AUTHORIZE THE CITY MANAGER TO EXECUTE A 5-YEAR CONTRACT WITH RAY KLEIN, INC., DBA PROFESSIONAL CREDIT SERVICE FOR DEBT COLLECTION SERVICES

RECOMMENDATION

It is recommended that the City Council approve a motion to:

1. Authorize the City Manager to execute a 5-year contract with Ray Klein, Inc., dba Professional Credit Service for debt collection services for an estimated annual amount of $66,000 and a total not to exceed $330,000.

2. Authorize the City Manager to take appropriate and necessary actions to carry out the purpose and intent of this motion.

Summary

The City contracts with CB Merchant Services (CB Merchant) for the collection of outstanding third-party debts owed to the City of Stockton (City), and the contract expires March 31, 2018. The City utilized a Request for Proposal (RFP) process to solicit debt collection services proposals. Five proposals were received and the top three vendors participated in interviews. Ray Klein, Inc., dba Professional Credit Service (Ray Klein Inc.) is the recommended vendor based on their expertise and the quality of their services. If approved, the agreement with Ray Klein, Inc., will commence on April 1, 2018, and continue for five years until June 30, 2023 (Attachment A).

Under this contract, Ray Klein, Inc. will provide all the collections services the City is currently utilizing, plus technological advances that will bring significant efficiencies to current collections efforts. The firm estimates it will collect on 15% of the accounts the City assigns to them, while CB Merchant has collected on 10%. Its fees on new accounts are less than CB Merchants'-18% versus 25%.

It is recommended that Council approve a motion to authorize the City Manager to execute a Professional Services Agreement with Ray Klein, Inc.

DISCUSSION

Background

The City annually generates over 1.1 million invoices with an approximate dollar value of $284 million for services provided to the public. The invoices are for utility billing (water and sewer), other recoverable services, and subrogation against third parties that have caused damage to City property and injury to City employees. If the customer does not pay the invoice timely, the City typically
attempts to notify the customer several times before sending the delinquent account to its third-party collector. The collector then attempts to recover the amount owed to the City. If the debt is not paid within four years, the City then writes the debt off on its financial statements (the third-party collector continues to attempt to collect). The City writes off approximately $3.8 million each year.

CB Merchant has been the City’s third-party debt collector since 2000. The current agreement expires March 31, 2018. CB Merchant charges the City 25% on amounts it collects, and has collected on approximately 10% of the delinquent accounts the City has sent.

Present Situation

On August 30, 2017, the City released an RFP for debt collection services. The RFP ensured a fair and competitive procurement for debt collection services. The City desired that the successful vendor provide innovative ways to maximize payment on City customer accounts as well as minimize the number of accounts sent to collections. Proponents were encouraged to provide proposals that could include limiting the length of time accounts were held by the firm and providing secondary resources of collections.

The City received five responses from interested firms. All five met the minimum qualifications, and a panel of City staff interviewed the three top-ranked vendors. Ray Klein, Inc. was evaluated to be the best qualified to provide quality debt collection services. The firm estimates it will collect on 15% of the accounts the City assigns to them, while CB Merchant has collected on 10%. Its fees on new accounts are less than CB Merchants’-18% versus 25%.

Ray Klein, Inc. was able to demonstrate innovative collections methods that surpass industry standards and account for the anticipated increase in collections, including:

1. A “waterfall” skip tracing software, including 20-plus data vendors, that is used to locate debtors to collect/resolve accounts quickly.
2. Use of data science team to effectively modernize collection efforts and personalize collection strategies.
3. An interactive online portal that will be available to the City, which includes recorded phone calls to our customers and provides the ability to create reports, standardized reports, and information about each account in real-time.

FINANCIAL SUMMARY

Any fees or commissions payable to Ray Klein, Inc. for their services are deducted from the debt they recover. The contract specifies an 18% recovery fee on all new collection accounts sent from the City (primary accounts) and a 25% recovery fee on all amounts collected on current accounts (secondary accounts) transferred from CB Merchant.

Assuming a 15% recovery rate on new accounts, revenues to the City will be approximately $299,000, while Ray Klein, Inc. will retain approximately $66,000 in fees. These estimates do not include what the new firm may be able to collect on the secondary accounts it will inherit from CB Merchant.

All fees and commissions are charged to 010-1331-510 and amounts collected are recorded to 010-
0000-319.30-10 before being netted. The budget in these accounts is sufficient to cover the financial activity of this contract.

There are no additional impacts to the General Fund or any other City funds with the execution of this agreement.

Attachment A - Agreement with Ray Klein, Inc., dba Professional Credit Service