



Fiscal First Aid Quick Reference

Improving Billing and Collection Procedures

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Introduction

Improving billing and collection procedures is an effective fiscal first aid technique because it can provide an immediate and continuous boost to revenues. It is also fair to constituents because it ensures that the government will collect exactly what is due. And most constituents pay their taxes and fees on time, so it is only fair and equitable that others are impelled to pay their due as well.

Communication is a vital part of ensuring effective billing, receiving, and collecting. Questions to be identified and answered include what is being billed or collected, how assessments are made, who is being billed, how much is being billed. These issues then need to be clearly articulated, as unclear communications lead to inefficiencies and delinquencies.

Steps to Take

1. **Review policies and procedures.** Determine if current procedures are being followed. Sometimes good procedures for collection exist on paper, but they aren't being put into practice. Identify any gaps.
2. **Identify current processes.** Creating process maps ensures that all the steps of a process are identified. The mapping will help identify both redundant steps and gaps between official policy and actual practice. Specific outcomes to strive for as result of mapping include the following:
 - a. Assign responsibility/ownership for the end-to-end process (from initiation to results) and for particular steps.
 - b. Identify points where tasks are handed off between participants in the process. This is often where processes founder.
 - c. Identify exceptions and approval authority.
3. **Review discrete activities.** Find specific opportunities to improve performance in the following areas:
 - a. Billing.
 - i. Standardize billing to create standard terms of payment and combine billing with other departments for a uniform aggregate bill.
 - ii. Confirm accuracy of the initial bill to reduce delinquencies and make the collections process more efficient. Use National Change of Address Service (NCOA) to verify addresses.
 - iii. Bill promptly and reconsider and reconfigure billing cycles to smooth cash flows, take advantage of seasonal or cyclical trends, and coordinate deadlines among local governments, and thereby benefit from shared advertising and communication.



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- iv. Use electronic invoicing.
- b. Taking payments.
 - i. Always include a return envelope with bills, and indicate “bill enclosed” in bold letters on the front of mailings. Color code the return envelope to reflect assumed content, which makes lockboxes more effective.
 - ii. Lockbox processing capability is tremendous, and interest from shortened deposit times more than covers the cost of the service. Also use compensating balances to cover lockbox costs.
 - iii. Some banks also offer ARC (accounts receivable conversion), where checks received in the lockbox are converted to ACH debits.
 - iv. Convenient and efficient electronic funds transfer can greatly improve collections. Acceptance of payment cards (online, over the phone, by mail, and in person) can increase good funds faster, improve cash flow forecasting, enhance constituent convenience, reduce office visits and staffing requirements, and improve office efficiency. Consider going a step further by taking auto debits or auto payment (payments automatically debited via ACH from customer each month, saving both government and constituent time and money).
 - v. Use remote deposit capture (checks scanned and electronically deposited) and/or check conversion/truncation.
 - vi. Form partnerships with your financial institution to use bank locations to accept payments, and work with your bank for returned item processing improvements – the faster returned-item data is reported, the sooner the government can research the situation and seek to rectify the problem.
 - vii. Work with other jurisdictions. Have common deadlines that can be advertised jointly, and each jurisdiction can cover its share of the cost of advertising.
 - viii. Be creative and innovative. Consider all sorts of external locations (retail outlets and other non-financial alternatives) to take payments. Have a drive-up night depository with driver’s side drop-off.
 - ix. Institute centralized receipting.
- c. Collections.
 - i. Perform the upfront work. Identify, consolidate, and prioritize all receivables owed to the government, and determine areas of focus: big dollar amounts and fresher receivables.
 - ii. Review your process for handling bankrupt accounts.
 - iii. Ensure that all collection tools available under state statute are being used.
 - iv. Consider using a third-party collection agency. This can be particularly important for smaller jurisdictions that might not be



