

Issue Brief

Revenue Revival

How government agencies can use an innovative strategy to optimize debt collection efforts and turn stale debt into immediate revenue

Many government agencies hold an enormous amount of outstanding receivables, which is debt owed to the government agency by citizens or businesses. With the right tools and technologies, agencies can explore new ways to maximize debt collection efforts and take advantage of the enormous opportunities for revenue generation presented by delinquent debtors.

For many agencies, the simplest way to offset the costs of unpaid parking tickets, water bills and ambulance services is to either raise costs or slash services. But while reduced library hours and higher utility bills can create savings for a state or local agency, it's not the most attractive way to generate revenue.

Third-party debt collection agencies have been the main beneficiaries of parking fines and unpaid bills. According to a recent industry study, debt collection agencies recovered about \$54.9 billion of debt. Of that, about 2.1 percent – more than \$1 billion – was from government work.¹

The Challenges of Converting Arrears into Revenue

This scene is changing as a growing number of government agencies discover the potential to turn debt collection into a valuable source of revenue that wouldn't otherwise be available to them.

Consider, for example, Chicago. In 2012, the Windy City faced a whopping \$635 million deficit. However, by selling its parking ticket stale debt portfolio, and reporting delinquent debtors to credit agencies, public officials collected approximately \$33 million in 2013 – a significant increase over the \$16 million to \$18 million typically collected, and without the added costs of collection that would have been incurred to manage the portfolio over time.²

However, shifting from referring cases to collections agencies to maximizing revenue potential requires an understanding of the existing problems surrounding debt collection.

Debt has long been a persistent reality for government agencies. Uncollected U.S. outstanding receivables now stand at an estimated \$200 billion and a significant portion of these accounts are as old as 12 years. In the meantime, budget gaps continue to expand by the billions as the demand on government services grows and revenues remain flat.

To address this mounting debt, municipalities have developed their own debt collection strategies. For some, the process involves constantly reaching out to delinquent account holders via phone and traditional mail in the hopes of a response. For others, the decision to farm out debt to a third-party collector is a swifter alternative. These third-party debt collection agencies then retain a percentage of the monies collected as fees for services, and remit the balance to the municipality.



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The problem with this approach is that while it helps to whittle down a debt portfolio, it fails to optimize the potential revenue that could be kept in house. The use of third-party collection agencies requires a sophisticated vendor management approach to incentivize the collection agencies and create a competitive market to ensure optimal results. There is often no oversight of various third-party collection efforts, so there is no assurance the collection is efficient.

A New Strategy and New Standards for Addressing Accounts Receivable Debt

It's no surprise cash-strapped government agencies are taking a step back to examine their accounts receivables to see how their portfolio might generate a fresh infusion of revenue. Now more than ever, agencies are overhauling their regular cycle of collection for a more holistic, end-to-end approach that maximizes yields, stems the generation of future debt and creates budget certainty with repeatable future accounts receivables performance. In fact, according to a May 2014 research survey of 133 state and local government officials conducted by the Governing Institute, 45 percent of respondents said they consider debt something that can be turned into or seen as an asset.³

Yet many agencies are unsure and unaware of how to implement the most effective collection strategies to meet key objectives. Fortunately, a revenue assurance strategy can fuel this transformation by establishing standards that promise to help agencies achieve three primary goals:

1. Turn stale debt into a new source of revenue
2. Take action to reduce delinquencies and minimize current debt
3. Improve future accounts receivable streams

A Revenue Assurance Strategy: Three Steps to Solving the Problem

1. Turn stale debt into a new source of revenue.

For many agencies, a debt portfolio is nothing more than a line item on a budget to roll over year after year. In fact, according to Governing Institute's research study, only 16 percent of respondents have a defined strategy for stale debt monetization. When asked if they would ever work on their debt portfolio again once it becomes stale, 46 percent of respondents said they didn't know.

It's time for government officials to view a stale debt portfolio as an asset rather than a liability or non-collectable debt. Rather than write it off as having ostensibly zero value, there are ways to extract new revenue from stale debt for immediate budget and balance sheet relief.

Critical to success is finding the right experts to examine a debt portfolio and recognize its true value in the open market. For example, \$2 million of unpaid parking tickets may be worth only \$1 million in the open market, but it's still a valuable asset that can generate revenue and fill government coffers immediately.

