



Staff Report

City of Manhattan Beach

TO: Honorable Mayor Montgomery and Members of the City Council

THROUGH: *DC* David N. Carmany, City Manager

FROM: Bruce Moe, Finance Director *BM*
Steve Charelian, Revenue Services Manager *SC*

DATE: May 17, 2011

SUBJECT: Consideration of a Contract with Financial Credit Network for Collection Services and Modification of Existing Write-Off Policies

RECOMMENDATION:

The Finance Subcommittee and City Staff recommend that the City Council: a) approve a contract with Financial Credit Network for services related to uncollectible debt, and b) approve a modification of existing write-off policies.

FISCAL IMPLICATION:

Financial Credit Network, Inc. is paid a commission on the money collected. The commission percentage is either 25% on a regular collection or 35% on collections requiring legal action. The agency will provide an initial 15-day grace period. During that period any money collected by the agency will be remitted back to the City without charge.

BACKGROUND:

In order to maximize revenues from delinquent account holders, the services of an outside collection agency is required. The City's previous collection agency went out of business, requiring the selection of a new firm to assist with these issues. Additionally, the City's current write-off policy dates back to 1994 and should be updated to reflect current dollar values.

DISCUSSION:

In April 2010 the City's collection agency (Credit Bureau of South Bay District) closed their local offices and moved out of the area. While in the interim the City has pursued collections from delinquent accounts ourselves, it is clear that a new collection agency is needed to assist with past due accounts. To that end, Staff conducted a survey of 10 cities to gather information on collection agencies. Staff interviewed three companies and chose Financial Credit Network based on the commission, web access/reporting, collection methodology, references and overall experience. A summary of the top three firm's costs are included on Attachment "A."

Write-Off Policy

The City's current write-off policy, which was adopted in 1994, has the following limits. Given that the limits reflect values from seventeen years ago, the Finance Subcommittee and Staff recommend an increase in the policy as follows:

<u>Authority</u>	<u>Current Amount</u>	<u>Recommended Amount</u>
Finance Director	\$0-1,500	\$0 – 2,500
Finance Subcommittee	\$1,501 - \$5,000	\$2,501 - \$7,500
City Council	\$5,001+	\$7,501+

The write-off process is that once the appropriate authority has approved the debt for write-off, the collection agency will be contacted and provided the pertinent information to begin collection. Depending upon the collection time and effort, the agency will share between 0% and 35% of the amount collected.

By way of reporting, the Finance Subcommittee will receive quarterly reports for ratification of all write-offs (City Council will be provided copies of those reports). Write-offs requiring City Council approval will be processed at least once a quarter.

The write-off policy does not currently appear in the City's financial policies, but will be added once the policy has been finalized.

At its May 3, 2011 meeting, the Finance Subcommittee approved the award of contract to Financial Credit Network, as well as the revised write-off policy. Staff recommends that the City Council approve these recommendations at this time.

- Attachments: A. Summary of Collection Agency Proposals
B. Contract with Financial Credit Network

2010 Collection Proposals

2011 Collection Company Services Detail Comparison

Company	Cost to City	Web Access	Ref	Experience	Contact	Clients	
Financial Credit Network	25%	http://www.fcnetwork.com/	City of Redondo Beach	50 Years	Jennifer Harley	300+	
	35% Legal	Monthly and Quarterly Reporting	City of Pasadena				
	15 Day Grace	Online Access	City of El Segundo				
		Onsite Software/Web Training	City of Sacramento				
Green Flags - Transworld	50%	http://www.transworldsystems.com/services-dda.html	City of Alameda	40 Years	John Orozco	200+	
		No Reporting only Online Access	City of San Mateo				
			City of Livermore				
American Capital	25%	http://www.amcapinc.com/	City of Santa Monica	15 Years	James Rogers	100+	
	50% Legal	Monthly and Quarterly Reporting	City of Santa Ana				
			Online Access				City of Oceanside
							City of Colton

ATTACHMENT "A"

AGREEMENT



This Agreement made and entered into by and between **FINANCIAL CREDIT NETWORK, INC.**, (Agency) and **City of Manhattan Beach** (Client).

