

# Revenue Collections

Ohio Association of Public Treasurers Annual Training Program

Presented by Sara Costanzo, Shareholder

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Weltman – Who We Are

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## Mission and Vision

**Our Mission** is to operate as a full-service creditors' rights organization, dedicated to success in our industry, while building long-term, mutually-beneficial relationships with our clients and communities.

**Our Vision** is to be the nation's leading provider of creditors' rights solution.



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## Strategic Business Units

Our range of services allows for the complete handling of files and matters through each step of the collection, legal, and recovery process, utilizing one or more of our specialty practice groups, or a combination of our services.

<p><b>Consumer Collections</b></p> <ul style="list-style-type: none"> <li>Subrogation</li> <li>Skip Tracing</li> <li>Asset Searches</li> <li>Pre/Post Suit Collects</li> <li>Collateral Recovery</li> <li>Demand Letters</li> <li>Probate</li> </ul>	<p><b>Commercial Collections</b></p> <ul style="list-style-type: none"> <li>Loan Workouts</li> <li>Demand Letters</li> <li>B2B Collections</li> <li>Pre-suit Collections</li> <li>Collection Litigation</li> <li>Arbitration/Mediation</li> </ul>	<p><b>Real Estate</b></p> <ul style="list-style-type: none"> <li>Loss Mitigation</li> <li>Home Preservation</li> <li>Foreclosures</li> <li>Evictions</li> <li>Title &amp; REO</li> <li>Fannie / Freddie</li> </ul>	<p><b>Bankruptcy</b></p> <ul style="list-style-type: none"> <li>Consumer</li> <li>Commercial</li> <li>Reaffirmations</li> <li>Relief from Stay</li> <li>Proof of Claim</li> <li>Adversary Claims</li> </ul>	<p><b>Litigation &amp; Defense</b></p> <ul style="list-style-type: none"> <li>Compliance Litigation</li> <li>Consumer Leasing</li> <li>Federal Court</li> <li>Lending Issues</li> <li>Loan Review</li> <li>Intl. Collections</li> </ul>
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## Today's Overview

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### Overview

- Establishing internal guidelines to handle accounts receivable
  - Timelines
  - Appropriate actions to take at certain intervals
- Identifying sound collection techniques to address non-payers
- Understanding the legal process as an option in handling non-payers

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## Definitions

- Revenue collection - frequently refers to a government agency billing the public or a member of the public for fines, taxes, or any other fees.
  - Collecting outstanding financial obligations from the public that can come in a variety of sources – taxes, license fees, fines, or use of state facilities.
- Revenue collection is also the general collection of revenue for debts owed or owed revenue by persons or businesses.

## Importance

- Accounts and taxes receivable represent an asset to the government. However, accounts receivable can't be used to pay the bills! It is important to convert those receivables into cash payments.
- Revenue estimates often drive expenditures in a local government's budget. These revenues are recognized using different bases of accounting, depending on the type of transaction.
  - Some revenues are recorded when cash is received (cash basis).
  - Other revenues are billed to a customer or taxpayer and should be recorded as accounts (or taxes) receivable in the local government's accounting records and are accounted for using the accrual or modified accrual basis of accounting.

## Duties

- Collect from individuals or businesses according to prescribed laws and regulations.
- Contact taxpayers by mail or telephone to address discrepancies and to request supporting documentation.
- Maintain knowledge of tax code changes, accounting procedures, and theory to properly evaluate financial information.

## Challenges

- There are a plethora of reasons why revenue collection can be difficult.
- Here are the most common issues encountered:
  - **Personal information changes:** People may try to change their address or phone number as a way to avoid paying a debt they owe. People will also fail to communicate changes of information.
  - **Lack of funds:** Insufficient or lack of funds to repay a debt is often an obstacle in revenue collection. Try to accommodate with a smaller project or spreading invoices out. If this happens often, do more customer vetting.
  - **Lack of information:** Inadequate or incomplete information can lead to delinquent churn. If someone enrolls with a credit card that expires, but no contact information, that will inevitably cause difficulties within revenue collection. Without the proper information, resolving the matter can be extremely difficult, if not irreparable.

