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Forrester: Collections Practice Current State Assessment

for the Judicial Council of California, April 2020

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Agenda

Project Summary

Description of New Legislation

Current State Assessment

Summary and Phase 2 Approach

Q&A

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Project Summary

- Statement of Work
- Project Timeline
- Roadblocks, foreseeable challenges
- Goal Statement

Statement of Work

June 28th, 2019

The Judicial Council of California (JCC) commissioned Forrester to:

1. Reevaluate the previously set performance benchmarks (PMBs) to ensure that they are relevant and accurately reflect the efficacy of each of the 58 Participating Entities and meet the reporting needs of the JCC.
2. Ensure the measure and benchmarks support the JCC's mission to improve the administration of justice.

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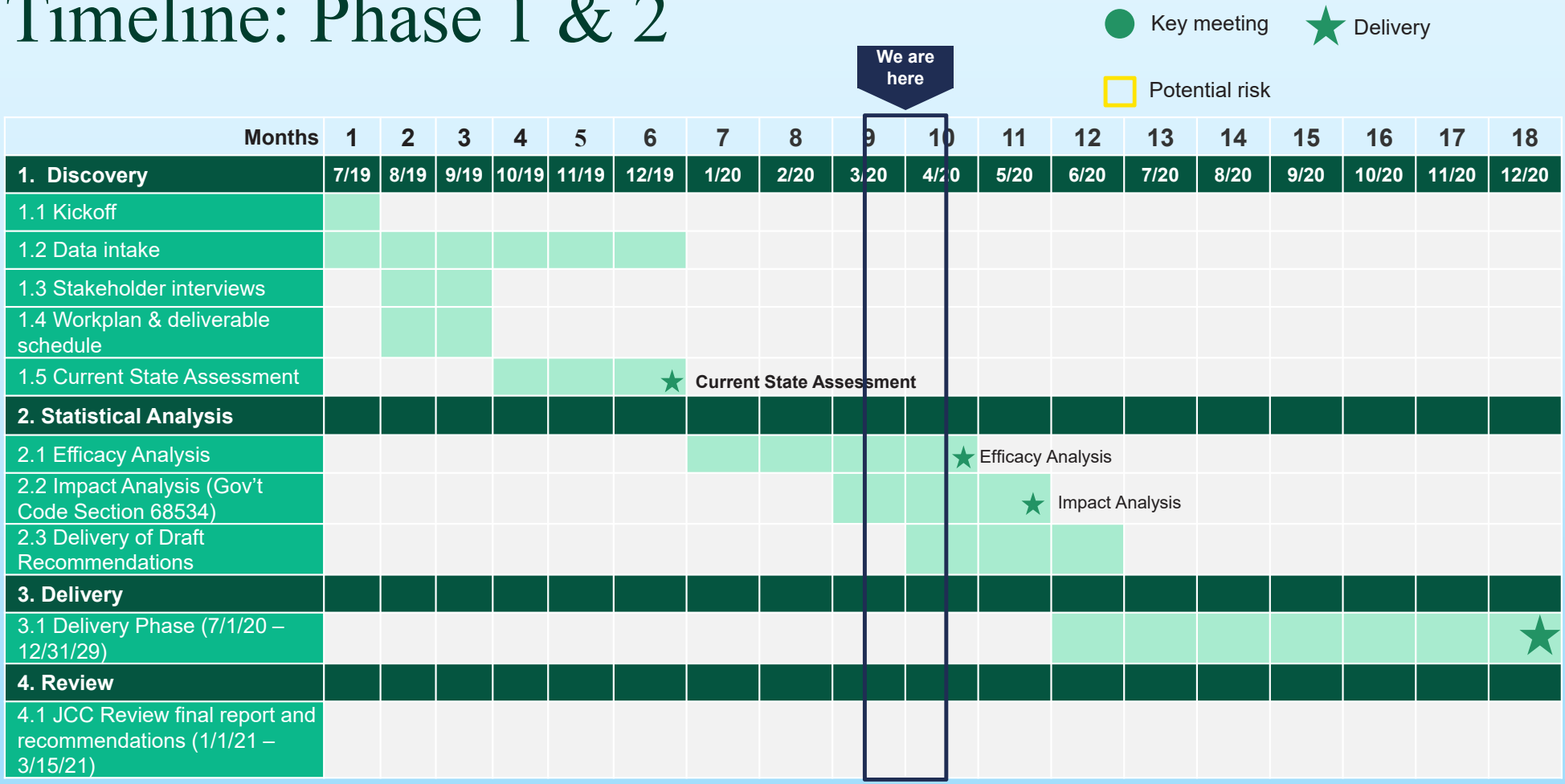
Timeline: Phase 1 & 2



