

# Money Does Grow on Trees: Government Collections Reap Rewards



**Thomas J. Kratzenberg, Joseph W. Lazzaro and David W. Kratzenberg  
with Keystone Municipal Collections**

By Scott H. Cytron, ABC

**W**ho says money doesn't grow on trees? Sometimes you have to shake the branches to realize the benefits and gains associated with collection.

While the IRS is still trying to figure out whether it wants to continue contracting with private collection agencies to collect taxpayer debt, collectors are very involved on state and local levels in collecting everything from parking tickets to much bigger ticket items, some of which may not readily come to mind when most of us think of "government" collections.

It should come as no surprise that agencies and law firms who specialize in government collections must know more than how

to collect a simple debt. There are numerous state laws and various nuances involved in collecting debts for states, municipalities and services – as well as special skills involved in most of these processes.

The agencies and firms interviewed in this month's feature are diverse in operational structure, types of collection, and certainly, geographic location, but they all share one trait in common: They excel in an area many firms shy away from – and for that reason, they excel for the long-term:

• Financial Asset Management Systems in Atlanta., Ga.: Jerry Hogan, president/CEO.

# Collecting Government Services Debt is Quite Different than Traditional Third-Party Agency Work

- ✦ Keystone Municipal Collections in Irwin, Penn.: Thomas J. Kratzenberg, Esq., J.D., CPA, founder, president and CEO; Joseph W. Lazzaro, Esq., vice president and general counsel; and David W. Kratzenberg, vice president, Operations and IT.
- ✦ Flexible Financial Corporation in Peckville, Pa.: Vito P. Ruggiero, chief operating officer.

**Collection Advisor:** Give me some idea how your agency started and how it evolved to where it is today.

**Jerry Hogan:** FAMS was founded in 1993



**Jerry Hogan**

as more of a traditional agency with credit card and consumer debt placement. Our big break came in 1997 when we won a small business contract set aside to collect student loan delinquencies for the U.S. Department of Education.

**Tom Kratzenberg:** In 1986, I recognized the need for strong enforcement techniques, including civil lawsuits, to collect delinquent real estate taxes for municipalities and school districts in Western Pennsylvania. Prior to that time, unpaid taxes were simply filed as liens against the delinquent property in the hope that one day the property would be sold and the liens paid.

This situation became a haven for “slum landlords” and other speculators who acquired properties with the sole intent to suck out as much rent as possible, make no improvement to the property, and, of course, pay no taxes. Once these properties were no longer rentable, the owner would simply walk away with no financial or legal consequences. The program we put in place changed all of that and made the pay-

ment of taxes a priority.

By going to court and obtaining a judgment against the owner of the property, instead of just filing liens, we make the process personal. Now we’ve exposed the taxpayer’s other assets, such as bank accounts, motor vehicles, other real estate, and stocks and bonds, to levy and sale.

When collection levels began to double and triple those of prior systems, we quickly applied our philosophy to other governmental taxes, such as earned income tax, business privilege tax, mercantile tax, and water and sewage billings. In some of these areas, we were able to use additional enforcement techniques of wage attachment and sheriff sales to further increase collections.

**Vito Ruggiero:** Flexible Financial Corp. (Flex) started because of the need for debt collection service that put the customer first. I was in charge of Human Resources and some delinquent receivables work for another large business under our umbrella. At that time, the collection industry was shifting into the debt buyers market, but it was evident that the lack of diligence and customer service was also lacking. I found myself calling and constantly trying to get answers from an outside company we hired, but it was more stressful to hire a company to do our work than just to do it ourselves. So, with customer service as our nucleus, Flex was born.

**Collection Advisor:** What kinds of governmental collection services do you offer?

**Jerry Hogan:** FAMS provides governmental collection services at various levels. At the local level, we work to recover city service fees, such as parking tickets and fines. At the state level, we recover child support delinquencies and unpaid taxes due to the Department of Revenue. At the federal level, we support the Department of Education in recovery of outstanding student loans.

**Tom Kratzenberg:** Keystone provides a myriad of billing and collection services

to municipalities, school districts and all forms of governmental authorities. These services include personal income taxes; real estate taxes; business gross receipt taxes; public utility charges (water, sewage, garbage); lien collection and enforcement; and criminal fines, penalties and restitution collection.