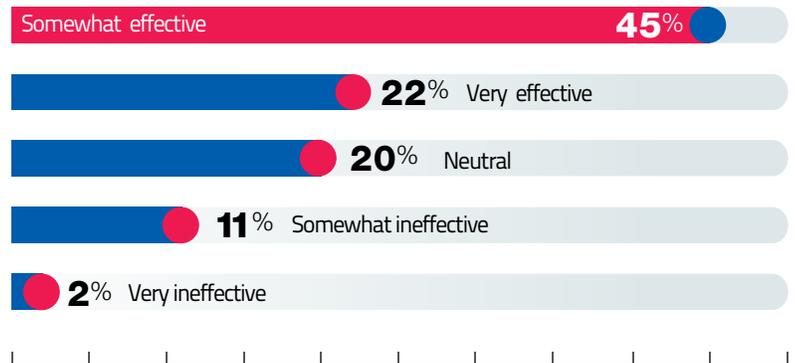
Relying on a combination of consultative services and evaluation tools based on data and analytics can also help determine the viability of a stale assets sale and the potential market value of uncollectable debt. High-risk account identification, liquidity of assessments, probable asset calculation and potential liquidation rates are all tools provided by seasoned consultants that can help agencies turn debt into new revenue.

2. Take action to reduce delinquencies and minimize current debt.

As important as it is to closely examine the potential value of unpaid parking tickets and forgotten water bills, one of the smartest ways to address stale debt is to prevent it from accumulating in the first place.

To thwart the growth of stale debt, it's critical that agencies examine the current processes they have in place for debt collection. For some agencies, a point-of-service collection process is the most effective strategy. For others, a letter-writing campaign is more likely to optimize the debt collection process. The Governing Institute survey, for example, reveals that 36 percent of respondents cite in-person

Effectiveness of Government Debt Collection Strategies



SOURCE: GOVERNING INSTITUTE "REVENUE ASSURANCE" SURVEY, MAY 2014

communication as the most successful method of contacting debtors for collection purposes. However, the most effective solution — be it in-person, phone, mail, Web or social media — is the one that best suits an agency's preferred mode of communication and preferred collection strategies.

The use of collection optimization tools is another important strategy for reducing delinquencies and preventing debt accumulation. These tools assess each constituent or business at the account level to determine the best contact method, time and message for engagement.

A significant part of minimizing current debt involves evaluating citizens' ability to pay back what they owe. For example, imagine being able to identify which accounts should be pursued most aggressively or show the greatest signs of delinquency. By simply scoring and segmenting these accounts, agencies can prioritize their collection efforts, thereby increasing the chances of recovery.

Another approach to prioritizing collection accounts is using credit-based scoring models. By relying on a wide variety of these models, agencies can identify which accounts have the greatest and least recovery potential based on credit activity and recovery scores.

Finally, agencies can minimize future uncollectable transactions through the use of cutting-edge skip-tracing tools, address standardization and verification, and point-of-new service tools and analytics. Rather than wait until monies become irretrievable, savvy agencies minimize future difficult-to-collect accounts by ensuring the right people are receiving the right benefits from the time of initial transaction, as well as ensuring those responsible for any outstanding monies owed can be contacted when necessary.

Together, these combined strategies can significantly help agencies monitor and address at-risk accounts faster and more efficiently for greater revenue on collections and minimal future stale debt.

3. Improve future accounts receivable streams.

Strategies and collection optimization tools aside, agencies will always retain a certain amount of stale debt. The good news is there are ways to turn this debt into a valuable source of revenue, including outsourcing collection efforts to a third-party collector.

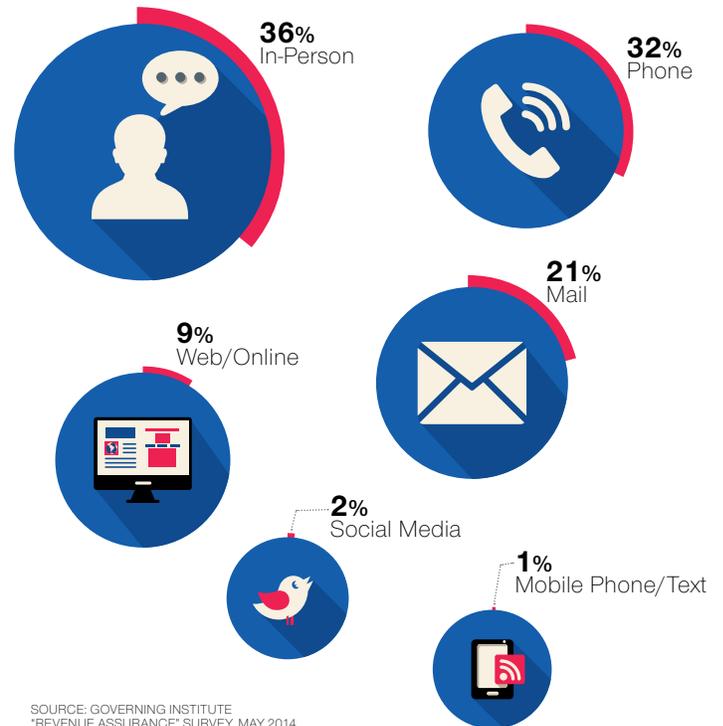
To ensure a fast and effective hand-over process, it's imperative agencies take a few necessary steps. To begin, every agency should closely examine their data to ensure they're handing over the best collectable debt possible to a third-party collector. Once the right data has been identified, the next step is making certain the data being passed along to a collector is accurate. Everything from the right contact details to up-to-date account information must be confirmed for the best results.