Months	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
1. Discovery	7/19	8/19	9/19	10/19	11/19	12/19	1/20	2/20	3/20	4/20	5/20	6/20	7/20	8/20	9/20	10/20	11/20	12/20
1.1 Kickoff																		
1.2 Data intake																		
1.3 Stakeholder interviews																		
1.4 Workplan & deliverable schedule																		
1.5 Current State Assessment																		
2. Statistical Analysis																		
2.1 Efficacy Analysis																		
2.2 Impact Analysis (Gov't Code Section 68534)																		
2.3 Delivery of Draft Recommendations																		
3. Delivery																		
3.1 Delivery Phase (7/1/20 – 12/31/29)																		
4. Review																		
4.1 JCC Review final report and recommendations (1/1/21 – 3/15/21)																		

Final timelines and project plan will be developed at onset of engagement as resources are assigned. Timelines above represent level of effort required, not duration.

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Roadblocks, foreseeable issues and challenges

- Aligning general goals of collection programs and the JCC
- Validity of CRT data
- Details on collected and outstanding debt – age, size of accounts, demographic information of accounts, etc...

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Forrester’s goal is to create performance measures and benchmarks that incent entities to optimize controllable debt collection without punishing for uncontrollable variables.

- Forrester’s goal statement

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Description of New Legislation

Government Code Section 68514

- Summary of Legislation's Impact
- Goals for this Project

GC 68514 impacted the courts and counties ability to use PMBs to accurately measure and benchmark their performance.

Total Collections / Current Period Referrals → Total Collections / Current Period Referrals + **Prior Period Referrals**

Previous PMB Calculation:

2008 – 2017

GRR	SR
$\frac{(Collections+Adjustments)}{Referrals}$	$\frac{Collections}{(Referrals-Adjustments)}$

Collections + Adjustments: All collections received, and adjustments made in current period

Referrals: Only includes current-period balances

- Goal was to measure annual performance based on **total collections** against **current period referrals**
- Numbers may have been skewed **slightly higher** by including collections on prior-period debts in current period performance

New PMB Calculation:

Changes due to GC68514(b)

GRR	SR
$\frac{(Collections+Adjustments+Discharges)}{Referrals}$	$\frac{Collections}{(Referrals-Adjustments-Discharges)}$

Collections + Adjustments + Discharges: Reports collections from current period and prior periods separately

Referrals: Now reported separately and calculated using the combined total of current and prior period referrals.

- Entities required to report **Current Period** separately from **Prior Periods** performance
- Prior period referrals tend to be **significantly larger** (in actual value and as a percentage of total referrals) and can differ greatly from entity-to-entity based on collections practices

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Including prior year referrals impacted the PMB calculations for reporting entities, skewing the numbers down and calling into question the accuracy and relevance of the PMBs themselves.

Impetus for this research:

Forrester Research has been commissioned to reevaluate the PMBs, offer recommendations on how to improve collections performance and assist the Judicial Council in its mission to improve the administration of Justice.

Forrester's Goal Statement:

Forrester's goal is to create PMBs that incent entities to optimize controllable debt collection without punishing for uncontrollable variables.

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Collections Best Practices

Analysis

- Analysis
- Effectiveness of practices

These Best Practices raised some initial questions for Forrester.

Explored in Current State Assessment:

1. Does following best practices have an impact on performance?
    a. *Initial assessment found that there is not a strong correlation between PMBs and Best Practice compliance, however, a deeper dive analysis will be completed in Phase 2 to better understand the relationship.

To-be explored in Phase 2:

1. Do Best Practices align to industry standards/best practices?
2. Do any specific Best Practices have an outsized influence on performance?
3. How closely do entities follow these? Do they go 'above and beyond' to comply or do they simply do check-box compliance?
4. Can best practices be tied to specific metrics or performance?

**These questions represent initial reaction, further questions and hypothesis will be developed and tested during Phase 2, with input from the JCC and collections entities.

