

Delinquent Tax Collection Services Contract Options

Presented to the City Council on March 20, 2018

Property Tax Collection History

- Delinquent taxes referred to collection attorney represent relatively small amount of overall tax levy. Total collection rate collected by FY is listed below:

Fiscal Year	% Collected within FY
2016-17	99.49%
2015-16	99.48%
2014-15	99.67%
2013-14	99.23%

- Roughly \$500-600K in delinquent tax accounts is turned over to delinquent tax collection law firm annually out of tax levy of approximately \$60 million.

Contract History

- Delinquent tax contract originally awarded to Sawko and Burroughs, PC on July 1, 2005.
- In 2008, the City of Denton received the following four proposals as part of RFQ:
 - McCreary, Veselka, Bragg, & Allen, PC (in association with Hayes, Berry, White, & Vanzant, LLP).
 - Perdue, Brandon, Fielder, Collins, and Mott, LLP (in association with ShipmanSteppick, and Grey Pierson).
 - Sawko & Burroughs, PC.
 - Linebarger, Goggan, Blair, & Sampson, LLP.
- On November 4, 2008, the City Council approved a new contract with Sawko and Burroughs.
 - Initial term expired on June 30, 2011.
 - Renewed through June 30, 2016.

Contract History (Cont'd)

- In February 2016, a RFQ was issued to select firm to perform delinquent tax services.
- Staff evaluated proposals according to the following weighted criteria:
 - Demonstrated qualifications, experience, and credentials of firms providing proposals. (20%)
 - Historical performance levels and demonstrated capabilities. (60%)
 - Delinquent tax collection procedures for accounts, technological capabilities, available legal services, oral presentation, and overall response to RFQ. (20%)
- All fees for tax collection services are paid directly by delinquent taxpayers, not the City of Denton. Therefore, the cost of collections was not considered.
 - 20% fee added to delinquent accounts per state law.

Contract History (Cont'd)

- The City of Denton received the following four proposals in 2016:
 - McCreary, Veselka, Bragg, & Allen, PC (in association with Hayes, Berry, White, & Vanzant, LLP).
 - Perdue, Brandon, Fielder, Collins, and Mott, LLP (in association with Minor and Jester, PC).
 - Sawko & Burroughs, PC.
 - Linebarger, Goggan, Blair, & Sampson, LLP.
- Takeaway – Same firms submitted proposals in both the 2008 and 2016 processes, and would likely be the same firms to propose in any future RFQ. Differences between firms is minimal and highly subjective.

2016 Recommendation

- Staff recommended the firm of Sawko & Burroughs, PC, for the delinquent tax collection services contract for the following reasons.
 - Strong history of collection performance and responsiveness.
 - Led effort to collect difficult delinquent property tax accounts (Nuview Molecular and TxDOT property condemnations).
 - Proactive approach to bankruptcy accounts.
 - From 1987-2015, initiated more than 65% of the delinquent tax collection auction proceedings in Denton County.
 - Evidence of assisting taxpayers with information and payment arrangements.
 - Currently has contract with DISD which leverages Denton collections.
 - Principal tax collection attorneys work in Denton and maintain strong local presence to assist taxpayers and staff.

2016 Recommendation (Cont'd)

- McCreary, Veselka, Bragg, & Allen, PC, received the second highest ranking from the panel.
 - Currently has contract with Denton County.
 - Local affiliated law firm has limited role in providing collection services.
 - Not able to provide collection performance for Denton County on Denton accounts.
- With this said, rankings are inherently subjective in nature, and service offerings for firms are similar.
- As such, all firms are capable of providing the required delinquent tax services to the City of Denton.

2016 Council Discussions

- After receiving the staff recommendation, Council requested the following information from each law firm:
 - Clarifications from each firm regarding whether they would “guarantee” a collection rate.
 - Value of 70% guarantee (or any other figure proposed) excluding legally uncollectible accounts.
 - 70% guarantee submitted by McCreary firm during proposal process.
 - Legally uncollectible accounts are primarily related to over 65 tax deferrals.

Clarifications from Law Firms in 2016

- The following clarifications were received regarding a guaranteed collection rate (excluding legally uncollectible accounts):
 - McCreary – Submitted 70% guarantee in proposal.
 - Sawko - Responded with a 70% guarantee and will match any higher offer of performance.
 - Perdue – Responded with a guarantee of 80%.
 - Linebarger – Responded that they cannot guarantee outcomes in legal matters.

Council Action in 2016

- The collection contract requires a minimum of 60% to be collected from current year delinquencies and 30% from prior year accounts.
 - 60% collection rate on gross collections typically exceed 70% rate on collections after subtracting out legally uncollectible accounts (e.g. over 65 deferrals, etc).
- In 2016, Sawko and Burroughs had demonstrated collections exceeding the contract amounts (60%/30%) and had also exceeded 80% of collections less the legally uncollectible accounts.
- Given these factors, the City Council awarded a 2 year contract to S&B in June 2016.
 - Current contract will expire on June 30, 2018.

Collection History

Tax Year (Taxes Due on Jan 31 st following year; Subject to Attorney Collection on July 1 st)	2013	2014	2015	2016
Gross delinquencies as of July 1st	\$520,005	\$575,562	\$587,955	\$582,846
Less: Legally Uncollectible Accounts	<u>(\$121,592)</u>	<u>(\$120,273)</u>	<u>(\$110,393)</u>	<u>(\$92,130)</u>
Adjusted Delinquent Accounts	\$398,413	\$455,289	\$477,562	\$490,716
60% Collection of <u>Gross</u> Delinquent Accounts	\$312,003	\$345,337	\$352,773	\$349,708
70% Collection of <u>Adjusted</u> Delinquent Accounts	\$278,889	\$318,702	\$334,293	\$343,501
Differential	(\$33,114)	(\$26,635)	(\$18,480)	(\$6,207)
Actual Collections (As of June 30th)	\$324,738	\$374,315	\$384,892	**\$349,629
% Collected Less Legally Uncollectible Accts.	81.51%	82.21%	80.60%	**71.25%

** As of February 28, 2018.

Collection History (Cont'd)

- For all accounts, the collection rates are as follows (30%/60% requirement):

Tax Year	All Years	Current Year
2016 **	28.24%	59.99%
2015	39.96%	65.46%
2014	32.60%	65.03%
2013	38.81%	62.45%

** As of February 28, 2018.

Conclusion and Options

Conclusion: Sawko and Burroughs has exceeded contract collection requirements and metrics offered by other firms during the 2016 RFQ process.

Options:

1) Renew contract with Sawko and Burroughs.

- Staff would recommend an additional 3 years if Council chooses this option.

2) Select second rated firm from 2016 RFQ process or any other firm of the Council's choosing.

- Since delinquent collections are a professional service, the Council can select any firm if they feel a rotation of services is appropriate.

3) Solicit proposals through another RFQ process.

- As noted previously, the same firms as 2008 and 2016 will likely submit proposals again.