,664,823 | \$4,212,018 | 29% | \$10,452,805 | \$3,553,491 | 24% | \$11,111,332 |
| Department of Revenue | \$303,017,966 | \$276,888,391 | 91% | \$26,129,575 | \$112,866,003 | 37% | \$190,151,963 |
| Department of Labor | \$22,544,911 | \$13,874,176 | 62% | \$8,670,735 | \$1,256,837 | 6% | \$21,288,074 |
| Other | \$110,728,497 | \$86,964,227 | 79% | \$23,764,270 | \$52,202,381 | 47% | \$58,526,116 |
| Total | \$1,550,622,067 | \$888,363,493 | 57% | \$662,258,574 | \$589,664,734 | 38% | \$960,957,333 |

Source: Analysis from State of Louisiana, Division of Administration, Receivables Report for the Quarter ended March 31, 2009

However, to quantify an estimate of the magnitude of the revenue gains that can be achieved using a centralized process, an analysis would need to be conducted in these areas:

- **Current collections process.** It is important to understand the current collections process and how much effort each department is expending to collect debts. This would include understanding their billing processes and how many and which actions they are taking to collect the debt. Where a department was using private collection agencies today; it would be useful to understand the distribution of accounts, the commissions paid and results achieved.
- **Tools currently available.** It is important to understand the level of automation used to gather information on debtors, and to monitor debtor payment arrangements.
- **Age of the receivables in the collections pool.** In the collections world, time is the enemy of collections. A debt that may be very collectable when it is 45 or 90 days old may be in significant jeopardy of not being collected after 180 or 360 days. Aging reports would assist in this analysis. Age of debts is a significant indicator of how much the state would expect to collect.
- **Quality of the debts.** Experience shows that some debts are inherently more collectable than others. For example, when a taxpayer files a return saying they owe \$10,000 but sends in only \$5,000, they still have internalized the fact that they owe the money. While they may not have the ability to pay at that point, they will not deny the liability and likely will work to make a payment. The same is true for non-tax debts owed to government. This analysis would review the debt types and the processes that created the liability to assess the likelihood of payment.
- **Debt types.** Each type of debt has its own specific characteristics that will affect the collection strategies selected along with the challenge in collecting debts. For example, while a Department of Health and Hospitals likely has a significant receivable base that includes many indigent individuals, many may be employed within the state and are able to pay off their debt slowly and over time. Likewise, many of the universities' debts may be student debts that will over time become more collectable, as students graduate and begin full-time employment.
- **Quality of the debtor information.** The more we know about the debtor, the easier it is to collect the debt. For example, when a registered vendor owes money to the state, the state typically has significant information about the vendor. In contrast, if a fine is issued on an abandoned vehicle without license plates, it may be difficult for the centralized collection unit to determine the debtor, let alone collect payment. This analysis would determine the quality of the debtor information in order to determine the collectability of the debts.
- **Legal authority for collections.** As previously stated, it will be important for the centralized collection function to have legal authority to perform necessary and reasonable collection actions. We will review the current legal authorities granted to each of the agencies. Assuming the department would have increased collection authority over the current operations, we would be able to translate that increase in authority to an increased revenue estimate.

While we know the benefits are significant, it would take the completion of the analysis proposed in Phase 1 of the program (see Section Five, above) in order to develop the full estimate for the increase in revenue.

7. Examples from Other States

There are many examples from other states as to the benefits of performing centralized debt collections. Below are just a few examples:

- **Virginia Department of Taxation.** By statute, the Virginia Department of Taxation is authorized to collect delinquent court debts. As of November 2005, the state had \$409 million in fines and court costs more than 60 days past due. In FY07, the Department of Taxation collected \$34.9 million from this program. The Department is authorized to keep 17 percent of the receivables collected.
- **Michigan Department of Treasury.** The Collection Division in the Department of Treasury is the centralized collection department for all delinquent assessed taxes administered by the department and debts owed to state agencies, including some universities and courts. This division also administers the Third Party Withholding program, which is responsible for processing court order garnishments that intercept income tax refunds, vendor payments, state employee's payroll, and other types of payments that are being made by the state of Michigan to their debtor in satisfaction of a court judgment. Within this environment, the state has hired a private vendor to manage both the IT infrastructure and perform most collection functions. As of May 31, 2007, Division records indicated that there were approximately 334,000 delinquent accounts with accumulated tax, penalty and interest balances of \$2.5 billion. For FY06, Division records indicated collection of \$367.6 million.
- **California Franchise Tax Board (FTB).** By statute, the FTB is authorized to collect delinquent court debts. As of June, 2007 the state had over 1.1 million accounts in their inventory. In FY07, the FTB issued over 527,000 demand notices, over 732,000 wage garnishments, and more than 18,000 bank levies. In FY07, the state collected \$72.1 million from this program. The FTB is authorized to keep 15 percent of the receivables collected.

In addition, the FTB also takes collection actions on behalf of the Department of Motor Vehicles (DMV). In FY08, FTB handled approximately 1.2 million accounts for DMV and collected nearly \$156 million. This represented just over 50 percent of the \$310 million in receivables assigned to the FTB.

- **Ohio Attorney General.** The Ohio Attorney General's Office is responsible for collecting all outstanding tax and non-tax debt owed to the state from all agencies. Agencies are required to send debts to the AG soon after they are established, unless they are paid in full. The Revenue Recovery section collects debt by contacting debtors directly, issuing liens, levies and garnishments and working with private debt collection agencies.
- **Iowa Department of Revenue.** The Iowa Department of Revenue has at times collected a number of non-tax debt types, including court debt and debts from the department of natural resources. In FY07, they collected \$25.4 million in non-tax debts.



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