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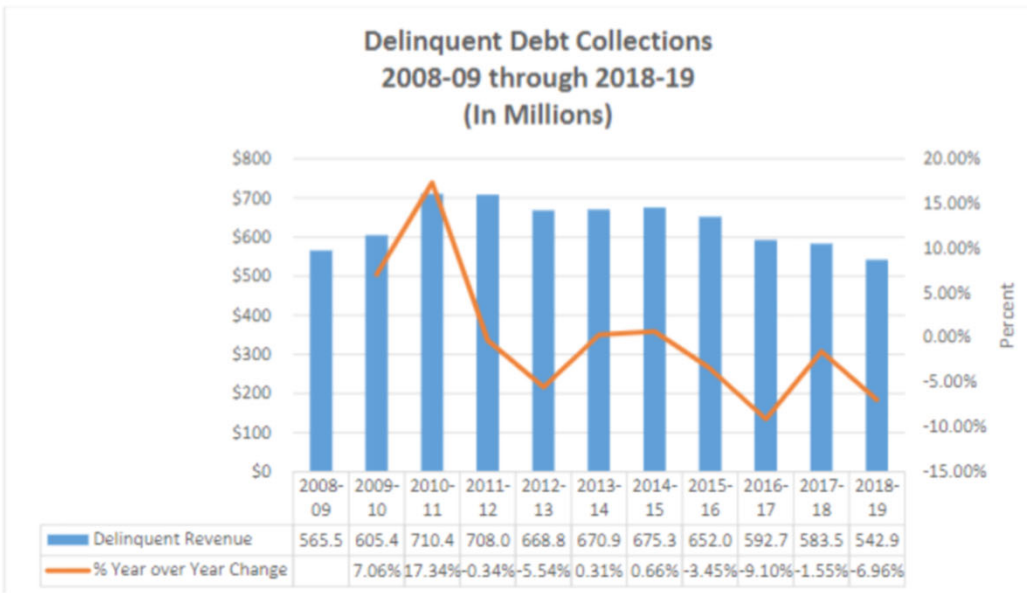
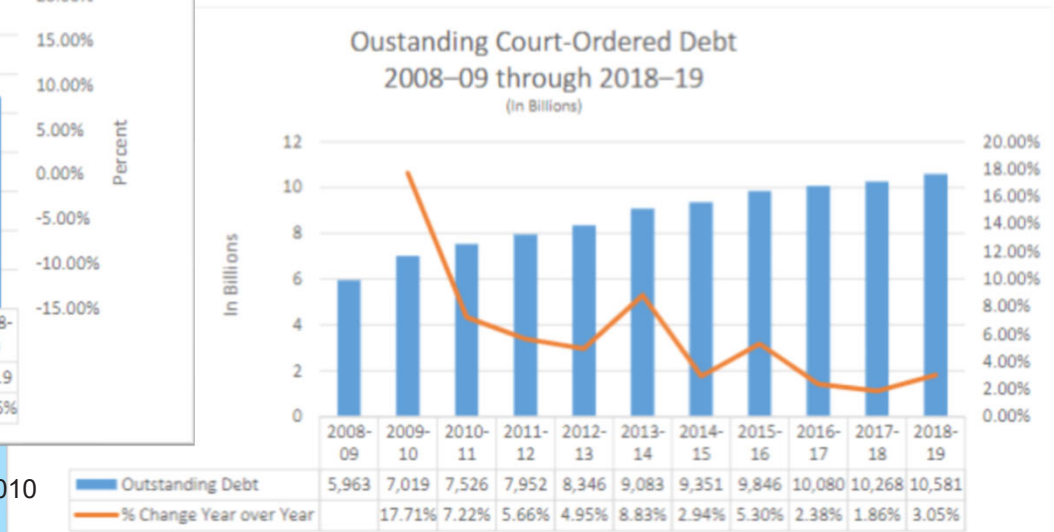
Even with high compliance to Best Practices, aggregated metrics are trending the wrong way.

Chart 3



	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Delinquent Revenue	565.5	605.4	710.4	708.0	668.8	670.9	675.3	652.0	592.7	583.5	542.9
% Year over Year Change		7.06%	17.34%	-0.34%	-5.54%	0.31%	0.66%	-3.45%	-9.10%	-1.55%	-6.96%

Chart 6



	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Outstanding Debt	5,963	7,019	7,526	7,952	8,346	9,083	9,351	9,846	10,080	10,268	10,581
% Change Year over Year		17.71%	7.22%	5.66%	4.95%	8.83%	2.94%	5.30%	2.38%	1.86%	3.05%

* Source: Judicial Council of CA – 2018-19 Report to the Legislator PC 1463.010

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A majority of entities follow most Best Practices. While we know the best practices help drive value, there is not a statistical correlation that we could prove linking best practices to actual collections performance.

- Forrester's current state assessment on Collections Best Practices.

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Entity Collection Activities

Penal Code section 1463.007

- Adoption
- Return on Investment (RoI) analysis

Forrester has a few questions about the Collections Activities that are defined in the CRT.

Explored in Current State Assessment:

1. Are entities able to accurately attribute both costs and revenue generated from each activity?
2. Are any activities particularly effective, or ineffective, in collecting on delinquent debt?*
   a. *Initial assessment explores this question; however, a deeper dive analysis will be completed in Phase 2 to better understand the efficacy of collections activities.

To-be explored in Phase 2:

1. Do these align to industry best practices for collecting delinquent debt?
2. Are any activities particularly effective, or ineffective, in collecting on delinquent debt?
3. Is there a particular order in which these activities should be performed in order to improve likelihood of collection?
4. What activities would the individual entities choose to define and track?

**These questions represent initial reaction, further questions and hypothesis will be developed and tested during Phase 2, with input from the JCC and collections entities.

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Every activity category boasts a positive return on investment.

