

Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Scott P. Johnson

SUBJECT: SEE BELOW

DATE: April 21, 2008

Approved

Christine J. Shuppley

Date

4-29-08

**SUBJECT: REPORT ON RFP FOR COLLECTIONS SERVICES FOR THE
FINANCE DEPARTMENT**

RECOMMENDATION

Report on Request for Proposal (RFP) for Collections Services Providers for the Finance Department and adoption of a resolution authorizing the Director of Finance to:

1. Execute agreements for collection services with Professional Recovery Systems Inc. (San Jose, CA), the primary contractor with a set fee equal to 9.9% of debt collected or a flat fee of \$25 dollars, whichever is greater; and Collection Bureau of America (Hayward, CA), the secondary contractor with a set fee equal to 14.75% of debt collected or a flat fee of \$25 dollars, whichever is greater, for an initial term of three years (May 13, 2008 through May 12, 2011) for the collection of delinquent accounts.
2. Exercise three one-year options to extend the agreements subject to the appropriation of funds.

OUTCOME

To provide collection services for various types of accounts receivables as well as delinquent tax and permit fee payments for the Revenue Management Division of the Finance Department.

BACKGROUND

The Finance Department currently collects on a large variety of accounts on behalf of City departments such as subrogation of liability claims, returned checks, taxi space rental, police board-ups, property rentals, extradition fees, septic tank haulers, staff charges for work performed, Fire permits, mobile home fees, business tax, and regulatory permits. As of March 1, 2008, the City is currently owed \$21.8 million in outstanding debt.

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On June 20, 2006 Council approved the Collection Agency Referral Fee which may be added to delinquent City accounts receivable to offset the cost for collection activities when the City refers a delinquent account to a collection agency. Delinquent accounts are unpaid debts owed to the City that are over 90 days past due.

On September 20, 2007, an update on the Finance Department's Revenue Collection activities was presented to the Public Safety, Finance and Strategic Support Committee. Included in the update was a recommendation that the committee forward to the City Council for approval, Finance Department's request to issue a Request for Proposal to utilize Collection Agencies to increase the City's revenue and cash flow as a means of improving the City's strategy in resolving delinquent accounts. Council approved the issuance of Request for Proposal for debt collection services on October 2, 2007, Item 2.8.

ANALYSIS

As of March 1, 2008, the City is currently owed \$21.8 million in outstanding debt. Approximately half of the dollar amount owed to the City is for accounts which are 731 days or more overdue. Accounts are currently collected based on the amount owed and statute of limitations. In most instances, the statute of limitations to collect on past due accounts is four years or 1,460 days. Through these services, the City will access another venue for collecting on accounts which are reaching the statute of limitations and be able to identify accounts which are uncollectible and require to be written off.

Currently, Finance staff collects on funds for the majority of accounts through extensive research to locate the debtor and follow-up through correspondence and/or phone calls. If a debtor refuses to pay or make arrangements for payment, staff pursues legal action through either small claims court or referral to the City Attorney's Office. Upon approval of the proposed collection contract, staff will have a third collection option: to forward the account to a collection agency. The decision to forward an account to a collection agency depends on the debtor's assets or the cost-effectiveness to pursue additional collection activity by City staff.

The Finance Department has strategically re-aligned the Revenue Management Division's work plan to reduce the level of delinquent accounts Citywide and has increased efforts to conduct fee and tax compliance reviews to assure the City is paid amounts due consistent with the City's Municipal Code and various contractual agreements. As reported in the second quarter fiscal year 2007-2008 Revenue Collection Strategic Plan to the Public Safety Finance and Strategic Support Committee, the Finance Department's collection program has generated over \$7,024,379 in additional revenue at a cost of \$636,447, yielding a rate of return on the City's investment of \$9.06 for each dollar spent on these efforts.

Finance/Purchasing released a Request for Proposal (RFP) for Collection Services on December 4, 2007 through the City's e-procurement system and directly notified 11 companies. The RFP allowed for the award of two contracts to create a competitive environment between two collection agencies. If money owed to the City on an account is not collected within a specified

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timeframe by the first collection agency, the City has the option to reassign that account to another collection agency.

Through the City's e-procurement system, over 400 companies were notified, 59 companies viewed the requirements and the following companies submitted proposals by the January 8, 2008 due date:

- Alliance One Receivable Management, Inc. (San Diego, CA)
- Collection Bureau of America, Ltd (Hayward, CA)
- Muni Services, LLC (Fresno, CA)
- Municipal Services Bureau (Austin, TX)
- Professional Recovery Systems, Inc. (San Jose, CA)
- Progressive Financial Services, Inc. (Tempe, AZ)
- Rash-Curtis & Associates (Vacaville, CA)

Evaluation Team: A three-member evaluation panel consisted of representatives from the City's Revenue Management Division of the Finance Department. A representative from the Purchasing Division of the Finance Department facilitated all team meetings.

Minimum Qualifications: The initial proposal review consisted of a pass/fail assessment to ensure that all minimum qualifications were met and that all proposals were complete.

The proposal submitted by Alliance One was determined to be non-responsive because Alliance One did not include three references in which 2,000 or more accounts were referred to their agency annually for collection. In addition Alliance One did not submit a signed Proposal Certification, which was a requirement of the RFP. Alliance One was notified of the City's decision in writing, and provided the opportunity to protest the decision to the City's Chief Purchasing Officer. The City did not receive a protest letter from Alliance One.

Technical Evaluation: The technical evaluation consisted of a thorough review of each company's written proposal for staffing, team make-up, collection recovery rates, technical capability, and demonstrated experience in collections similar in account size and complexity to the City's requirements.

