Maximize Revenue Potential

A guide to improving collection efforts
in the Public Sector

Experian℠
Public Sector

An Experian white paper

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Five years of economic difficulty have taken a toll on the fiscal health of state, local and even federal government agencies. Declining tax revenues coupled with the reluctance of many jurisdictions to raise their tax rates and fees lie behind the revenue problem. Housing values have yet to recover in many areas, and the national unemployment rate remains stubbornly high, meaning significant new or higher rates of returns are hard to come by.

In order to continue to deliver the services citizens expect and have paid for, government agencies responsible for growth can't afford to neglect any potential — and politically low-risk — sources of additional revenue streams.

One important but only partially realized source of revenue comes from overdue obligations. Such obligations take on many forms and often receive varying degrees of attention based on the collection resources and processes that exist within respective agencies. Some examples include:

- Business, personal and property taxes
- Child support
- Fines
- Court fees

Member companies in the accounts receivable management (ARM) industry vary widely in their estimates of how much outstanding obligations government entities sit on. Even at the low end of $15 billion, the sum is nontrivial. Other estimates put the universe at $200 billion, and a recent report from the nonprofit State Budget Solutions[1] group pegged the total outstanding debt among the 50 states at an astounding $631 billion. This sector clearly serves as a sizeable and viable option for immediate revenue growth.

Many states, counties and municipalities — and especially those that don't carry long-term, unfunded pension obligations — could substantially benefit from minor improvements to collections processes to boost their fiscal health. Getting at overdue citizen obligations, however, requires not merely incorporating timely and efficient processes or revving up existing account activities, but also changing the way governments strategically think about debt monitoring and collections.

In contrast to private companies, government agencies in some cases have access to more powerful collection tools to leverage when imposing liens, license holds and garnishments. However, they often miss out on important techniques commonly used in the private sector to boost collection efforts due to inadequate resourcing.

Specifically, government agencies often fall short of implementing two best practices for maximizing collections:

- Monitoring, segmenting and prioritizing receivable accounts
- Leveraging timely and relevant information for greater insight into skip tracing

[1] http://www.statebudgetsolutions.org/publications/detail/state-budget-solutions-third-annual-state-debt-report-shows-total-state-debt-over-4-trillion

As a result, the public sector tends to lag behind the private sector in recovering collectible revenue. This lag isn't due to lack of effort, but rather, the lack of proper prioritization on the accounts with the highest potential for repayment of a delinquent obligation. Instead, public sector agencies prioritize their debts either by the age or the size of the obligation. This, coupled with across-the-board methodologies for letters and calls, often causes for inefficiencies in the collection process or pursuit of accounts that are truly uncollectable.

Picturing public sector collections

Experian,® in cooperation with *Governing Magazine*, recently completed a nationwide survey of governmental agencies. The survey sought to determine the types of collection efforts in which governments engage and looked at areas where those entities face challenges to better collect. Experian's collection professionals then compared the government activities with commercial best practices to identify those processes underutilized in the public sector. This white paper presents those practices.

The survey drew responses from local, state and federal government entities. Respondents were comprised of those applying a full spectrum of collection techniques for government revenue growth across varying sources.

Not surprisingly, governments are mainly using the traditional tools for collections. Eighty percent of respondents levy penalties and interest on outstanding debts, and 75 percent apply liens, garnishments and license holds. The majority of governments are equipped to handle payments electronically, which eases the friction for those citizens and business groups inclined to pay in the first place.

Moreover, governments don't always handle collections functions independently. About 50 percent augment their collection efforts with private collection agencies, an often costly expense to incur with a growing industry worth approximately $17 billion in revenues.[2]

This is where gaps in collections process best practices start to widen. When asked to name the top challenge to their collection processes, governments most often say it's the difficulty in locating debtors whose whereabouts don't in fact match information the government has on hand. That is, people or businesses have skipped on their debts.

Yet only a quarter of respondents report using skip tracing, a way of analyzing a variety of publicly available records to find individuals and business entities. Skip tracing is common in the private sector, and it's something the top-tier collections firms routinely offer. The use of skip tracing will reveal those debtors and help boost collections whether the government entity chooses to continue doing its own collections or instead prefers to outsource.

Locating accounts is only one piece of information needed to optimize collections processes. For instance, less than 14 percent of survey respondents use income data on debtors, and only 11 percent use information about debtor assets. Government agencies who possess this information achieve a greater perspective into debtor ability to pay or financial wherewithal. Yet only about a fifth of survey respondents say lack of data availability hinders their collection efforts.