	2017 - 2018	2018 - 2019	Trend	Costs '18 - '19	Revenue '18 - '19	ROI
1) Telephone Contact	82%	84%	2%	$ (20,757,814)	$ 78,226,981	277%
2) Written Notice(s)	96%	96%		$ (10,938,925)	$ 80,702,758	638%
3) Lobby/Counter	98%	93%	5%	$ (9,160,929)	$ 52,819,526	477%
4) Skip Tracing	86%	85%	1%	$ (2,381,459)	$ 5,719,812	140%
5) Franchise Tax Board - Court-Ordered Debt Collections (FTB-COD)	93%	91%	2%	$ (13,353,656)	$ 80,497,481	503%
6) Frachise Tax Board - Interagency Intercept Collections (FTB-BC)	84%	84%		$ (4,026,254)	$ 60,651,141	1406%
7) Drivers License (DL) Hold	88%	81%	7%	$ (1,340,966)	$ 20,973,817	1464%
8) Private Agency	90%	84%	6%	$ (12,911,417)	$ 97,625,038	656%
9) Wage/Bank Garnishment and Liens	72%	66%	6%	$ (2,442,194)	$ 13,666,834	460%

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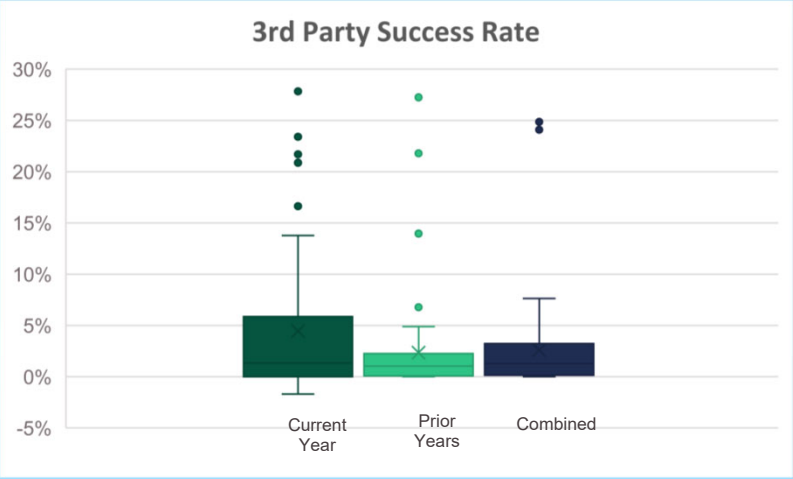
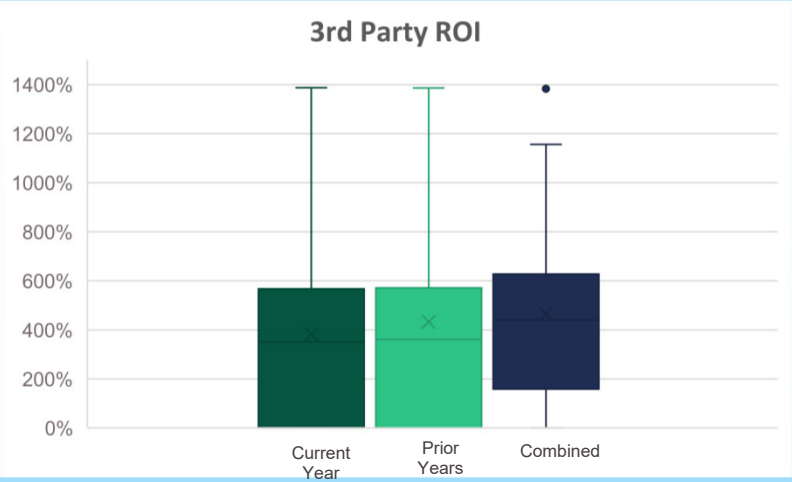
Entities also spend on 3rd party collection agencies – with mixed success.

84% of entities are utilizing a 3rd party for collections, this is down from 90% in 2017/18.

While costs for 3rd parties are typically low resulting in high ROIs, Success Rates are much lower than other activities. This may be due to the nature of the accounts sent to 3rd parties.

	3rd Party Referrals	3rd Party Revenue	3rd Party Cost	Success Rate*	ROI
Current Year	$548,304,344	$77,879,153	-$9,793,033	14%	695%
Prior Years	$4,878,766,135	$41,768,573	-$6,854,840	1%	509%
Combined	$5,427,070,479	$119,647,727	-$16,647,873	2%	619%





*Success Rate excludes adjustments and discharges

Data reported on Collections Activates in the CRT does not reflect the full costs of collections, or the full amount of revenue collected as reported in the **Annual Financial Report section.

