

Revenue Recovery for Texas Cities

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Bad debts can be the downfall of any business, including municipal utilities. Fortunately, cities have a much-needed commodity in their municipal utilities and have the option of discontinuing service should a customer not pay a past due bill. However, what happens when the customer leaves a city owing that last bill, which could include three or more months of service? In the past, the only options were to absorb the loss or pay high costs to credit bureaus to recover these debts. The second option was not always viable for a vast majority of cities around the state; at least it wasn't an option for most of the cities in the Texas Panhandle.

A group of city officials looked into ways of working together to collect these bad debts for each other. Unfortunately, there was no legal way of attaching a debt owed to one city to the customer's account in another city.

During the 2003 legislative session, these city officials got together with the Panhandle Regional Planning Commission (PRPC) to discuss the problem. The PRPC staff contacted State Representative David Swinford and explained the dilemma. As a result of the discussions, Representative Swinford introduced HB 2036 during the 2003 session. HB 2036 gave political subdivisions within the state the authority to contract with other political subdivisions for the purpose of collecting past due utility bills. Once the bill was enacted, city leaders quickly went to work.

Outside sources offered to build and maintain the database needed to recover these debts. The problem with this approach was the cost to member cities. A sign-on fee and an annual fee would have been required, and there would have been a loss of control of the data once it was in the database. This approach was quickly rejected. After several meetings, the Panhandle Revenue Recovery Association was formed. The primary objective was to develop a secure Web site and a system that would operate at a minimal cost to the cities. The resulting system was very well received, and after it had operated for a respectable period of time and eliminated possible glitches, the organization was renamed

the Texas Revenue Recovery Association (TRRA).

Here's how it works.

First, a member must be a political subdivision of the State of Texas. Individuals and private utility and solid waste companies do not qualify.

An eight-member board currently governs the association. Once there is a member city from within a given TML region, that region is welcome to nominate an additional board representative from the region, if it so desires.

TRRA contracted with the PRPC to build and maintain a secure computer system with which to collect and store the data needed. There is a one-time, sign-on fee for each member city. This fee is based on the total population of the member jurisdiction listed in the most recent ten-year census data, which is used to repay the PRPC for the original cost of hardware and software development. Although the board has the option of assessing another one-time fee, the current board does not intend to do so unless it is absolutely necessary.

Each member city is required to enter basic information—such as a driver's license number, Texas ID number, or Social Security number, if available—about each new customer in the city. This information is used merely as a tracking mechanism, and it's held in the database for a limited amount of time. This information is required because the new customer's old account with another city may not be delinquent at the time the new account is

opened. It may not be identified as a bad debt and entered as such in the database for three to four months after the new service is connected.

1. When a member city determines an account is delinquent, officials enter the bad debt along with the customer's basic information, the amount owed, and other data into the database.
2. The database immediately scans the new customer listings.
3. If a match is made, the system sends an e-mail alert to the new city.
4. The city with the new customer verifies the available information to determine if there is indeed a match. This is the reason it is important to gather as much information as possible from new customers.

From this point on, each city uses its own process for notifying the customer and collecting the past due amount; the association does not mandate any procedures for this.

Frequently asked questions.


1. **Who pays to maintain the database?** Each time a city finds a past due account, a \$25 TRRA fee is assessed to the delinquent customer. Therefore, those customers with delinquent accounts pay to maintain the database.
2. **Why should a city care if one of its customers owes another city money?** There are two reasons. First, we are all working together to keep the cost of recovering bad debts to a minimum. Second, this is also a revenue source for the collecting city. Once a collecting city receives final payment on the bad debt, it retains 25 percent of the debt and forwards only 75

percent of the bad debt collected (along with the \$25 fee paid by the customer) to the original city.

3. **What if the new customer disputes the debt?** Neither the collecting city nor the association is in the position to determine the actual existence of the debt. The collecting city should inform the customer that the debt will be removed for a period of 30 days, allowing the customer time to contact the city that reported the debt. If the matter is resolved to the satisfaction of the original city, the original city reporting the debt informs the collecting city of such. Should the collecting city hear nothing after 30 days, the debt is added back to the customer's account.

4. **What if the customer contacts the original city and agrees to pay that city to save on the \$25 TRRA fee?** By all means, the original city should take the money when offered. Never refuse payment. However, the \$25 fee still needs to be assessed to the customer. The \$25 fee is all the TRRA receives and is used to maintain the database. If member cities start circumventing the system, the board will have no alternative but to assess another one-time fee. No member cities want that, so they make the customers pay. The bad debt will not be removed from the database until the fee is paid.