To be certain, managing third-party collection agencies is never easy. Mature credit markets have adopted a best practice for engaging third-party collection agencies and creating a competitive market for ensuring optimal performance. This requires increased granularity of performance data using advanced analytics to segment assets and predict payment performance, which gives officials the insights to determine which agency is doing the best job, is offering the best returns and is the easiest to manage. The best partner is one that can help an agency calculate future assets, potential liquidation rates and contact rates. By having this information readily available, an agency can plan for unanticipated write-offs and better budget for the future.

From Process to People

While a revenue assurance strategy is a great way to convert accounts receivables into a new revenue stream, government agencies must also work towards a greater understanding of the relationship between a constituent and his/her municipality.

Most Successful Methods of Communicating with Debtors



SOURCE: GOVERNING INSTITUTE
"REVENUE ASSURANCE" SURVEY, MAY 2014

One way to accomplish this is by creating a 360-degree view of constituent debt. This encompasses a number of steps, including validating constituent identity and verifying contact information through a unique persistent Personal Identification Number (PIN). The most critical component of creating a closer bond between constituent and municipality involves connecting the dots of disparate debt across various points of service. As it is, 48 percent of government officials say they withhold city and state services to constituents and businesses that are delinquent in order to collect debt, according to the Governing Institute. What if these same officials had a 360-degree view of this debt?

Consider, for example, a constituent that wishes to build a deck but needs to obtain a building permit first. Now imagine if a municipality could determine that the constituent owes an outstanding debt before providing that permit. Using a point-of-new service collection process, the city can capture critical information and require a constituent to fulfill his or her debt obligations before receiving the requested service. This adds a whole new component to the debt collection process while enabling government officials to detect and minimize debt.

A Value Proposition for the Future

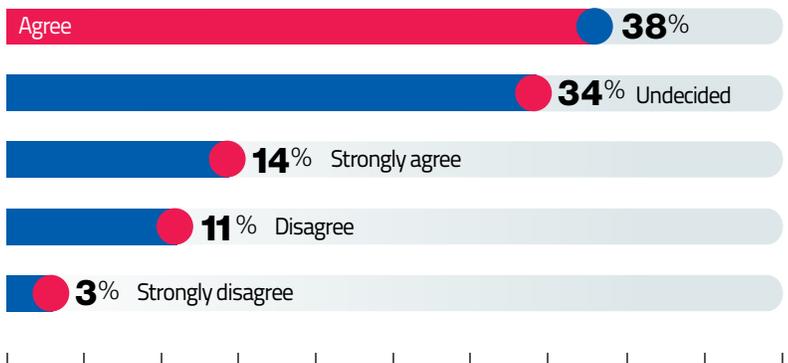
Managing and collecting debt is a complicated and time-consuming process. There's certainly more than one way for agencies to collect delinquent debt. If there is one thing government officials can agree on, it's that their debt management processes need to be improved.

Nearly half of the Governing Institute's survey respondents view debt as an asset but do not have a complete understanding of how to make this a reality. Worse yet, only 14 percent of respondents strongly agree they have a holistic view of their debt. Only 22 percent of respondents rate their collection activities as very effective.

It's time for a change. By combining consultative expertise with cutting-edge technologies, a revenue assurance strategy can not only ease debt collection efforts, but actually turns stale debt that's been written off into a brand new source of revenue.

The key is to optimize existing efforts while also utilizing new methods, such as stale debt monetization, to create the highest potential for debt collection and simultaneously decrease the accumulation of new debt. A revenue assurance strategy can enable agencies to turn stale debt into a new source of revenue, take action to reduce delinquencies and minimize current debt, and improve future accounts receivable streams. With this plan in place, agencies can begin moving from risk management to budget certainty for years to come.

My Organization has a Holistic View of Our Total Debt



SOURCE: GOVERNING INSTITUTE "REVENUE ASSURANCE" SURVEY, MAY 2014

Endnotes

1. www.acainternational.org/files.aspx?p=/images/21594/2011acaeconomicimpactreport.pdf
2. www.governing.com/blogs/view/localities-strapped-for-cash-turn-to-collections.html
3. All survey data from Governing Institute "Revenue Assurance" Survey, May 2014, unless otherwise noted

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