The above-named Client desires to place certain delinquent accounts receivable for services with Financial Credit Network, Inc., to be collected on its behalf.

The Agency and Client therefore agree that the collection of said accounts will be under the following terms and conditions:

1. **COLLECTION ACTIVITIES:** Agency will investigate all accounts referred to it for collection by the Client and will attempt collection by correspondence and telephone solicitation.
2. **INDEMNIFICATION:** Agency will defend, indemnify and hold harmless Client and their employees from any threatened or actual action, suit or proceeding whether civil, criminal, administrative, investigative or otherwise arising out of the Agency's performance of this Agreement, and against any and all expenses including attorney's fees, expert's fees, judgments, fines and amounts paid in settlement. However, the foregoing indemnification will in no way apply to any claim or liability resulting entirely from the negligence of Client or its employees.
3. **COMPLIANCE:** Any activities by Agency will be in accordance with the terms of the Fair Debt Collection Practices Act and procedures of the American Collectors Association, and the California Association of Collectors, of which it is and will remain a member in good standing.
4. **INPUT OF ACCOUNTS:** Agency will maintain computer equipment to permit the assignment of accounts through electronic submission. Delinquent accounts may also be assigned on our regular assignment sheets prepared by your office or our personnel. The Client will make available to Agency personnel such adequate information as is necessary to perform an efficient collection service.
5. **REMITTANCE AND REMITTANCE REPORTS:** Agency will furnish a monthly report and remittances of collection made on all collection activities to the Client on or before the 15th day of each month. Payments made via personal check, credit card and Auto-pay check by phone will be held for a period of 15 days from the date posted to the consumer's account before they appear on the

remittance report. At the Client's option upon reasonable notice to Agency, reports and remittances may be made on a weekly or bi-weekly basis.

6. DEBTOR STATUS REPORTS: Agency will furnish a debtor client inventory report upon request or reports can be set up to be received automatically at Client's discretion.

7. FEES: Agency will be entitled to a commission of 25 % of all principal amounts collected from whatever source on accounts assigned by Client. In the event of legal action or forwarding the commission percentage will increase to 35%. Agency will retain any amounts collected over and above the principal amount of debt assigned to offset losses in court costs and attorney fees. Other commission agreements are: 40% ON ALL SECOND PLACEMENTS, 45% ON ALL SECOND PLACEMENTS REQUIRING LEGAL ACTION

Agency and Client have agreed to review the above commission percentages after one year of service.

8. GRACE PERIOD: Agency will provide an initial 15-day grace period. During this period any money collected by agency or paid directly to the client shall be posted to the customer's account and remitted in full to the client. There will be no contingency fee during the 15-day grace period.

9. CREDIT REPORTING AGENCIES: Agency will report any accounts listed by the Client to the following Credit Reporting Agencies, i.e. Trans Union, Experian, Equifax after 30 days.

10. BANKRUPTCY NOTIFICATION: Client shall notify Agency immediately when notified that their customer has filed bankruptcy.

11. LEGAL ACTION: In the event Agency is unable to collect an account directly; it may be referred to an attorney of our choice for legal action. All legal fees are paid by Agency.

12. WITHDRAWAL AND CANCELLATION OF ACCOUNTS: The Client will have the right to withdraw or cancel accounts forwarded to Agency, however Agency's fee will be due on any account canceled by Client, if at the time that withdrawal or cancellation is requested by Client, the account is in an active repayment plan or litigation. Agency shall provide monthly written confirmation of all cancellations. Special circumstances will be evaluated upon receipt of written request by Client. Agency will not reactivate any account previously returned to Client, without express written permission by Client.

13. TERMINATION OF AGREEMENT: This agreement will be subject to termination at any time, by either party, upon providing a thirty (30) day written notice.

DATED: 5/9/11

FINANCIAL CREDIT NETWORK, INC.

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CITY OF MANHATTAN BEACH

BY: _____
DATED: _____
David N. Carmany
City Manager
City of Manhattan Beach

BY: _____
DATED: _____
Bruce Moe
Finance Director
City of Manhattan Beach

BY: Lead A Jaker
DATED: 5/9/11
City Attorney
City of Manhattan Beach