[2]http://news.yahoo.com/12-billion-collection-agencies-industry-flush-accounts-084744170.html?_esi=1

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Information boosts collections

It becomes clear: Government agencies are limiting their collections potential because they often don't know what they don't know. Think about the power more extensive debtor information can have on improving collections processes.

As we've noted, government agencies that prioritize their debt collection accounts tend do so in the obvious, traditional ways. (Notably, a quarter of the respondents report they don't prioritize at all.) Thirty-five percent prioritize by the age of the debt, that is, how long past due it is. Another 25 percent prioritize by the level of dollars owed. On the surface, that's logical, as common sense dictates going for the large debts rather than the small ones, and justice seems to dictate going after those who have owed money the longest.

However, critical analysis based on ability to pay and income can point the way to more sophisticated priority-setting and yield more money for taxpayers.

For example, suppose one debtor has a year-old obligation of $10,000. Another debtor has a $5,000 obligation that is six months old. Under the standard priority schema, the agency defaults to exerting its efforts to the older, larger debt. Now, suppose data provided by more comprehensive data sources and analyses shows the owner of the older debt is unemployed, underwater on his mortgage and only has enough money for groceries in his bank account. He has no income and effectively no assets. Suppose the more recent debtor has a successful landscaping business and an up-to-date line of credit connected to her bank account. Clearly, she's the better prospect on which to concentrate collection efforts. Quite simply, it's better to get $5,000 from an account capable of paying than zero from the account that isn't.

Governments can augment income and asset data with even more information and analysis to fine-tune where accounts fall on the priority list. Knowing the credit health and history of businesses and individuals along with their debt payment behaviors can help collectors more carefully refine their priority lists of where to concentrate their collection efforts.

This information can tell collectors whether a person or a business is in financial distress and to what degree they can handle payments on outstanding debt. That type of information injected into priority-making will result in more efficient collection.

A caveat: State laws differ concerning whether agencies can obtain credit ratings in connection with tax collections, and when in the collection process they can obtain them. For example, in California, the Franchise Tax Board may pull a credit report but only after placing a lien on the property involved. When it comes to court-ordered obligations, such as child support, governments generally enjoy far more leeway.

Remember, the goal is the greatest possible service to taxpayers, and that can be achieved by maximizing collections.

Technology and collections

Governments too often attempt to reduce backlogs using the brute force method, namely, adding people and trying to speed up processes that are suboptimal to start with. This is both expensive and unlikely to produce the desired result. In the case of collections, adding tools that allow for seamless data integration and advanced decisioning to more refined monitoring, segmentation and prioritization of accounts constitutes the third leg in the stool supporting higher revenue growth.

The Experian survey shows more than a third of state and local agencies cite difficulties in incorporating tools into their efforts to improve debt recovery. Furthermore, while everyone uses mail and well more than half solicit in person or by phone, fewer than 20 percent of government collectors use interactive voice response (IVR) systems. This technology can boost the productivity of collectors by offloading routine collection calls and letting employees concentrate on the more difficult cases.

IVR technology can route inbound calls automatically to the most appropriate agent, record calls for quality control and training purposes, collect statistics on call length and productivity, and incorporate predictive dialing to minimize wasted time for collectors.

IVR can enhance payment levels for high-volume or regularly occurring obligations such as parking and traffic tickets or utility bills. It gives individuals a fast and low-effort way to pay via telephone (and increasingly with mobile devices), thereby avoiding the creation of past-due obligations in the first place.

Government agencies also can benefit from other technology-enhanced business practices of the private sector. These include:

- Centralizing various departments' and bureaus' receivables into a single collection point so an account's entire scope of liability is easily visible. This also can help the jurisdiction create a single workflow for all of its collections categories. That, in turn, leads to more productive use of resources, easing the burden on constituents, who now can go to one "window" for all of the information they need.
- Automated prioritization of accounts, according to parameters the jurisdiction sets but using the collection industry's sophisticated, predictive algorithms. For example, the decision on which accounts to forward to third-party collectors may be made faster and more consistent, saving staff time and improving efficiencies.
- Push technologies that automatically generate voice or text messages when mobile phone numbers are available to notify accounts of obligations. Push technology can work on an inbound basis, too. For example, third-party data services retained by agencies can notify them automatically when something significant about an account changes. This could be a change in assets or a settlement of another outstanding debt.

In short, government agencies have many opportunities to improve revenue growth from outstanding taxes, fines and fees. Before adding resources or simply turning over inefficient processes to collections contractors, they can vastly improve processes and total collections by using robust data, advanced analytics, account segmentation strategies and new technology.

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09/12 • 6436-CIS