

Government of the District of Columbia
Office of the Chief Financial Officer



Natwar M. Gandhi
Chief Financial Officer

MEMORANDUM

TO: The Honorable Kwame R. Brown
Chairman, Council of the District of Columbia

FROM: Natwar M. Gandhi
Chief Financial Officer 

DATE: July 8, 2011

SUBJECT: Fiscal Impact Statement – “Delinquent Debt Recovery Act of 2011”

REFERENCE: Bill 19-8, Committee Print shared with the OCFO on June 29, 2011

Conclusion

Funds are sufficient in the proposed FY 2012 through FY 2015 budget and financial plan to implement the proposed legislation. The proposed legislation would authorize, but not require, the Mayor to pursue delinquent debts owed to the District.

There is no fiscal impact as the Office of Revenue Analysis is unaware of any plans at this time to create a central debt collection agency as envisioned by the proposed legislation. Should the District pursue to create such an office, the annual costs are estimated to fall within a range of \$1.6 million to \$3.4 million.

It is not possible to estimate how much of the outstanding debt could be collected through such an agency without detailed implementation plans or data on delinquent debt for each agency.

Background

The proposed legislation would authorize, but not require, the Mayor to pursue the collection of outstanding debts owed to the District. This authority would include:

- Centralizing the collection of unpaid debt owed to the District;
- Combining multiple debts owed to the District by a debtor;
- Converting unpaid citations and fines issued to a property into a debt owed by the owner of the property;
- Issuing notices to debtors for the combined debt owed to the District;

- Prohibiting debtors from receiving licenses, permits, and other services from the District;
- Assessing penalties and collection fees to defray the cost of recovering outstanding debt;
- Settling a debt and establish payment plans;
- Certifying a debt or claim and the debtor responsible for the debt or claim to the Office of Tax and Revenue for income tax interception;
- Referring debt owed to the District to outside agencies for collection;
- Discharging debt that is older than 15 years; and
- Reporting any account referred to it under this section to a consumer reporting agency.

Finally, the proposed legislation would require the Mayor to issue a report to the Council on the amount of citations and fines issued, collected, and outstanding, by agency, in the preceding fiscal year, and a detailed description of the efforts made to collect debt owed to the District and the challenges that remain for collecting it. The report would be due December 1 annually.

Financial Plan Impact

Funds are sufficient in the proposed FY 2012 through FY 2015 budget and financial plan to implement the proposed legislation. The proposed legislation would simply authorize the Mayor to pursue delinquent debts owed to the District.

There is no fiscal impact as the Office of Revenue Analysis is unaware of any plans at this time to create a central debt collection agency as envisioned by the proposed legislation.

However, if in the future the Mayor exercises his authority to create a central debt collection agency based on the proposed legislation, the District would have to hire FTEs, invest in technology, and contract services from outside firms to manage delinquent debts owed to the District. Currently, each individual District agency is responsible for, and has their own method of, tracking citations or fines issued and collected by that agency. In order to implement the legislation, the Mayor would centralize, track, and collect delinquent debt data.

As a first step in creating a central debt collection agency (or outsourcing to a single debt collection entity), data on delinquent debt must be consolidated. Data centralization may require agencies to purchase technology solutions and write rules to determine how and when delinquent debt could be transferred to the central debt collection agency. A comprehensive understanding of unpaid debts owed to the District and how each agency tracks and collects outstanding debts does not currently exist and would require extensive survey of District agencies, and additional analysis to determine the universe of delinquent debt.

Once the data on delinquent debt is centralized and a process is in place to transfer data from the agencies to a central debt collection agency, then the agency could begin to pursue delinquent debts owed to the District. The staff and office space required to implement a central debt collection agency could cost between \$1.37 million annually if most of the functions of the agency were outsourced¹ and \$2.17 million annually if most functions were performed in house.² In terms of

¹ This includes hiring 22 FTEs: 1 Director (DS 15 - 5), 2 Collections Managers (DS 13 - 5), 6 Collection Analyst (DS 10 - 5), 4 Financial Analyst/Accountants (DS 12 - 5), 6 Accounts Receivable Analyst (DS 12 - 5), 2 Enforcement Analyst (DS 13 - 5), and 1 Cashier and Supervisor (DS 9 - 5). Fringe benefits are estimated at 18% and annual office space at \$330,000.

technology, if most debt collection functions are outsourced, then the cost of technology could be as low as about \$100,000 in start-up costs and \$100,000 in annual recurring costs.³ Typically, debt collection contracts are bid as a percentage of the recovered debt so there is often little or no capital investment or recurring expense required.⁴ If the central debt collection agency performs most debt collection functions in house, the minimum technology investment would be \$1.16 million in the first year and \$412,000 in the subsequent years. The table below provides the details for the range of estimated costs for a potential central debt collection agency.

Estimated Costs for the Central Debt Collection Agency¹		
	Range of Cost to Implement	
	Outsourced	In House
Recurring Annual Costs		
Staff Salaries ²	\$1,164,000	\$1,839,000
Office Space ³	\$210,000	\$330,000
Technology ⁴	\$100,000	\$412,000
Start-up Costs		
Office Startup Costs ⁵	\$70,000	\$110,000
Technology - Capital Assets	\$100,000	\$750,000
TOTAL	\$1,644,000	\$3,441,000

Table Notes

¹The estimate has been developed in consultation with the Office of Finance and Treasury in the Office of the Chief Financial Officer.

² This includes 14 FTEs for Outsourced services and 22 FTEs for In House. Fringe benefits are estimated at 18 percent.

³ Annual costs to rent office space.

⁴ This estimate does not include classic debt collection components such as noticing, flagging, denial of services, and interactive components like IVR and pay-by-web.

⁵ Equipment startup costs are estimated at \$5,000 per FTE.

² This includes hiring 14 FTEs: 1 Director (DS 15 - 5), 1 Collections Managers (DS 13 - 5), 6 Collection Analyst (DS 10 -5), 4 Financial Analyst/Accountants (DS 12 - 5), and 2 Enforcement Analyst (DS 13 - 5). Fringe benefits are estimated at 18% and annual office space at \$210,000.

³ Estimate is based on some of the tasks involved in establishing how much delinquent debt exists and pursuing it such as start-up technology costs, computer programs, and customer service ready telephones, and recurring costs such as postage for sending out notices, fees for accepting credit card payments, and any other costs associated with the contracts.

⁴ The DMV currently has a contract where the fee is 19.9 percent of the recovered debts.