



# Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Scott P. Johnson

**SUBJECT:** SEE BELOW

**DATE:** September 11, 2007

Approved

Date

9/20/07

**CITY DISTRICT:** City-wide

**SUBJECT: REQUEST FOR PROPOSAL FOR DEBT COLLECTION SERVICES**

## RECOMMENDATION

As directed in the Mayor's June Budget Message, staff is requesting approval for issuance of a Request for Proposal for debt collection services for a three-year term with three additional one-year option periods.

## OUTCOME

Approval for issuance of a Request for Proposal will result in contracting with a pool of collection agencies to enhance the City's collection efforts.

## BACKGROUND

On June 20, 2006, Council approved the Mayor's Budget Message, which included direction to the City Manager, City Attorney, and City Auditor to return to the Council in 45 days with a Debt Collections Request for Proposal. Council directed that this RFP should allow for outside companies to compete for one or more contracts to collect debt on behalf of the City and be based on revenue recovered, where the company would receive a percentage of the total amount of debt collected. Due to vacancies and a focus on the successful completion of the Business Tax Amnesty, this work effort was delayed.

On June 20, 2006 Council approved the Collection Agency Referral Fee to offset the cost for collection activities when the City refers a delinquent account to a collection agency.

On September 20, 2007, an update on the Finance Departments 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 for the services of Collection Agencies to increase the City's revenue and cash flow as a means of improving the City's strategy in resolving delinquent accounts.

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 September 1, 2007, the City is currently owed \$22.3 million in outstanding debt. Delinquent accounts are unpaid debts owed to the City that are over 90 days past due. Some of the debt owed is uncollectible since it may exceed the statute of limitations for collection or the debtor declared bankruptcy.

To illustrate an overview of the City's outstanding accounts, the table below consists of the aging periods and number of delinquent accounts and dollar amounts for the Business Tax and Citywide Accounts Receivable programs considered delinquent (90 days and over).

**TABLE 1**

<b>DAYS ACCOUNTS ARE OVERDUE</b>	<b>NUMBER OF ACCOUNTS</b>	<b>TOTAL DOLLAR AMOUNT OF PAST DUE ACCOUNTS</b>
90-120 <sup>(1)</sup>	20,583	\$ 4,419,515
121-365 <sup>(2)</sup>	6,663	\$ 5,345,351
366-730	635	\$ 1,149,214
730+	2,723	\$ 11,687,438
<b>Total</b>	<b>30,604</b>	<b>\$22,331,518</b>

(1) Includes \$819,044 representing 7,818 accounts in overdue Business Tax reported as 90 days overdue in the Business Tax application, \$617,731 representing 2,163 accounts in overdue Fire Permit invoices reported as 90+ days in the Fire Permit application, \$2,378,184 in overdue invoices for Administrative Citations reported as 90+ days in the Administrative Citations Receivable System, and \$10,901 in overdue utility invoices as reported in the Consolidated Utility Billing System.

(2) Includes \$3,031,657 representing 5,966 accounts in overdue Business Tax reported as 200+ days overdue in the Business Tax application and \$377,652 representing 8,533 overdue accounts in overdue utility invoices as reported in the Consolidated Utility Billing System.

As noted in Table 1 above, approximately half of the dollar amount owed to the City is for accounts which are 731 days and more overdue. Accounts are currently collected based on the amount due and statute of limitations. The statute of limitations is currently four years or 1,460 days in most instances. In addition to collecting on accounts which are reaching the statute of

limitations, through this RFP, the City will also be able to identify accounts which are uncollectible and require to be written off.

Currently, City 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, the City staff decides whether to pursue legal action (small claims, referral to City Attorney's office) or 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.

Over the past year, 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 Update on Finance Department Revenue Collection Memo, dated September 6, 2007, during the Pilot Program period of January 2007 through June 2007, the Department's pro-active efforts have generated over \$5,276,942 in additional revenue at a cost of \$314,813 yielding a rate of return on the City's investment of \$16.76 for each dollar spent on these efforts.

Until June 30, 2006, Finance forwarded uncollectible accounts to the City's collection agency, Professional Recovery Systems. These accounts are identified as "skip", since the City does not have forwarding information available and/or the collection of these accounts is not cost effective for the City. This company was compensated through a percentage of the debt recovered. The contract with Professional Recovery Systems expired on June 30, 2006.

## **ANALYSIS**

The objective of this Request for Proposal (RFP) is to solicit responses from collection agencies with the option to award one or more contracts to collection agencies based on the qualifications and experience of these companies. Furthermore, the RFP will establish a framework to provide for competition among collection agencies.

In the collection industry, some firms specialize in collecting only certain types of accounts based on the companies' areas of expertise and successes in collecting on specific types of accounts. For example, some collection agencies specialize in the collection of parking tickets, citations, permits, or fines. After receipt of proposals, if advantageous to the City, the Director of Finance may award contracts to specialized collection agencies.