## Challenges Cont.

- For smaller municipalities or county governments, it's a challenge to implement new processes and procedures for smooth collections.
- There's a need to develop a system and process for:
  - Tax assessments, fees, and charges
  - Billing of taxes, fees, and charges
  - Collection of revenues
  - Deposits and cash handling procedures
  - Auditing of taxpayers
  - Internal auditing
  - Developing, implementing, and evaluating effective collection procedures
  - Tax litigation and legal efforts for delinquent revenues
  - Accounting processes and prioritization of revenue collections
  - Information management, software systems, network structure, and administration

## Create and Review Policies

- Every business/municipality that has self-pay accounts (or offers credit) needs to create policies that outline the processes used to deal with the past due accounts.
  - Review and change standard collection policies on a regular basis.
    - Track changes (noting date and teams who reviewed and/or edited policies)
  - Find out what works in keeping past due accounts receivables at a minimum.

## Things to Consider

- Considerations
  - Accept the philosophy and the fact
    - “It’s ok to collect” cash from residents
    - The economically-distressed can be put on a sliding scale
    - Collect **something**
  - Set the expectation that **payment is due at the time of service**
    - Clearly post messages in the lobby and other areas
    - Indicate what amount “must be paid today”
  - Train staff in collecting cash
    - Assertive language is key
  - Establish a cash management policy and procedures *with checks and balances*

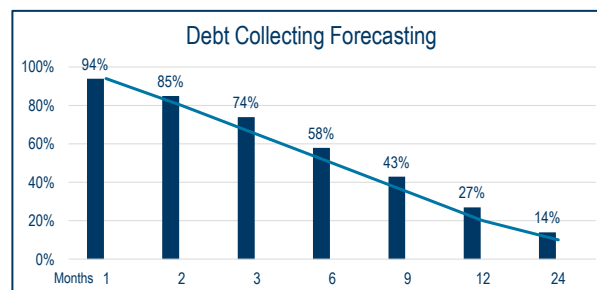
## When to Start

- Timelines
  - Collections begins at day one
    - Perception
      - 9/10s reality
    - Attitude
      - Collect something
    - Reputation
      - Maintain goodwill



## Average Collection Period

- The average collection period is the amount of time it takes for a business to receive payments owed by its clients in terms of accounts receivables.



<https://www.caine-weiner.com/client-access/reference-information/recovery-percentage-based-on-age-of-debt/>



## Average Collection Period Cont.

- Time is money
  - The value of receivables can reduce substantially over a short period of time.
  - The potential to collect receivables that are 90 to 120 days or older decreases to approximately 20 – 60%.
  - The likelihood of recovering a current balance is over 94%; but if the balance remains outstanding for 90 days, the likelihood that the debtor will remit payment is just under 74%.

## Incentives and Add-Ons

- Initial considerations
  - Late payment charges
    - Ordinance
    - Notice
  - Penalties
    - Applied
- Early/pre-payment discounts
- Amnesty programs
- Costs of collection
  - House Bill 5 (post judgement)



## Standardized Practices

- Account contact & follow up
  - Effective debt collection requires maintaining updated information on debtors – including names, addresses, social security numbers, employer identification numbers, and the amount of the debt.
  - Develop standardized practices that also help *debtors* to keep track of debt.
    - For example, for installment payments, use a coupon book or regular invoices that includes the monthly amount due for the full term of the outstanding debt. This serves as both a reminder and a convenience for debtors juggling multiple debt obligations.

