# Unlock this hidden revenue source to get your budget in balance

Working in a government agency can feel a bit like being part of a bigger machine. It doesn't matter if it's a small-town government — complete with town council and a staff of two — or a state agency with a billion-dollar budget. There are individual parts that add up to a whole, working together.

The thing that provides the much-needed fuel and lubrication in this contraption is revenues. When revenues are out of balance with expenses, the machine either breaks down or burns out due to fatigue and wear. And then the lights go dark, employees get furloughed and important mandated services go unmet.

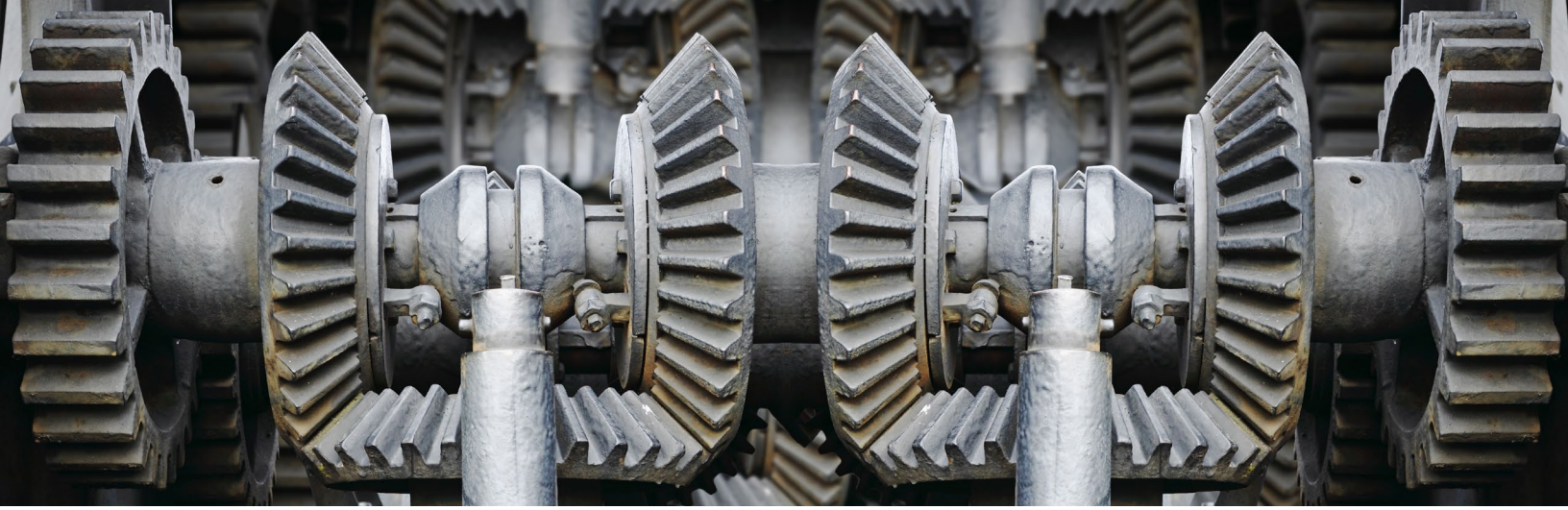
To keep that machine in balance, governments use budgets to guide their spending and staffing decisions throughout the year. At best, a budget is a forecast, because revenues are always subject to fluctuation. All it takes is one unforeseen event to knock the budget — and machine — out of balance.

When a budget is out of balance, you might ask elected officials to raise taxes, fees or fines. In these situations, taxpayers tend to be "squeaky wheels." Unless you have a strong case for rate hikes, your budget will not get the grease.

A seasoned finance manager can look at the machine as a whole, and devise a punch list of things to get the machine back in balance. That said, even savvy revenue managers overlook a funding source that's hiding in plain sight: older accounts receivable. The following pages will examine why that occurs in governments, and what can be done to free unblock these much-needed dollars.

## What puts a budget off balance?

- Severe weather/disasters
- Economic downturn
- Fuel/energy prices
- Damage to facilities, equipment and infrastructure
- Staff turnover
- Federal policy changes (i.e. recent changes to the federal income tax code)



## Hidden system failure:

# Lack of an accounts receivable strategy

For any large operation with many moving parts, it's easy for problems and solutions to escape notice. For that reason alone, many unpaid bills to government entities can fall by the wayside.

Estimates vary wildly, but, according to an analysis by Inside ARM, a leading accounts receivable industry website, governments in the U.S. have anywhere from $15 billion to $200 billion in unpaid taxes, fines and fees on the books. That's a range that would cover many state budgets.

Making a focused effort to recover older accounts receivable is a smart strategy to relieve some of the budgetary pressure that's putting stress on the machine. Trouble is, most government agencies don't have one.

## First problem:

# Lack of a maintenance schedule

A machine and its components need regular maintenance to run efficiently and perform at their best. However, it's not at all uncommon for a government entity to lack a formal collections effort. What's driving this inertia? There are several factors.

One is a **lack of needed resources**. In the wake of the 2008 Great Recession, many government entities were forced to reduce staff, cut services and slash budgets. The economy may have recovered, but government staffing budgets have not been restored to their pre-recession levels. Local governments employ 8 percent fewer workers per capita compared to 2008 levels, while state employment is 11 percent lower, according to Governing. (These percentages do factor in population growth.)

As government agencies continue to do more with less, finding the staff and resources to crank up any new program, including in-house collection, can be challenging at best. In the end, it gets added to an expanding list of initiatives and updates.

Another barrier comes in the form of objectives and goals of a department head or agency. Their buy-in is needed to develop or oversee a collections effort, according to a report by Inside ARM. But they may be focused on very different priorities. Many enter the government service because they want to make an impact, and frankly, starting and running a collection program just doesn't fit into that.