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Small Cities' Corner: Revenue Recovery for Texas Cities

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5. **What if the debt is collected by some other means, such as a credit bureau?** As previously stated, the TRRA requires these fees in order to continue operating at a minimal cost to the cities. However, it is understood that some cities already have an established relationship with credit bureaus. Should that be the case and the debt is collected via some other source, the member city can pay \$7.50 and provide a written explanation as to how the funds were collected to have the information removed from the database. Also, if an account was entered in error, the TRRA will work with the city to correct that.
6. **What are some of the other benefits of joining the association?** The majority of the bad debts collected thus far have been collected by the member city recording the bad debt in the first place. If former customers owing money move back to town, the original debt might be missed by staff. However, once the new customer information is entered into the database, an e-mail notification of the debt will be sent to the city. Then, the city can contact the customer about this finding, charge the \$25 fee, and retain 100 percent of the debt collected.
7. **Can a city legally discontinue service for a debt owed to another member city?** Yes, HB 2036 grants that authority. That is what gives the association its bite.
8. **Are payout contracts with the customer permitted, or must the entire bad debt be paid at once?**

The TRRA does not dictate how each individual city collects the debt. The city can use whatever method it is currently using with existing customers. Payout contracts are permissible, but it is also acceptable to require that the entire amount be collected before restoring service. The collection method used is entirely up to the individual collecting city.

9. **How are payments handled when part of the payment is for the current amount and part is the amount owed to another member city?** The collecting city always collects the current amount it is owed before applying any amount to the bad debt owed to another member city.
10. **When is payment due to the TRRA?** No payment is due on the bad debt until the entire amount is collected or the customer has left your service area. If a customer leaves after making only partial payment on a past due amount, the amount that was collected should be sent to the TRRA. The first \$25 sent will go to the TRRA in order to process the information and adjust the account, 25 percent of the amount collected will stay with the collecting city, and the remainder will be sent to the original city. If the customer goes to another member city, a second \$25 fee will be assessed.
11. **Is it time-consuming to enter and check the data?** Not at all. The process is as user-friendly as possible. The association is here for its member cities and will continue to strive to address any member city's questions and needs.

12. **Can the Web site be viewed to see what information is required or available?** Unfortunately, no. In order to make the Web site and individual information as secure as possible, only member cities have access to the site. Even then, the information can be accessed only from a pre-designated IP address at the city.
13. **What happens to the customer's information after the debt is paid?** New customer information that is entered by the current city is held for a limited time; then it is dropped entirely from the database. The bad debt information is deleted immediately after the association receives its \$25 fee and notification that the debt has been paid in full. No history files are maintained.
14. **Is the collecting city responsible for sending the bad debt funds collected to the city owed?** No, the collecting city will distribute two separate checks: one to the TRRA for the \$25 fee collected, and the second to the city owed for 75 percent of the total debt collected. Both checks should be sent to the TRRA, which will forward the second check to the city owed. The collecting city retains 25 percent of the debt collected.
15. **Does a bad debt entered into the TRRA database affect the customer's credit?** No, all information collected by the TRRA is private and secure. It is in no way available to any type of credit bureau or rating service. The goal is to collect bad debts for member cities.

The TRRA currently has 51 member cities covering five different council of governments regions, with the majority in the Panhandle region. The other cities are in the South Plains, North Texas, Permian Basin, and East Texas.

This year has already shown a significant growth in the number of accounts cleared by cities and thus removed from the system. The number of accounts cleared for 2006 was 211, compared to 121 in 2005 and 25 in 2004. This is a 57 percent increase over the total accounts cleared in 2005. Through May 24, 2007, 109 accounts have been cleared, compared to four accounts during the same period in 2006.

Currently, the database has a total of more than \$809,000 uncollected from 6,668 individuals, bringing the average delinquency to \$121.34. The TRRA collected the first bad debt in

May 2004, and since that time the association has collected approximately \$54,000 in total bad debts.

During 2006, a total of \$22,984 in bad debts was collected, with the collecting cities retaining \$2,405 of the total. Those showing the highest number of accounts collected were Plainview—72, Canyon—36, Perryton—31, Lamesa—22, and Spearman—16. Please note that none of these is a major metropolitan area. The highest dollar amount collected was \$475 collected by Perryton for itself. Spearman collected \$442 for Dumas, with Spearman retaining \$110.59.

From January 1 through May 24, 2007, \$11,082 was collected, with the collecting cities retaining \$352. The difference between 25 percent of \$11,082 (\$2,770.50) and the \$352 retained by collecting cities demonstrates how many cities are able

to find and collect their own bad debts because of the TRRA.

Does the TRRA work? Sure it does—just ask any member city that is actively using it. However, understand that in order for it to work to its full potential, each member city needs to be active in listing new customers, following up on bad debt e-mail alerts, and collecting the TRRA's fee from the customer. Most (but not all) people will remain in the same region when changing addresses. Because of this, it is extremely helpful for several cities in the same proximity to be members in order to work together for the benefit of all.

If you have any questions concerning the TRRA, you may contact Marcus Smith with the PRPC in Amarillo at 806-372-3381, or Don Jennings, Director of Finance with the City of Perryton, at 806-435-4014.★

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