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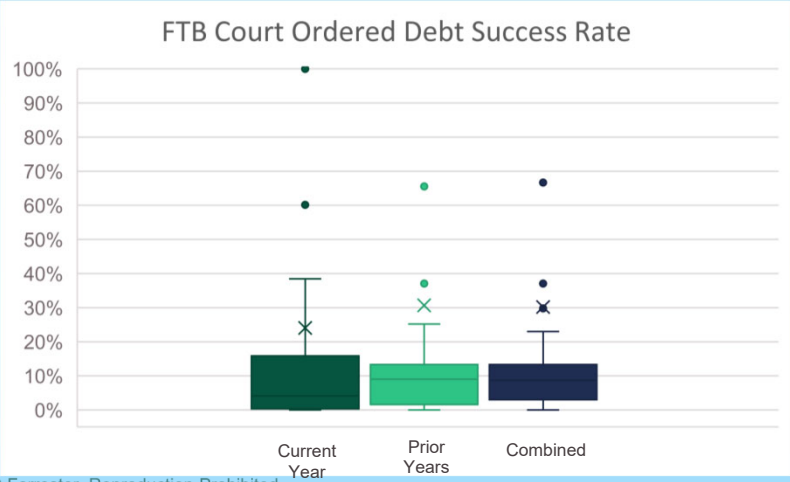
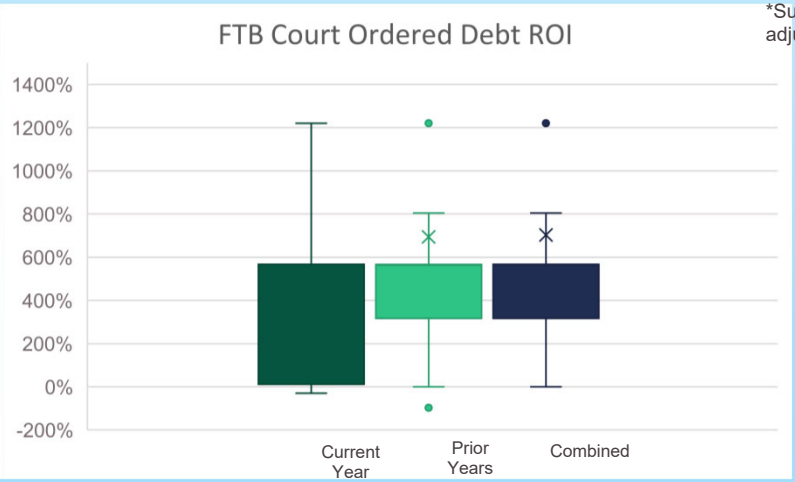
The FTB is a more effective way to collect on prior-years debts.

For cases referred to the FTB, regardless of current or prior year debt, the success rate seems to be consistent at 8-9%. Relative to other collections activities, this is low for current-year but **high for prior-year debt.**

	FTB Court Ordered Referrals	FTB Court Ordered Revenue	FTB Court Ordered Cost	Success Rate*	ROI
Current Year	$369,622,325	$28,615,857	-$5,006,610	8%	472%
Prior Years	$882,287,691	$79,992,370	-$12,384,429	9%	546%
Combined	$1,251,910,017	$108,608,228	-$17,391,040	9%	525%





*Success Rate excludes adjustments and discharges

Data reported on Collections Activates in the CRT does not reflect the full costs of collections, or the full amount of revenue collected as reported in the **Annual Financial Report section.

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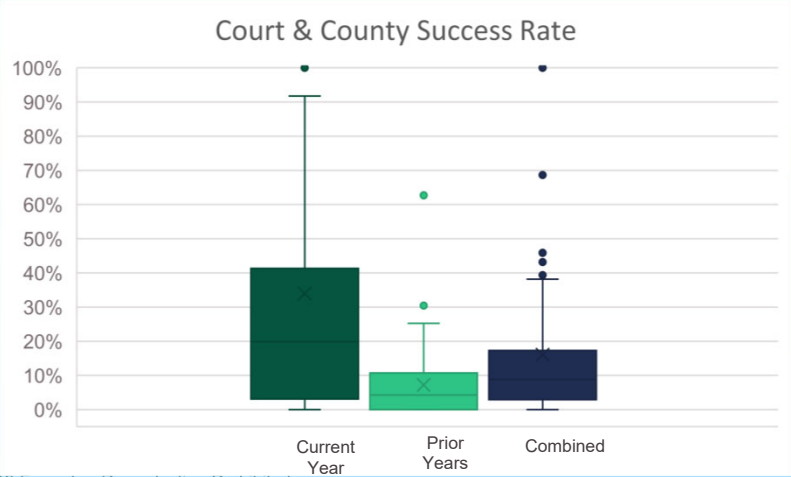
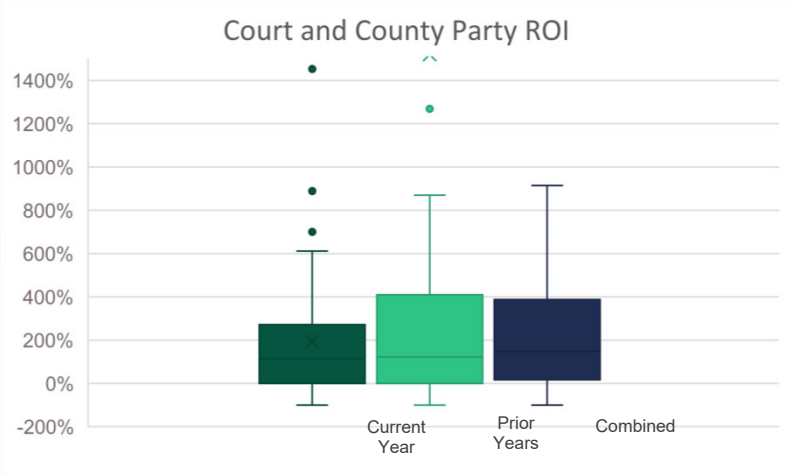
Courts and Counties have the most success collecting on current year debt. But they also spend more to collect.