Secondly, Finance plans to create a competitive environment for collection agencies under contract. In the RFP, Finance will describe a consecutive approach for assigning delinquent accounts to collection agencies. In combination with the Council approved Collection Agency Referral Fee, the Finance Department will assign a delinquent account to a collection agency for a specified period. The collection agency will receive a flat fee equivalent to the Collection Agency Referral Fee for the successful collection of the delinquent account. If the money owed is not collected within the specified timeframe, the account will be automatically assigned to a

second collection agency, which will be compensated through a percent of money collected. In the Request for Proposal, collection agencies will have the choice to submit a proposal for both compensation models. The Finance Department contemplates developing a “pool” of collection agency companies in which accounts may be assigned by the Director of Finance (or designee) based on the collection agencies respective specialty and the compensation model they propose in their response.

It is important that the Finance Department assigns accounts strategically to collection agencies since the City and collection agencies use different tools to collect on funds due. For example, if a debtor fails to make arrangements for payment with a collection agency and the collection agency identifies that the debtor has assets as a means to pay the debt (i.e. employment, owns a home, etc.), the collection agency can return the account to the City to pursue proper legal action such as referral to the Small Claims Court or placing a lien on real property to the extent legally allowed. Furthermore, certain debt collection elements are only available to government agencies, such as the use of the State of California Tax Intercept Program, which is used to collect on judgments against debtors, and the use of the Department of Motor Vehicles’ (DMV) records for skip tracing.

**Scope of work:**

The City of San Jose frequently has individuals, businesses, and government agencies that have not paid balances due to the City. The collection agencies would be expected to pursue collections of assigned funds once the Finance Department has determined if this intervention is necessary.

**Evaluation of Proposals:**

Proposals received by the deadline will be evaluated by representatives of the Finance Department and stakeholder departments with large accounts receivable balances. An interview may be part of the evaluation process. Table 2 below outlines the factors for evaluation.

**TABLE 2**

<b>Evaluation Criteria</b>	<b>Description of the Evaluation Criteria</b>	<b>Weight of the Evaluation Criteria</b>
Cost	Cost detail for all Services provided	15%
Agency overall experience/ Capabilities	The collection agency will provide information regarding its collection experience, business organization, collection personnel and training specifically with government assigned accounts.	20%
Customer Service	The agency will be added to describe the procedures and type of accounts when dealing with customer service issues specifically for government assigned accounts.	25%
Client References	The agency must identify at least three (3) references that can be contacted regarding their recent experiences on	15%

	accounts similar to those of the City Of San Jose.	
Financial Capacity	Evaluation of financial statements and independent financial reviews.	5%
Local Business Preference	Business with a legitimate business presence in Santa Clara County in accordance with the City's ordinance titled "Contracting Preferences for Local and Small Businesses."	5%
Small Business Preference	Local Business with thirty-five or fewer employees in accordance with the City's ordinance titled "Contracting Preferences for Local and Small Businesses."	5%
Information Systems	The systems available to enable the City of San Jose to electronically interface with the collection agency.	10%

**EVALUATION AND FOLLOW-UP**

**Milestones for RFP process and Award of Contract**

The table below outlines the scheduled milestones for the RFP process and award of contract. Staff expects to award contracts by January 7, 2008.

**TABLE 3**

<b>Description of Milestones</b>	<b>Dates for Expected Completion of the Milestones</b>
Approval of Council Memorandum to issue RFP	10/2/2007
Issuance of RFP	10/4/2007
Pre-Proposal Conference (non-mandatory)	10/25/2007
Deadline for Questions and Answers	11/2/2007
Submission Deadline for Proposals	11/16/2007
Evaluation of Proposals Completed (including Oral presentations by proposers)	11/30/2007
Negotiation of Contracts	12/7/2007
Announcement of Award Recommendations and Start of Protest Period	12/14/2007
Completion of Protest Period	12/21/2007
Award of Contracts	1/7/2008

### **POLICY ALTERNATIVES**

**Alternative:** Hire staff to perform the collection duties.

**Pro:** All collection activity would be performed in-house, which would save the City the percentage paid to the collection agencies and control the collectors' actions.

**Con:** 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**

- Criteria 1:** Requires Council action on the use of public funds equal to \$1 million or greater; **(Required: Website Posting)**
- Criteria 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)**
- Criteria 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)**

While this memorandum does not meet any of the above criteria, this memorandum is posted on the City's website for the January 7, 2008 Council Agenda.

### **COORDINATION**

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

### **FISCAL/POLICY ALIGNMENT**

The RCSP is consistent with the budget balancing strategy principle to focus on improving employee productivity and continuously improving business practices, including streamlining, innovating, and simplifying City operations so that services can be delivered at a higher quality level, with better flexibility, and lower cost. This program maximizes revenue generation, which furthers the City's overall economic goals.

**COST SUMMARY/IMPLICATIONS**

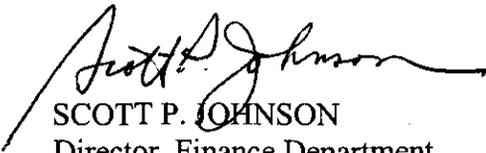
The cost will be off-set by the Collection Agency Referral Fee that the agencies will collect prior to remitting the account delinquent balance to the City.

**BUDGET REFERENCE**

Not applicable.

**CEQA**

Not a project.

  
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For questions, please contact Scott P. Johnson, Director at (408) 535-7000.