## Things to Do

- Timeliness
  - Actions to take:
    - Timely billing
    - Follow up letters
    - Phone calls
    - Promise to pay agreements/notes
    - Pledge of security/collateral
    - Legal action



## Strategies & Guidelines

- Set up policies
  - Include letter timing and when phone calls should be made
    - Understand the reason the debtor is not able to pay the debt, such as illness or other situations that are out of their control. Someone engaged in this type of two-way conversation – as opposed to a lecture or hostile conversation – will more likely make and keep a promise to pay.
  - Amount owed
    - Spend more time and effort to collect large balances, where appropriate
  - Two pitfalls
    - The willingness to write-off small balances
      - Can add up over time
    - Obstinate, imprudent collection efforts
      - Holding onto the collection too long

## Prioritizing

- Make collections a top priority
  - Educate staff on the importance of continued follow-up and contact
  - Approximately five percent of accounts over 90 days past due tend to pay voluntarily.\*
  - It is estimated that accounts that are:\*
    - 90 days past due: 90% collectible
    - 180 days past due: 67% collectible
    - One year old: 40% collectible

## Identifying Sound Collection Techniques

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### Sound Collection Techniques

A checklist: what's working and what's not?

- This is where an analyzation of internal resources, talents, and technologies is worth some time.
- Here are some areas to review internally:
  - Processing of revenue receipts
  - Ability to provide prompt positive revenues
  - Slow billing — are systems and resources prepared to have all billing issued timely?
  - Internal incentives to pursue collections
    - Some departments with collections responsibility lack the incentive to pursue delinquent accounts aggressively. The greater the volume of delinquency, the more secure their work.



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## Sound Collection Techniques Cont.

- Weak enforcement of revenue laws
  - Are all legal processes being leveraged that can be or can penalties/interest/late fees be used in a way that would increase motivation for delinquent citizens to pay?
- Some taxes revenues are self-assessed by the taxpayer
  - Is there a definitive process to ensure that accounts are being paid properly?
- Staff training — a poorly trained staff for collections and proper enforcement techniques may lead to an inefficient and ineffective revenue collection operation.
- Lack of internal controls can result in revenue losses due to the possibility of fraud committed by employees.
- Inadequate records management will make it difficult to follow-up on accounts and increases collection costs.

## Sound Collection Techniques Cont.

- Identifying sound collection techniques *to address non-payers*
- Remedies available for non-payment
  - Options that can be addressed outside the parameters of a court:
    - Settlement
    - Consensual lien or mortgage
    - Collateral
    - Additional guarantees
  - Civil and criminal remedies
    - Suit, judgment, lien, executions
    - Warrant, citation



## Sound Collection Techniques Cont.

- If no arrangements are made and there has been no response, there are a few options to take:
  - Send out a notice with options
    - Amnesty
    - Waiver or penalties or interest
  - Outsource to a third party
  - File legal action



## Sound Collection Techniques Cont.

- Overall strategy
  - Asset review and knowing the debtor
    - Identifying the debtor
    - Locating the debtor
    - Identifying the debtor's financial position
    - Understanding any pressure points



## Sound Collection Techniques Cont.

- Game plan
  - When **not** to pursue a judgment
  - How to effectively get a debtor's attention
    - Pre-litigation procedures
    - Pre-judgment procedures
    - Obtaining judgment

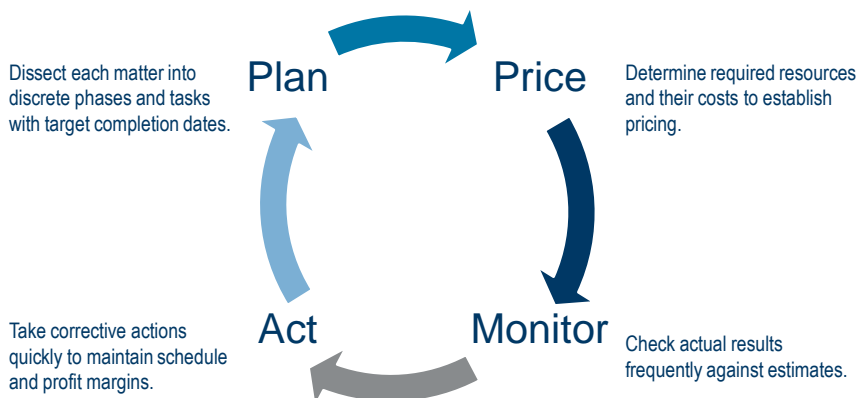


## Understanding the Legal Process

- Develop an understanding of the legal process as an option in handling non-payers
- Litigation considerations:
  - Statute of limitations
  - Documentation
  - Collectability
  - Jurisdiction
  - Venue
  - Cost