**Vito Ruggiero:** Flex will work on any and all outstanding borough/municipal receivables in various areas. These include subrogation/property damage, property tax (business and residential), refuse disposal fee (business and residential), bad checks, parking citations, ordinance violations, booking/rental fees (civic center, trailer lots, parks), and fire calls (fluid cleanup, false alarms). We also work in license, inspection and permit fees billed by invoice.

Many of these take special skills. In fire calls, for example, we will collect any and all delinquent billable respons-



**Vito Ruggiero**

es by the Borough/Municipal Fire Department. Auto insurance and independent medical insurances become quickly exhausted, resulting in out of pocket expenses. Our company is very familiar with the insurance processes and can quickly navigate the hurdles to obtain reimbursement.

More common to our industry is when we collect outstanding citations owed to the Borough, but we also put our own spin on this by making certain recommendations with regard to collection tactics on these accounts. These include a “Registration Hold” and “Tax Intercept Program,” two, sound possible avenues that the Borough can use to recover the amount owed.

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**Government Collections, continued from page 21**

**Collection Advisor:** While many collection organizations specialize in government collection, other companies tend to avoid it and work in other types of collection, such as credit card and healthcare. Why do you think this is the case?

**Jerry Hogan:** Collecting government services debt is quite different than traditional third-party agency work. Consumers and borrowers are constituents and voters, and customer service is a top priority. The recovery of dollars in the government sector is only one of the objectives, and, in fact, based on certain conditions, it may not be the top objective.

Qualifying a consumer or a borrower with a true hardship or disability is just as important as recovering money.

The ability to establish repayment terms or guidelines is very regimented in the government sector. You are not just getting the debtor on the phone and asking for payment; instead, you are truly qualifying them for a treatment program. This requires specialization for every aspect in the collection process, from hiring and training, to client support and IT processing.

The competition in this sector is extremely stiff – talent is a true commodity. You are not going to retrain a bankcard collector or manager and move them into this market and compete overnight. It's just too hard, so some agencies just avoid the market.

**Tom Kratzenberg:** There are a number of reasons why collection

organizations tend to avoid governmental collections. First, it is a highly specialized area where margins tend to be very slim (in some cases as low as 1.5 percent commission on amounts collected). Also, political preferences rather than sound business judgment often influence the selection and/or retention of the collectors. Moreover, there is a great deal of political correctness and sensitivity to the taxpayer that requires the collector to exercise a great deal of care and caution in administering the law.

Taxes are never popular with the public or media. Any time a tax notice is mailed, the customer service staff must be prepared to carefully document each complaint and courteously respond.

**Vito Ruggiero:** Agencies realize various accounts are handled according to their type and industry. For example, healthcare and credit card debt are straightforward collection accounts; debtors receive a service or use credit to make a purchase. These debts should be cut and dry once they are entered into a third-party collection agency.

However, we believe government accounts should be handled at a different level. These accounts do not generate revenue as quickly as other debts and they take on a more legal approach – it is a more “educational” approach because the main objective is, naturally, to get the outstanding debt paid – but not to strip someone of their property/personal possessions. Instead, we want to hold them accountable for what they know is owed.

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# The Trend Today is to Shift the Cost of Delinquent Tax Collection From the Government to the Delinquent Taxpayer

**Collection Advisor:** Are there any state acts or laws that you work off of to enable your collection efforts and how, as a collection organization, do you help the state recoup some of its revenue?

**Jerry Hogan:** FAMS works closely with several special state attorneys to identify taxpayers that have assets. When our traditional recovery process fails, we identify the asset, forward the findings to the attorneys, and the attorney seizes the asset or attaches the wages. Because this process can be very disturbing to the consumer, it is a last resort solution. Numerous checks and balances are built in and the process is monitored by quality assurance to assure individual rights have been protected.

**Joe Lazzaro:** The trend today is to shift the cost of delinquent tax collection from the government to the delinquent taxpayer. Pennsylvania enacted new cost-shifting laws in real estate and earned income tax collection. As a result, Keystone is able to be more aggressive and the delinquent taxpayer is more apt to pay. For instance, if the delinquent account is not paid according to a fixed timeline, the taxpayer knows he will also bear the cost of collection. This creates a win-win situation for the municipal client and Keystone.