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- able to perform the full array of collection services without assistance.
- v. Use credit bureaus. Credit bureaus can blemish the credit records of delinquent payers, which debtors usually want to avoid. This improves the chances that the account will ultimately be resolved, if the debtor requires credit in the future.
 - vi. Court action. If there is a judgment, credit bureaus immediately pick this up, releasing the government of any need to take action against the delinquent customer.
 - vii. If allowed by law, take advantage of tax offset programs.
 - viii. Reevaluate late payment penalties, fees, and interest provisions.
 - ix. Advertise the names of delinquent customers in newspapers and online.
 - x. Place liens (determine which debts can be recorded as liens against real property).
 - xi. Take advantage of licensing and permitting regulations. Can you withhold approvals on other services for those who are delinquent?
 - xii. Coordinate with accounts payable – intercept payments to delinquent vendors.
 - xiii. Provide incentives to your collectors by giving them a nominal percentage of collections (1/10 of 1 percent) or merit awards.
 - xiv. Require upfront payments rather than invoicing.
 - xv. Communicate through advertising, your Web site, regional transportation authorities, messages in bills, and video streams (including closed captioning) in government buildings. Ask the local news stations to sign off with reminders. Also have a presence in local chambers of commerce, local fairs, and civic federations.
 - xvi. Don't forget the simple things: caller identification, reverse directory Web site, and keeping records. While taxpayers receive calls at home, they typically return calls from their places of employment. Caller ID identifies work numbers, and reverse directory identifies employers, which can be a lien source. Returned checks provide information (OCR, MICR) that can be used to place liens.
 - xvii. Pay special attention to process design.
 - Procedures and rules should be consistent and publicly available.
 - The process should be prompt and timely. Move through progressive steps.
 - Communicate. Consider multilingual contacts and robocalls, robocallbacks, and e-mails. Offer constituents the option of signing up for these services.
 - Be willing to work with constituents. Use payment plans. Create partnerships with banks to set up loan programs



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- (this works well if there is collateral, such as property, that government can seize so the bank would be willing to guarantee loan).
- Institute progressive consequences for non-payment: discontinuation of service, fines, legal action, public shaming.
- xviii. Consider including a centralized or shared collections unit within the government, operating like an outside collection agency. Such units have service-level agreements with customer departments and are funded by retaining part of the amounts collected (collection cost). Use the skills of multiple departments (revenue, sheriff, IT, legal) to offer a complete package. Use technology to automate hand offs and decrease the cost of information sharing, process more collections, take faster action on delinquencies, coordinate activities of departments that have a role, imbed business rules into the process (thereby ensuring process consistency), and gather and analyze performance data (which steps are effective? Which solutions seem to work?).
- xix. Outsource. Private collection firms can take payment by retaining a percentage of the amounts collected. Consider, however, whether your government will be represented appropriately
- xx. Initiate an amnesty program. Amnesty programs can work, but must be managed carefully.
- Leave a long period of time between amnesty periods so debtors have no expectation that they will be able to take advantage of amnesty in the future.
 - Undertake a vigorous public information campaign, including press conferences, radio, television, and newspaper ads.
 - Couple more aggressive enforcement with amnesty.
 - Carefully consider eligibility for amnesty.
- xxi. Look for creative ideas.
- Report debts to credit bureaus. In time, most constituents will need credit, at which point they will have to clear up their outstanding debts to your government.
 - Make strategic use of media. Often as news (of vehicle booting, property tax sale auctions, etc.) spreads, it encourages others to pay their debts.
 - Research lien holders on real property. Get them to work with you, as your delinquency might pose a problem for their lien.

Evaluating success

To evaluate success, identify the objectives of the billing and collection process. Perform evaluations on a set schedule, such as a weekly or monthly. Points to evaluate include:



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- Cost of collection
- Degree to which collection rates have improved
- Age of receivables reduced
- Reduced time of collection

Publicize your successes, communicating to both internal and external audiences. This will breed more success.

Case Study: Arlington County, Virginia

To ensure that citizens are aware of their debt, the Arlington Treasurer's office introduced the Billpayer Notification Service in 2003. Citizens, who sign up for the service, automatically receive e-mails whenever they incur any form of debt with the county (taxes, parking tickets, etc.). Clicking on a link embedded in the e-mail shows them their bill, and a second click takes them to the county's payment portal, where they can pay by e-check or credit card. Those who do not pay the debt immediately receive reminders as frequently as they specify. So far, nearly 34,000 citizens have signed up for the service, which has proven very effective. More payments are made each year through the county's payment portal than are made over the counters (155,000 versus 142,000 in FY2009) – a real labor saver for the county.

Not all taxpayers have joined the Billpayer Notification Service, or course, and some lack Internet access. The Treasurer's office also places robocalls several days before each deadline to taxpayers who have not paid yet. This usually is a fairly small number (about 8,000), and each call costs 14 cents, including researching the phone number. The end result is that for a relatively low cost, the county eliminates hundreds of thousands of dollars in potential penalties. In fact, statistics show accounts that cannot be accessed by phone are three times as likely to become delinquent as those contacted.

For savvy constituents, the County Treasurer offers the automated payment service (ATS). The ATS transfers payment on the due date from any savings or bank account to the county account on the deadline. It also allows for monthly installments on large debts such as real estate taxes. A printed line on the tax bill reminds the recipient, "To be paid by the Automated Payment Service." More than 3,000 households have signed up.

Resources

- GFOA Best Practice: Creating Revenue Control Management Policy
- Scharf, Appel and Weth, *Brass Tax: The Compendium of Local Government Collection Powers and Practices in the U.S. and Canada* (Arlington County VA Treasurer's Office).