

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	Adoption of Ordinance No. 711 – New Chapter for Shoreline Municipal Code 3.65 – Collection of Debt
DEPARTMENT:	Administrative Services
PRESENTED BY:	Patti Rader, Interim Administrative Services Director
ACTION:	<input checked="" type="checkbox"/> Ordinance <input type="checkbox"/> Resolution <input type="checkbox"/> Motion <input type="checkbox"/> Discussion <input type="checkbox"/> Public Hearing

PROBLEM/ISSUE STATEMENT:

Occasionally, City taxpayers or customers become delinquent on payments to the City. Staff has proposed a collection process to attempt to fully collect on these overdue accounts. On April 13, staff presented proposed Ordinance No. 711 for Council discussion. The ordinance will designate that the Administrative Services Director establish, maintain, and enforce procedures for the collection of debt, allow the Director to contract with a collection agency, and allow the Director and City Manager to write off debt that has been deemed as being uncollectable. Tonight’s report also includes additional information about other city’s municipal code language that addresses the collection of unpaid debt.

FINANCIAL IMPACT:

There is no direct financial impact in adopting this ordinance. In the event that the City contracts with a collection agency, all associated fees would be paid by the debtor.

RECOMMENDATION

Staff recommends that Council adopt Ordinance No. 711 to establish procedures for the collection of debt and enacting a new chapter 3.65 - Collection of Debt.

Approved By: City Manager **DT** City Attorney **MK**

BACKGROUND

Staff presented proposed Ordinance No. 711 on April 13 for Council discussion. As discussed, some taxpayers or customers become delinquent on payments and staff has proposed a collection process to attempt to fully collect on these overdue accounts. Staff would also like the ability to use a collection agency to assist with collections and to have the ability to administratively write off smaller debts when collection efforts have not been successful or when there is no cost effective means of collecting the debt.

This ability, subject to certain procedural requirements, is authorized by RCW 19.16.500. The State has a contract currently in place with multiple collection agencies, and they screen the agencies and hold them to a standard that includes the use of best practices when attempting to recover debts. The contract also allows the collection agencies to pass on all costs associated with the collection of the debt to debtors, resulting in no additional cost to the contracting entity. The April 13 staff report on this topic can be found at the following link:

<http://cosweb.ci.shoreline.wa.us/uploads/attachments/cck/council/staffreports/2015/staffreport041315-9a.pdf>.

DISCUSSION

As was noted on April 13, adoption of proposed Ordinance No. 711 would allow for the following actions:

- Designate that the Administrative Services Director to establish, maintain, and enforce procedures for the collection of debt,
- Allow the Administrative Services Director to contract with a collection agency to assist with the collection of outstanding debt,
- Allow the Administrative Services Director to write off debt that has been deemed as being uncollectable in amounts of \$1,000 or less, and
- Allow the City Manager to write off debt that has been deemed as being uncollectable in amounts between \$1,001 and \$5,000.

As just noted, if proposed Ordinance No. 711 is approved, staff will proceed with the development of a Debt Collection Policy. The policy will detail the City's procedure for collecting debts, including debts related to insufficient funds checks, damage to City property, breach of contract, code enforcement abatement costs, assessment of civil penalties, and taxes and fees. It will also include procedures to write-off or remove uncollectible debt from the City's accounts receivable ledger and a reporting mechanism to keep the City Council apprised of approved debt write-offs.

Procedures specific to the collection of delinquent sewer accounts will need to be addressed separately in another ordinance once the assumption of the Ronald Wastewater District (RWD) is complete (or in anticipation of the assumption). At that time, the Council can decide whether and how to include those delinquent fees within this policy. The need for this ordinance and the timing of its adoption will be discussed by the RWD Assumption Transition Committee of Elected Officials as part of their transition planning process.

During the April 13 discussion, Council stated their interest in understanding how other cities manage this issue. Staff reviewed the municipal codes of Washington cities to find examples of language being used for debt collection, including the use of collection agencies and the write-off of uncollectible debt. Various municipal codes include language addressing procedures for the use of collection agencies and uncollectible debt.

Several cities that have enacted a Business and Occupation Tax have included a provision in their codes entitled "Charge-off of Uncollectible Taxes", with the following language:

The director may charge off any tax, penalty, or interest that is owed by a taxpayer, if the director reasonably ascertains that the cost of collecting such amounts would be greater than the total amount that is owed or likely to be collected from the taxpayer.

These cities include Bellevue, Bremerton, Burien, Des Moines, Dupont, Issaquah, Lake Forest Park, and Mercer Island.

While the City of Lakewood has similar language, it is applied broadly to any type of accounts receivable and also allows for the use of a collection agency:

The City shall make reasonable attempts to collect all money owing in compliance with city policy and procedure. If such attempts fail and at least one-hundred twenty (120) days have passed since the original due date, the receivable will be sent to a collection agency. No less than twenty-four (24) months after the original due date, if the receivable remains uncollected, the City may write-off the debt, provided the amount of the receivable is less than two hundred fifty dollars (\$250.00), and both the City Manager and Assistant City Manager for Finance authorize the write-off. Any decisions regarding write-off are discretionary with the City and may consider any variety of factors, including but not limited to resources of the City for purposes of attempting collection and aggregate impact of receivables at the time.