Cost Proposal: Proposers were asked to provide a fee structure based on the total amount collected per account not to exceed 15%, or \$25 whichever is greater. The Cost proposals were scored based on fee structure offered to the City by Proposers in relation to the City's current cost recovery fee. This fee structure was used to evaluate the cost score.

Oral Interview/Presentations: The evaluation team determined that five proposers earned scores in the competitive range and were invited for oral interview/presentations. Rash-Curtis and Associates was not considered for further evaluation due to low technical scores. Rash-Curtis and Associates was notified of the City's decision, offered a debriefing, and provided the opportunity to protest the decision to the City's Chief Purchasing Officer. The company did not protest the City's decision.

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Oral Interview/Presentations were held on March 7, 2008 to clarify responses to the RFP, demonstrate proposers' knowledge and ability to meet the City's requirements, and to meet key personnel that would be assigned to the City's account. Technical scores were finalized upon completion of the oral presentations.

Final scores and ranks are summarized in the following table:

Rank	Company Name	Technical	Cost	Local Business Preference	Small Business Preference	Total Score
	Maximum points/weight >>>	65	25	5	5	100
1	Professional Recovery Systems Inc.	53	25	5	5	88
2	Collection Bureau of America, Ltd	59	17	N/A	N/A	76
3	Municipal Services Bureau	56	17	N/A	N/A	73
4	Muni Services	49	17	5	N/A	71
5	Progressive Financial Services Inc.	51	18	N/A	N/A	69

Local and Small Business Preference: In accordance with City policy, ten percent of the total possible evaluation points were reserved for local and small business preference. The preference had no effect on the award recommendation.

Contractual Labor Requirements: Collection services are subject to the City's Living wage requirements.

Protest Period: The City's RFP process provides the opportunity for unsuccessful proposers to protest the City's award recommendation. The ten-day protest period afforded to Proposers commenced on March 5, 2008 (with the notification of award recommendation to all participants) and ended on March 15, 2008. The City's Chief Purchasing Officer did not receive a protest.

Recommendation: Based on the evaluation process as described above, Professional Recovery Systems Inc. and Collection Bureau of America, Ltd earned the highest scores and submitted the most advantageous proposals meeting the requirements of the RFP.

Summary of Agreement and Implementation Plan: Compensation will be paid as a fixed fee structure based on a percentage of the delinquent accounts collected. The primary collection agency, Professional Recovery System's fee structure is 9.9% or a flat fee of \$25 whichever is higher and Collection Bureau of America the secondary agency's fee structure is 14.75% or a flat fee of \$25, whichever is higher of debt collected. Collection fees include all anticipated costs.

The fee structure is fixed for the initial three year term of the agreement, as well as all option years (six years total). Both agreements include a complete statement of work defining the services performed, to include screening delinquent accounts for valid addresses, phone numbers, credit reporting, skip tracing, and City reporting requirements.

Initially, approximately 8,000 accounts will be submitted to the two agencies for collection with the higher percentage of accounts assigned to Professional Recovery System as the primary collection service, with the remaining accounts assigned to the secondary agency Collection Bureau of America. After the initial submission to both agencies, accounts will be assigned to the collection services on monthly basis or as needed.

Because collection agencies specialize in recovering certain types of accounts based on the agency's expertise; it is to the City's advantage to contract with more than one collection agency. Also, if after a designated time period the original collection agency has not recovered the debt, it will be reassigned to the other agency, thereby creating a competitive environment between the two collection services.

Each collection service will remit to City on a monthly basis all payments collected on behalf of City less their fees earned per the fee structure in the agreement. The collection services agencies will also submit a summary statement /fee analysis which accurately reflect the amounts collected and fees earned during that month.

POLICY ALTERNATIVES

Alternative #1: Hire City staff to perform the collection duties.

Pros: All collection activity would be performed in-house, which would save the City the recovery fee paid to collection agencies.

Cons: Current staff does not have the resources to undertake a project of this size and no budget has been approved for additional staff which would be required to accomplish the work.

Reason for not recommending: No budgetary resources are identified for this work effort.

PUBLIC OUTREACH/INTEREST

- Criterion 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
- Criterion 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- Criterion 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

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Although this item does not meet any of the above criteria, this memorandum will be posted on the Council Agenda for May 13, 2008. To outreach potential Contractors, this RFP was advertised on the City's Bidline/RFP Depot bid notification website. In addition, a RFP announcement was emailed to eleven Contractors directly.

COORDINATION

This memorandum was coordinated with the City's Manager's Budget Office and the City Attorney's Office.

FISCAL/POLICY ALIGNMENT

This Council item is consistent with Council approved Budget Strategy Memo General Principle #2, "We must focus on protecting our vital core City services."

COST IMPLICATIONS

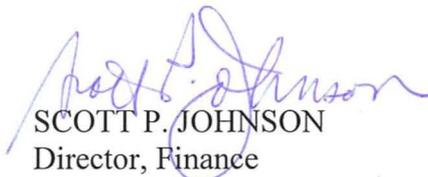
This is a contingent fee-based contract. The fee will only be paid after Contractors have successfully collected on delinquent accounts. Fee structures are in alignment and pursuant to the City of San Jose Collection Agency Recovery Fee approved by City Council for Collection Agencies in June 2006, which capped the recovery fee at 15% or \$25.00, whichever is higher. Staff anticipates that the City will assign approximately \$15,000,000 worth of delinquent accounts between the two Contractors over the next three years.

BUDGET REFERENCE

Not applicable.

CEQA

Not a Project.


SCOTT P. JOHNSON
Director, Finance

For questions please contact Scott P. Johnson, Director, at (408) 535-7001.