For cases handled by courts and counties, the cost to collect is higher driving ROIs down. However, courts and counties have a **higher Success Rate on collecting current year debts** than the other collecting bodies.

	Courts & Counties Referrals	Courts & Counties Revenue	Courts & Counties Cost	Success Rate*	ROI
Current Year	$535,188,205	$116,660,026	-$38,585,391	22%	202%
Prior Years	$3,715,813,816	$144,487,891	-$35,257,878	4%	310%
Combined	$4,251,002,021	$261,147,917	-$73,843,269	6%	254%





*Success Rate excludes adjustments and discharges

*Data reported on Collections Activates in the CRT does not reflect the full costs of collections, or the full amount of revenue collected as reported in the **Annual Financial Report** section.

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Depending on the age and other characteristics of the account, certain activities tend to perform better. However, cost should always be a consideration.

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Determining efficacy and ROI of each collection activity is difficult due to level of detail and lack of consistency in the data and the reported difficulty entities have placing costs and attributing revenue to the correct activity.

- Forrester's current state assessment on JCC approved Collections Activities.

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Performance Metrics and Benchmarks (PMBs)

Analysis

- Define PMB calculations
- Normalization with historical formula applied to current CRT data
- Forrester's assessment

Quick recap of the changes to the PMBs stemming from GC68514(b).

Previous PMB Calculation:

2008 – 2017

GRR	SR
$\frac{(Collections+Adjustments)}{Referrals}$	$\frac{Collections}{(Referrals-Adjustments)}$

Collections + Adjustments: ALL collections and adjustments from that period

Referrals: Only includes current-period balances

- Goal was to measure annual performance based on **total collections** against **current period referrals.**
- Numbers may have been skewed **slightly higher** by including collections on prior-period debts in current period performance.

New PMB Calculation:

Changes due to GC68514(b)

GRR	SR
$\frac{(Collections+Adjustments+Discharges)}{Referrals}$	$\frac{Collections}{(Referrals-Adjustments-Discharges)}$

Collections + Adjustments + Discharges: Reports collections from current period and prior periods separately

Referrals: Now reported separately and calculated using the combined total of current and prior period referrals.

- Entities required to report **Current Period** separately from **Prior Periods** performance.
- Prior period referrals tend to be **significantly larger** (in actual value and as a percentage of total referrals) and can differ greatly from entity-to-entity based on collections practices (particularly discharges).

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Forrester had a few initial questions about the PMBs.

Explored in Current State Assessment:

1. Do entities consider their scores and make decisions based on performance?
2. Do entities feel like the PMBs represent their actual performance?
3. What metrics do entities find valuable and useful?*
    a. *Entities had suggestions from interviews, however, a deeper dive analysis will be completed in Phase 2.

To-be explored in Phase 2:

1. What are the goals of the PMBs?
2. Is there an incentive for entities to perform well? Disincentive to perform poorly?
3. How did GC68514 impact the PMBs?

**These questions represent initial reaction, further questions and hypothesis will be developed and tested during Phase 2, with input from the JCC and collections entities.