That said, a lack of support can block an effort to rev up in-house collections. That may stem from a fear that pursuing past-due debts would trigger a public outcry, negatively affecting the agency's image. Starting a collection effort in-house takes a coordinated effort with buy-in from multiple players.

Finally, there can be confusion over which department, exactly, is responsible for pursuing the past-due accounts. Should it start with a specific department, and later be transferred to the revenue department? With no clear-cut plan and no buy-in across departments, nothing gets done with the accounts, and they get lost in the system.

## Second problem:

# Limited levers

Of course, there are many government agencies that do have an active and effective in-house collections program. Even these efforts can grind to a halt after accounts reach a certain age. Many government agencies use tools that prove effective in triggering payment. Some place holds on vehicle registrations and driver's licenses. Other tools include: service interruptions, liens, wage garnishment and physical tools, like a vehicle boot.

The downside is these levers don't reach everyone, because they live in another jurisdiction, say, another county or state. Without the ability to place liens and holds on out-of-state offenders, what is the incentive to pay? Furthermore, in-house efforts only go so far and lose their effectiveness over time.

If accounts receivable aren't recovered in a timely manner, chances are some will become out of reach. In 2017, 11 percent of the U.S. population moved. Of those, more than a third (34 percent) relocated to another country or state.

## Limits on government recovery efforts

- Legacy systems
- Limited access to third-party data
- Insufficient data on accounts receivable
- Manual processes
- Legislative constraints on authority

*Source: Inside ARM.*

## Third problem:

# Failure to bring in expert help

Like any government entity, the needs of a machine are complex. Keeping it running smoothly and efficiently often calls for outside expertise. That's why outsourcing is a staple of government processes, handling everything from day-to-day operations to professional services.

Governments are not strangers to outside partnership. Yet, when it comes to capturing past-due account balances, collection efforts either stay in-house or are handled by a collection agency that offers services beyond the first-tier level of service.

As debts age, a larger effort is needed to recover those dollars. Contracting with a collection agency that works aged receivables can be an effective solution to unlocking a percentage of these trapped dollars and releasing them back into the revenue stream. However, many government agencies back off from this option, for the following top reasons.

**Public perception:** Public perception is everything. The last thing you want is a collection agency contract to backfire, creating a blowup in the press or on social media. If ratepayers are treated unfairly or rudely, there's a chance they'll go public with their experiences. When a sympathetic elected official intercedes, that may bring the effort to an early halt. In other words, some organizations can expect a negative experience. However, this attitude tends to reflect a view of collection agencies that is outdated.

**Privacy matters:** In this day and age, privacy is also a huge concern. How do you assure elected officials, constituents and other stakeholders that an outside vendor like a collection agency can be trusted with taxpayers' personal information?

# A safe, modern system to recover older debts

In reality, the collections industry is much more customer service focused now than in the past. Do your due diligence, and you'll find a collection agency does a more thorough effort to collect aged accounts that is also trustworthy with your ratepayers.

**Increased oversight:** Old-school collection tactics like middle-of-the-night phone calls and harassment would not only backfire in the public eye, they're also illegal. The Fair Debt Collection Practices Act offers many important consumer protections. Additionally, many states have their own regulations.

**Better training:** When reviewing collection agencies, those that are worth your time will readily share details about their legal, compliance and training regimens. So when it's time to hand off delinquent accounts to the outside agency, you'll know these are entering a well-tuned, well-maintained system.

**Pristine privacy:** Ask prospective agencies about their technical safeguards that keep private data safe. Request results from audits and security assessments conducted by outside auditing agencies.

# Time is money

When it comes to capturing payments from late bills, time is of the essence. The longer you wait, the more dollars you lose. Between 90 and 120 days past due, accounts lose 67 percent of their value, according to the ACA International's Top Collection Market Survey.

A collection agency that offers advanced collection efforts can systematically recover even the oldest debts quickly, helping government agencies recover lost time and lost dollars. The following outlines the features and services offered by a collection agency that works accounts at the secondary and tertiary stages.

- **Skip-tracing capabilities:** In 2017, 11 percent of the populace moved to a new location according to IC System's analysis of its vast inventory of consumers. When your account holders are out of reach, you can't get paid. A high-tier collection agency identifies these accounts and deploys resources to re-establish contact.
- **Proactive approach:** When accounts are turned over, a letter and phone call campaign should commence immediately.
- **Credit monitoring:** If an account holder absolutely can't pay due to unemployment or an illness, putting the account on hold is the humane thing to do. However, credit monitoring watches for signs of shifts in financial status. If it appears the account holder has gained the ability to pay, it's time to reestablish contact.
- **Credit reporting:** If non-payment reaches a certain date, the collection agency can report the account holder to the three credit reporting firms. This tool is used to give account holders a financial incentive to make that late bill a priority.
- **Analytics:** Modern tech tools, like data-driven machine learning, enable collection agencies to prioritize accounts. This optimizes collections and ensures a higher percentage of recovery.
- **Highly trained and specialized staff:** You rely on professionals to get the public's work done. When working with a collection agency, you should expect the same high level of professionalism.

Serving the public with limited resources is a huge task. Keeping the many mechanical parts operating at full speed and full efficiency takes a focused effort from a proactive team. When budgets are knocked out of balance, stress and friction can be felt throughout the entire system.

To help you capture more revenues and restore balance to the budget, contract with a reputable collection partner that actively pursues accounts at the secondary and tertiary levels.

IC System has spent more than eight decades helping organizations recover revenues lost to bad debts. Contact us for a free estimate.

IC System®

**For more information, contact us at 1-800-279-3511.**

GSA Contract Holder