## Understanding the Legal Process Cont.





## Understanding the Legal Process Cont.

- Results
  - Promise to pay agreements/notes
    - Extend statute of limitations
    - Waive defenses and counterclaims
    - Acknowledge balance



## Understanding the Legal Process Cont.

- Legal action
  - A judgment may become a lien against any real property owned by the debtor in the county.
  - In Ohio, failure to execute on a judgment for five years will result in the judgment becoming dormant.
  - Non-exempt assets attachable



## Outsourcing

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### Outsourcing

- If you've done all you believe you can internally do, you should be thinking about:
  - How long has it been since you've had a conversation with your leadership internally, or consulted with industry experts on these topics?
  - What opportunities for improved revenue collections and cash flow are you missing?
  - What if you could free up operational resources to focus on taxpayer and constituent services rather than being focused on chasing taxpayers and revenue collections?

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## Outsourcing Cont.

- Legally enforceable debts that are more than 120 days past due generally are referred to either private collection agencies, the state attorney general's office, or another designated agency providing collection services.
- These external entities can institute additional collection activities and serve as a signal about the severity of the outstanding debt obligation, alerting an anticipated increased collection effort.
- This might result in the debtor considering other options, such as reallocating resources or liquidating assets to satisfy the debt.



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## Outsourcing Cont.

- Timing
  - Balance should be considered to control collection costs
    - How long has the item been unpaid?
    - Pattern of payment
      - Note whether there were partial payments or any effort to settle the debt
    - Relationship
      - How long have you been dealing with the person or business?
    - Previous dealings
      - How has the person or business lived up to its commitments in the past?



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## Outsourcing Cont.

- Collection agency
  - A business that pursues payments of debts owed by individuals or businesses to another party
  - First party vs. third party collections:
    - First party agencies
      - Often subsidiaries of the original company to which the debt is owed
    - Third party agencies
      - Separate companies contacted by a company to collect debts on their behalf for a fee



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## Outsourcing Cont.

- Just the facts
  - In 2013, third-party collectors recovered approximately \$55.2 billion in total debt, netting creditors nearly \$45 billion
    - Less than .01% of all collection contacts end in complaints to regulators or the Better Business Bureau.\*
    - The collection industry saved the average American household \$389 in 2013.
      - Represents dollars households would have spent if businesses were forced to raise prices to cover bad debt\*\*



\*ACA International  
\*\*The Impact of Third-Party Debt Collection on the National and State Economies, July 2014

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## Outsourcing Cont.

- Just the facts:
  - U.S. debt collection agencies were estimated to directly contribute:
    - \$724 million of federal tax
    - \$400 million of state tax
    - \$287 million of local tax
    - **Combined tax impact of more than \$1.4 billion**
  - U.S. collection agencies\*:
    - Directly employ approximately 136,100 people
    - Support the indirect and induced employment of more than 95,100 individuals in industries that sell goods and services to debt collection agencies and their employees



## Outsourcing Cont.

- Checklist for choosing a collection agency:
  - Capabilities and experience
    - Do they have the resources to carry out legal action?
  - Reputation/references
  - Are they affiliated with industry associations?
    - Better Business Bureau
    - Association of Credit and Collection Professionals
    - American Collectors Association
  - Do they have established policies and procedures?
    - Ongoing training
    - Compliance

## Outsourcing Cont.

- Compensation
  - Contingency fees
    - House Bill 5 (signed into law Dec. 19, 2014)
    - Set fee
    - Sliding scale
  - Flat fees
    - Fee for service/action
  - Hourly fees
    - Rates per position



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## Questions?



Please feel free to contact me anytime:



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