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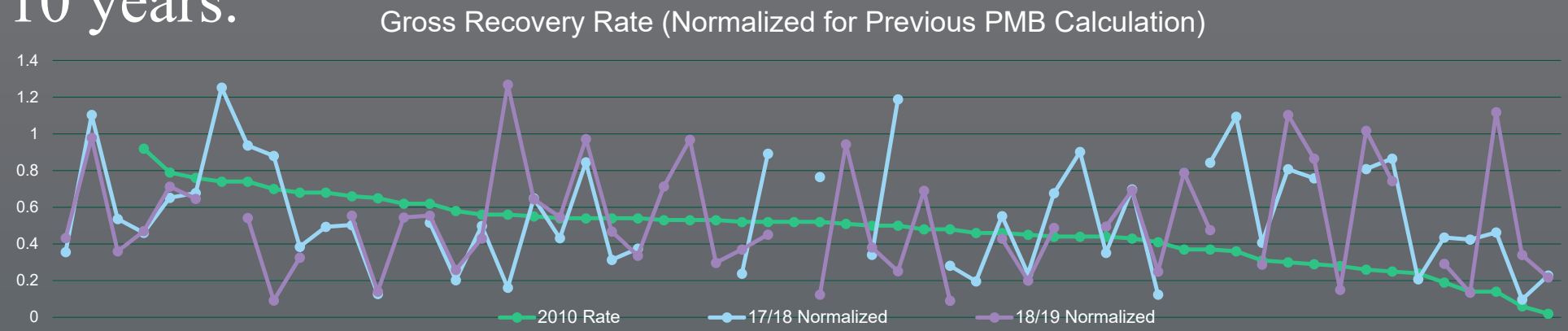
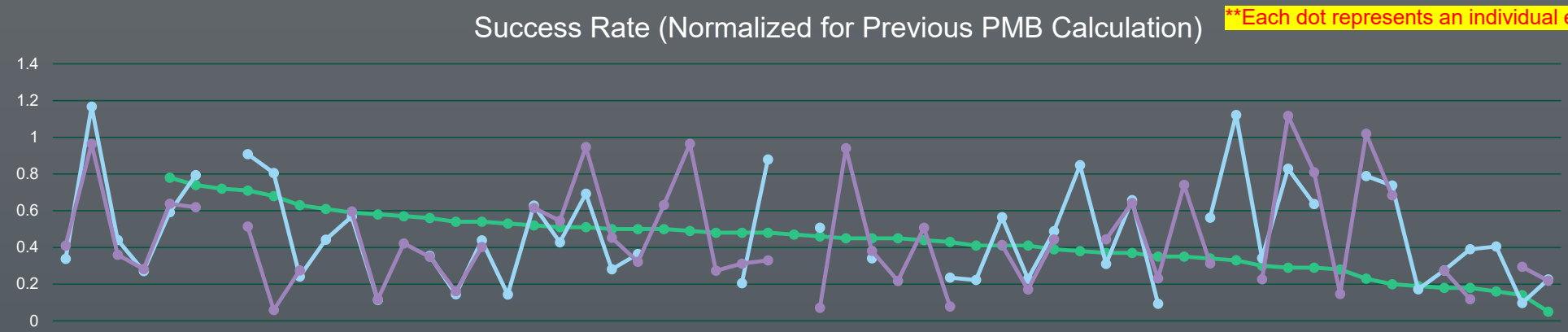
Using the old PMB calculation, we found that there has not been a significant change in PMB performance over the last 10 years.





**Each dot represents an individual entity

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*Rates >125% or <0% removed

Including prior year referrals impacted the PMB calculations for reporting entities, skewing the numbers down and calling into question the accuracy and relevance of the PMBs themselves.

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Insights & Data Analysis

- **The Residual Effect**
- Collectability of debt over time

There is an inherent risk in how the PMBs are currently calculated.
If referral balances continue to rise (as the data shows), PMBs will continuously fall.

Forrester calls this the **‘Residual Effect’**.

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The Residual Effect

$$GRR = \frac{(Collections + Adjustments + Discharges)}{Referrals}$$

Conclusion:

- Keeping new annual referrals and collected revenue constant, **Total Referral Balance will continue to climb, driving down PMBs**.
- Referral balance is the **denominator** in both SR and GRR equations so **higher referral balance = lower PMBs.**

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Without a standard discharge practice, the residual referral balance will continue to drag PMBs down for entities who are performing fewer discharges.

The analysis points to a need for standardizing practices around discharges in order to more accurately evaluate and benchmark annual performance.

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Insights & Data Analysis

- The Residual Effect
- **Collectability of debt over time**

Hypothesis - As debt ages, the probability of collecting on that debt declines & the cost to collect the debt increases.

The JCC, in association with the 58 entities, should collaborate to determine **the true goal of California's collections program.** This goal will inform the best way to handle discharges and what characteristics should qualify debt as being 'uncollectible'.

If the goal is to collect as much revenue as possible: It makes sense to leave debt on the books for longer with the hope that the debtor will eventually pay.

If the goal is to maximize performance (revenue collected vs. cost to collect): Then more analysis needs to be done to determine the specific characteristics that should qualify a debt to be discharged based on the cost to collect and the probability of collecting (expected value).