The Auburn Municipal Code includes Chapter 3.30 Use of Collection Agencies that includes specific procedures for debt collection:

1. *There must be proof that the City sent a written invoice to debtor*
2. *If invoice is not paid within 60 days, the Finance Director sends a written notice to include the unpaid amount, any penalties, and notice that if the debt is not paid within 30 days, it may be sent to a collection agency and that the debtor will be responsible for any associated collection fees*

The Vancouver Municipal Code includes Chapter 3.25 Bad Debt:

- *3.25.010 – Write-off of Amounts in Excess of \$25,000 – Council Approval*
- *3.25.020 – Write-off of Amounts of \$25,000 or Less – Administrative Approval*
 - *City Manager - \$15,001 to \$24,999*
 - *Director or Financial and Management Services and City Attorney - \$1-\$14,999*
- *3.25.040 – Reservation of Right to Pursue Write offs*
 - *Allows the use of collection agencies*

As can be seen from the various City codes, proposed Ordinance No. 711 is in alignment with how other cities are managing the collection of debt.

FINANCIAL IMPACT

There is no direct financial impact in adopting this ordinance. In the event that the City contracts with a collection agency, all associated fees will be paid by the debtor.

RECOMMENDATION

Staff recommends that Council adopt Ordinance No. 711 to establish procedures for the collection of debt and enacting a new chapter 3.65 - Collection of Debt.

ATTACHMENTS

Attachment A: Proposed Ordinance No. 711

ORDINANCE NO. 711

AN ORDINANCE OF THE CITY OF SHORELINE, WASHINGTON, ESTABLISHING PROCEDURES FOR THE COLLECTION OF DEBT AND USE OF COLLECTIONS AGENCIES AND ENACTING A NEW CHAPTER 3.65 COLLECTION OF DEBT, IN THE SHORELINE MUNICIPAL CODE.

WHEREAS, RCW 19.16.500 authorizes cities, subject to certain procedural requirements, to retain collection agencies for the purpose of collecting outstanding accounts receivable; and

WHEREAS, it is desirable to authorize the Administrative Services Director to refer uncollectible debts or delinquent accounts of any City department to a collection agency for collections; and

WHEREAS, it is necessary to write off certain debts or accounts if found to be uncollectible; and

WHEREAS, it is desirable to authorize the City Manager and the Administrative Services Director to write off certain accounts receivables if found to be uncollectible;

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF SHORELINE, WASHINGTON DO ORDAIN AS FOLLOWS:

Section 1. Findings of Fact. The recitals set forth above are hereby adopted as findings of the City Council.

Section 2. New Chapter. A new chapter 3.65 Collection of Debt is added to the Shoreline Municipal Code to read as follows:

3.65.010 Establishment of Procedures

The Administrative Services Director shall establish and maintain policies and procedures relating to the collection of debt. All City departments must comply with these policies and procedures.

3.65.020 Use of Collection Agencies

The Administrative Services Director shall establish policies and procedures governing the assignment or other referral of delinquent accounts or debt to a collection agency that has entered into a contract with the City for that purpose. All City departments must comply with these policies and procedures.

3.65.030 Write-off of Amounts of \$5,000 or Less – Administrative Approval

In certain cases amounts which are due any department of the City, including its public utilities, from any individual or corporate debtor thereto under provisions of leases, contracts, other instruments or agreements, or under provisions of rate or other ordinance or resolutions, or

which are due and legally enforceable from any person, corporation or insurance company as a result of damages to city property may remain unpaid for long time periods. After the Administrative Service Director has determined that there is no cost effective means of collecting the debt, the debt may be canceled, written off, reduced or otherwise compromised as follows:

- A. Amounts due the city which are in excess of \$1,000 but which are no greater than \$5,000 may, after reasonable efforts for the collection or settlement thereof have been exhausted, be authorized by the City Manager or designee to be canceled, written off or settled in part upon recommendation of the City Attorney and Administrative Services Director.
- B. Amounts due the city which are no greater than \$1,000 may, after reasonable efforts for the collection or settlement thereof have been exhausted, be authorized by the Administrative Services Director to be canceled, written off or settled in part upon approval of the City Attorney and Administrative Services Director, based on written procedures developed by the Administrative Services Director and approved by the City Manager.

3.65.035 Write-off of Amounts in Excess of \$5,000 – Council Approval

Amounts due the city in excess of \$5,000 which are due any department of the city, including public utilities, from any individual or corporate debtor thereto under provision of leases, contracts, other instruments or agreements, or under provisions of rate or other ordinances or resolutions, or which are due and legally enforceable from any person, corporation or insurance company as a result of damages to city property, may not be canceled, written off, reduced or otherwise compromised without the authorization of the City Council upon recommendation of the City Manager.

Section 3. Effective Date. A summary of this ordinance consisting of its title shall be published in the official newspaper of the City. The ordinance shall take effect and be in full force five days after passage and publication.

APPROVED BY THE CITY COUNCIL ON MAY 18, 2015

Mayor Shari Winstead

ATTEST:

APPROVED AS TO FORM:

Jessica Simulcik Smith
City Clerk

Margaret King
City Attorney

Publication Date:
Effective Date: