

Cities look to debt collectors for help

By David Ellis, staff writer

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NEW YORK (CNMoney.com) -- In the northeastern Pennsylvania town of Pittston, the seemingly manageable issue of garbage became a much bigger problem than anyone could have ever anticipated.

While the streets were hardly strewn with litter, the city of 8,100 is now saddled with roughly \$250,000 worth of unpaid garbage fees owed by city residents.

Hoping to stamp out the problem, the city council recently contracted with an outside collection agency, hoping to recoup some of the outstanding debt.

"They are going to go after them with whatever means they can," said Greg Gulick, a city spokesman.

Pittston, which dubs itself the "The Tomato Capital," is hardly alone. School boards, county courts, local libraries and even prison systems across the country are increasingly looking to private collection agencies for help.

"Given all the budget constraints at the state level and the problems with the economy, we are seeing quite a bit of outsourced activity," said Bruce Cummings, the CEO of Municipal Services Bureau, an Austin, Texas-based firm which assists more than 500 state and local governments across the country

collect unpaid bills.

It remains unclear precisely how much in unpaid court fees and parking tickets has been farmed out to collection agencies by state and local governments since the recession began. But experts say this is one of the faster-growing segments of the multi-billion dollar debt collection industry.

Particularly in these tough economic times, tiny municipalities and even larger state agencies simply don't have the technology, manpower or time to locate scofflaws on their own.

"We were finding ourselves spending more and more time tracking down insufficient funds," said Dan Hornfelt, the executive director of support services for the local school district in Pullman, Wash., a farming community not much more than a 20-minute drive from the Idaho border.

Tired of chasing down parents who owed for their child's school lunches among other things, the school recently struck an agreement with a local collection agency to

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help redeem some of the thousands of dollars in outstanding debt.

"It is not our purpose to do that," said Hornfelt. "We have other obligations like education, budgeting and finance."

Hiring private collection agencies for government work is hardly new.

The federal government's Department of Education has long relied on debt collection agencies to recoup outstanding student loans. The Internal Revenue Service even used collection agencies for several years in an effort to close the nation's massive tax gap. The IRS ultimately stopped doing so in 2009 amid scrutiny from Congress.

Over the past decade or so, federal agencies have referred an increasing amount of business to private collection firms. In fiscal year 2008, the federal government asked the industry to collect some \$28.4 billion in outstanding debt, according to a report published last May by the Treasury Department.

But the success of some of those federal programs has prompted some cities and states to follow suit, said Patrick Lunsford, the editor for InsideARM.com, which tracks the accounts receivable industry.

At the same time, hiring a debt collector involves little fiscal risk for a cash-strapped local government.

Unlike with a bank or credit card company -- where a collection agency will buy their outstanding debt for just pennies on the dollar -- debt collectors typically work with governments on a contingency basis. That

means they do not collect any funds unless the government does as well.

The political risks may even be minimal. Using a debt collector could upset some constituents, but Lunsford notes that hiring a debt collector is a more politically palatable option for many cash-strapped governments.

Rather than blindly tax everyone to fill a budget shortfall, a collection agency can allow a local government to recoup money owed to them simply by targeting those who haven't paid their bills.

Faced with a \$34 million budget shortfall, the mayor of Richmond, Virginia recently proposed expanding the city's existing contract with an outside collection agency to track down \$3 million in unpaid parking fines.

Marcus Jones, the city's deputy chief administrative officer for finance and administration, said that with any luck, the city would recoup approximately \$500,000 from the yet-to-be-approved debt collection

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program during the coming fiscal year.

"We are being very conservative," he said. "If they got it all, great, but we are only counting on a fraction of that."

The weak economy is tempering expectations of many local and state officials though. With millions of Americans out of work or struggling to stay in their home, outstanding parking tickets fall pretty far down the list in terms of financial obligations.

As a result, some collection agencies that work with local governments say they are working more with customers to find a way to pay off their debt.

"From our perspective, we would like the obligation paid off as soon as possible," said Randy Kamm, vice president of government services for The CBE Group, an Iowa-based collection agency. "But you've got to understand the economy we're in."



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