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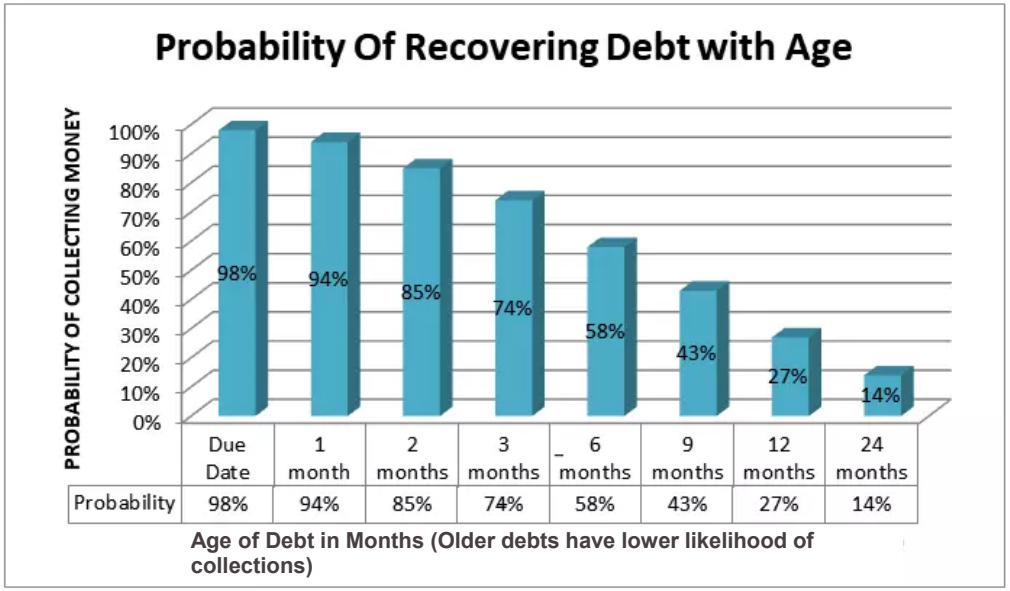
Collectability of debt over time: Probability of recovering debt decreases with time.

Initial research suggests that as debt ages, the probability of collecting on that debt decrease, and the costs to collect on that debt continue to rise as agents continue to pursue collections.

Implications for collections programs and the JCC:
By determining the likelihood of collecting delinquent debts, the JCC and 58 entities can develop best practices on how to handle aging debts to ensure that entities maximize the amount of revenue collected while offloading (either through a 3rd party or discharges) debts that are deemed uncollectable.

*Forrester will further investigate the inherent collectability of delinquent debts during Phase 2 of this analysis.



Source Commercial Law League of America

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Feedback and suggestions from stakeholder interviews

Quotes / Interviews

- Potential performance metrics and benchmarks

And some ideas for updating the PMBs.

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Summary and Phase 2 Approach

- Summary of findings

Forrester's approach to Phase 2:

Current State Assessment:	Phase 2 Approach:
Define the **goals of California's delinquent debt collections program.** **Standardize practices around discharges**	The JCC and the 58 entities should work to establish clear, agreed-upon goals for statewide collections programs. Establishing shared goals is a crucial first step in order to evaluate best practices, collections activities and PMBs.
A majority of entitles are following most of the Best Practices but there is no **clear connection between Best Practice compliance and collections performance**.	Forrester will analyze the 25 defined Best Practices to determine efficacy, ROI and impact on performance. Entities invest in following Best Practices so identifying BPs that impact performance should have a positive impact to collections metrics.
Certain activities tend to perform better at collecting delinquent debts. However, cost should always be a consideration.	Initial analysis suggests that certain activities and collecting bodies perform better at collecting debts with certain characteristics. Forrester will explore this relationship further to determine if additional guidance on which activity is most effective for certain types of debt is warranted.
JCC should continue with and potentially expand training programs.	Entities reported positive sentiment towards trainings provided by the JCC. The JCC should consider expanding training programs and working with entities to identify new training topics/areas as well as evaluate the effectiveness of current training programs.

Forrester's approach to Phase 2: (cont'd)

Current State Assessment:	Phase 2 Approach:
Including prior year referrals impacted the PMB calculations for reporting entities**, skewing the numbers down** and calling into question the accuracy and relevance of the PMBs themselves.	Forrester will evaluate the current PMB metrics and calculations and work with entities and the JCC to define new metrics that represent and predict actual performance – without punishing for uncontrollable variables or inconsistent practices across entities.
Challenges around gathering, reporting and leveraging data in the CRT.	Entities understand the importance of reporting data to the JCC and invest a lot of time and effort to complete the CRT to the best of their abilities with the resources and data available to them. Forrester's goal in Phase 2 is to develop recommendations that reduce the burden on entities while improving the accuracy, relevance, and usefulness of the data for entities and the JCC.
Assigning a 'collectability score' for outstanding debts was controversial as some entities did not trust how those determinations were being made.	Forrester will further research collectability metrics to determine weather it makes sense for entities and the JCC to embrace these metrics and apply them to outstanding debts.

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Thank You.

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