**Vito Ruggiero:** The type of collection doesn't matter because the same approach is necessary. An ordinance and parameters must be enacted into local law, allowing us to become the municipal/borough tax collector. Once this is complete, we act as a part of the particular municipality, for which we are collecting delinquencies.

**Collection Advisor:** Tell me about the kinds of technology you use in your business.

**Jerry Hogan:** From the technology side, FAMS has used B-frame, a local software company in Atlanta, as our collection software platform since our inception. Because of our concentration in the government sector, our collection software has to perform numerous interest calculations on the Internet at

various rates, and multiple fields for both penalties and fees.

During the past 12 months, we developed a proprietary scoring model that drives the propensity to pay using numerous attributes provided by our government clients without reference to traditional credit attributes. The results have been outstanding.

Transitioning security and business continuity planning has been a top FAMS objective. We have worked with Trusted Network Technologies to establish a multi-layer internal network segmentation solution. With regard to dialers and IVRs, FAMS uses Noble and TouchStar technologies, and recently installed VoIP solutions to assist in our call recording and monitoring initiatives.

**David Kratzenberg:** Keystone created a proprietary technology system so that we could easily adapt to varying and

changing needs of a multitude of governments. While most businesses and service providers in the private sector use standard and similar data management systems, the needs of separate governments – and the vastly different types of taxes they impose – necessitate a more customized system. We did not want to force governments with different needs and unique criteria into the same “cookie cutter” mold. Keystone’s application can interface with most standard SQL databases.

Keystone blends this proprietary system with other technologies to make our product truly unique. Keystone delivers a complete package to its clients using various technologies, including a telecommunications system from Avaya that delivers IVR, predictive dialing, VoIP, and total management of call center functions and statistics.

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# The Changing Demands of Government Force us to Work Leaner and Smarter Every Day, It's a Tough Job That's Becoming Tougher

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Processing millions of dollars in tax payments daily is achieved through Keystone's own lockbox system. All payments are electronically imaged at our processing center on high-speed check scanners and are Check 21 ready.

All notices to taxpayers, including annual tax returns, are processed in house. Using our own high-speed printing and mail insertion equipment allows Keystone to mail hundreds of thousands of correspondence annually.

Tax collection also requires comprehensive management of documents. While most tax returns are still filed on paper, we are able to provide a paperless solution by scanning thousands of returns into our system. We use the very latest in handwriting recognition, OCR and forms recognition to virtually automate this process.

By developing or controlling all aspects of the tax collection process, Keystone has been able to provide a program that is highly efficient and customizable. We have taken a process that was previously run by large, ineffective bureaucracies and produced a combination of technology and law that have never been available.

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**The concern is enforcement of existing laws, maintaining privacy rights and protecting the consumer. Today's technology can assure that we, as an industry, meet those standards.**

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**Vito Ruggiero:** We use CollectOne (CDS Tiger) software with the IAT dialer system. In skip tracing, we have Accurint, but also use many paid and free searches. We also have the ability for debtors to pay online.

**Collection Advisor:** What do you see for the future of governmental collection? Will it continue to strengthen, weaken or stay the same?

**Jerry Hogan:** We are reaching a critical time, with federal and state dollars being stretched beyond voluntary and enforcement recovery ability. As a result, the logical solution is the private collection agency. The concern is enforcement of existing laws, maintaining privacy rights and protecting the consumer. Today's technology can assure that we, as an industry, meet those standards. The real question is whether the government sector will give us the chance? I believe it will.

**Joe Lazzaro:** Today's budgetary constraints and increased demands for services are forcing governments to become more efficient and more accountable. These changes, in turn, place more demands on collectors like Keystone to maximize collections to as close to 100 percent as possible.

The needs of governmental bodies continue to grow. At the same time, low profit margins, changing government regulations, and political preferences combine to make entry into this field prohibitive. Only established collectors like Keystone that have continually tailored their technology to government work will be ready for the future.

The changing demands of government force us to work leaner and smarter every day. It's a tough job that's becoming tougher. In the end, the result of good and accountable government is what we all want to achieve.

**Vito Ruggiero:** Just like in every other aspect of collections, there will always be delinquencies. Every company develops its own niche. It can be rewarding, but just like everything else, it takes time, effort, education and diligence to be successful. ☺

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