


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: December 5, 2011

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

REFERENCE: Bill 19-8, Amendment in the Nature of a Substitute, shared with ORA on November 8, 2011

Conclusion

Funds are sufficient in the proposed FY 2012 through FY 2015 budget and financial plan to implement the proposed legislation. Implementation of the proposed legislation is projected to result in approximately \$612,000 in new revenues to the District in the FY 2012 budget and approximately \$23 million over the FY 2012 through FY 2015 financial plan period.

Background

The proposed legislation would authorize the Office of the Chief Financial Officer (“OCFO”) to pursue the collection of outstanding debts owed to the District. This would include authorization to:

- Centralize the collection of delinquent debts owed to the District within the Central Collection Unit of the Office of the Chief Financial Officer, Office of Finance and Treasury;
- Authorize the Central Collection Unit to collect delinquent debt owed to the District;
- Receive funding and to pay the costs and expenses associated with the collection of delinquent debt owed to the District;
- Impose fees on debtors to cover costs associated with the collection of delinquent debt;
- Impose a fee to be paid by each person who gives in payment of a District obligation a check that is subsequently dishonored;
- Establish a special non-lapsing fund to be designated the Delinquent Debt Fund, from which the activities of the Central Collections Unit would be funded. The remaining amount, less ten percent that shall be retained as a reserve operating balance, shall revert to the General Fund;

- Establish a lien for the payment of delinquent debts;
- Authorize suspension of issuance of licenses and permits to delinquent debtors;
- Authorize reciprocal offset agreements and settlement agreements related to delinquent debts;
- Establish a limitation of time for bringing actions.

Existing outstanding debt to the District from fines and fees is projected to be approximately \$395 million, \$380 million of which is in the form of delinquent tickets, fines, and fees to the Department of Motor Vehicles (DMV). The DMV turns over delinquent debtors to its outside collection contractor after 100 days. According to the DMV, the collection contractor has collected approximately 11 percent of the older debt from FY 1999 to FY 2007. The contractor has collected approximately 24 percent of the more recent debt, from FY 2008 to the present. For FY 2011, the DMV projected the contractor would collect approximately \$21.5 million, 20 percent of which will remain with the collection agency as a fee.¹ Past collections have typically ranged between \$14 million and \$17 million per year, for a total of \$65 million collected since the collection agent contract began in FY 2008.

Financial Plan Impact

Funds are sufficient in the proposed FY 2012 through FY 2015 budget and financial plan to implement the proposed legislation.

The OCFO projects one-time costs in FY 2012 of \$3.55 million to establish an office to centralize the collection of these debts, and annual, recurring costs of \$1.64 million for the new office and staff of 9 full-time employees (FTEs). The OCFO projects collection of outstanding debts will be increased by approximately \$5 million in FY 2012 and \$10 million each year thereafter. The one-time costs for starting a centralized debt collection office within the OCFO are \$3.55 million to purchase and develop the technology infrastructure necessary to move the information on the debts and debtors into a single database.

The 9 FTEs that are projected to make up the staff of the new office will include one manager, one supervisory accountant, one IT analyst, 5 collections analysts and one cashier. The 9 FTEs are projected to cost \$719,000 annually for salaries and benefits and non-personnel expenditures such as communications and technology are projected to cost an additional \$820,000 annually, for a total of \$1.54 million annually. Because the District has already begun FY 2012, the staff and other costs will only be for half the fiscal year.

Table 1. Estimated Cost of Implementing B19-8 (in thousands)					
Delinquent Debt Recovery Act of 2011					
	FY 2012¹	FY 2013	FY 2014	FY 2015	Four-Year Total
One-Time Technology Costs	\$3,550	\$0	\$0	\$0	\$3,550
Annual IT Costs	\$330	\$660	\$660	\$660	\$2,310
9 FTEs for Debt Collection	\$360	\$798	\$886	\$983	\$3,027
Communications	\$80	\$160	\$160	\$160	\$560
Total	\$4,320	\$1,618	\$1,706	\$1,803	\$9,447

¹ This amount excludes the collections from the recent ticket amnesty program that started in August 1, 2011, and will continue through January 27, 2012.

Table Note:

¹ The FY 2012 estimate assumes that the legislation is implemented in April 2012, and costs are incurred for half the year.

The current collection agency contract has collected between \$14 million and \$17 million in past due debt annually from FY 2008 to the present. The OCFO projects it will be able to collect an additional \$5 million in FY 2012 and \$10 million each year thereafter. Of this amount, the first \$5 million would be a pre-payment on the existing debt by the collection agency through which OCFO will collect old debt. The OCFO has discussed with collection agencies how the contract can be written to provide this advance pre-payment to the District, and then revert to a percentage contract once the agency recovers the initial amount through collections. The contract would be subject to the District's procurement laws.²

In the subsequent years, the debt collection would be improved in two ways. First, the expenses of debt collection would be added to the existing fines. Under the current contract, the collection agency withholds 20 percent of the collections to cover its costs. The proposed legislation grants the OCFO the authority to levy a collection fee on the debtor to pay for the costs of the debt collection. Thus, under the OCFO regime, this amount would be passed on to the person who owes the fine. ORA projects that this change in the payment of the fees will increase annual collections of delinquent debt by \$3 million.

Additionally new efforts are expected to increase collections by \$7 million annually. The OCFO will use the new authorities granted by the proposed legislation and the new, dedicated staff to pursue outstanding debt in addition to the existing efforts by the debt collection contractor. The proposed legislation grants the OCFO the authority to sell existing debt, establish reciprocity agreements across state lines, and authorize liens and suspend licenses. According to DMV, Virginia residents owe more than \$80 million and Maryland residents owe more than \$191 million of the \$380 million in outstanding debts, so reciprocity agreements with the two states are potentially lucrative for the District. These new administrative efforts from the OCFO will be in addition to, and along side, the current collection efforts of the debt collection contractor.

The additional revenue from outstanding debt is projected to offset the one-time and annual costs of establishing a new centralized debt collection office under the OCFO.

Table 1. Estimated Costs and Revenues from Implementation of B19-8 Delinquent Debt Recovery Act of 2011					
	FY 2012	FY 2013	FY 2014	FY 2015	Four-Year Total
Revenue Collection	\$5,000 ¹	\$10,000	\$10,000	\$10,000	\$35,000
Costs of Implementation	\$4,320	\$1,618	\$1,706	\$1,803	\$9,447
Net	\$680	\$8,382	\$8,294	\$8,197	\$25,553
Less 10 Percent for Operating Reserves	\$68	\$838	\$829	\$820	\$2,555
Net Revenue to General Fund	\$612	\$7,544	\$7,465	\$7,377	\$22,998

Table Note:

¹This amount is the projected pre-payment from debt collection contractor.

² The estimate does not include potential collections after the pre-payment amount is met, because it is not possible to know reliably the terms of the contract at this time.