MINUTES
CASH MANAGEMENT REVIEW BOARD
SPECIAL MEETING OF SEPTEMBER 14, 2012
HOUSE COMMITTEE ROOM 1
STATE CAPITOL BUILDING

The items on the Agenda are incorporated and considered to be a part of the minutes herein.

Treasurer Kennedy called the meeting to order. Laura Lapeze called the roll.

MEMBERS PRESENT:
Ray Stockstill, Deputy Commissioner, designee for Commissioner Paul Rainwater
Tom Cole, designee for Legislative Auditor Darrell Purpera, (Non-voting member)
John Kennedy, State Treasurer

OTHER MEMBERS PRESENT:
Commissioner of Administration Paul Rainwater
Afranie Adamako, Statewide Reporting and Accounting Policy Director
Representative Chris Broadwater
Richard McGimsey, Assistant Attorney General
Jim Napper, Executive Counsel & Assistant State Treasurer
Laura Lapeze, CFO, State Treasury

Tom Cole moved for the approval of the minutes from the Special Meeting on August 22, 2012, seconded by Ray Stockstill, and without objection, the minutes were approved.

Treasurer Kennedy turned the meeting over to Commissioner Rainwater to present his report on improving state debt collection. Commissioner Rainwater stated the Division of Administration, Attorney General's Office, Legislative Auditor's Office and Treasurer's Office have formed an interagency working group to initiate a workable definition of long-term delinquent receivables. Commissioner Rainwater distributed documentation that outlined the Division's framework to improve the state's debt collection through the following three point plan:

1. Consolidate, centralize, coordinate, improve, and support state debt function
   A. Streamline agency collection efforts for recently delinquent debts
   B. Consolidate state level efforts and utilize third-party support
2. Implement a trigger mechanism for early action of delinquent payments
3. Strengthen enforcement by establishing and/or enhancing penalties, fees and fines, including offsets

Commissioner Rainwater explained the strategy to improve state debt collection would focus on improving state debt functions, strategically recognizing where third party entities should support state work, and more aggressively pursuing delinquent debts. It was also stated the Division of Administration will evaluate the financial effectiveness and potential return on investment of selling or securitizing old debt as established by Act 500 of the 2012 Regular Legislative Session.

Commissioner Rainwater distributed a copy of the RFP, which was issued on September 13, 2012, to conduct a review of outstanding debt and the assets the state has in place in order to implement the three point framework. It was mentioned the RFP would engage private sector expertise in conducting a thorough analysis of the state's debt and collections. The resulting data would be used to drive an informed path forward and keep all options open to aggressively pursue debt.

Commissioner Rainwater further explained representatives from the Division of Administration, Attorney General's Office, Legislative Auditor's Office and Treasurer's Office would analyze the RFP proposal responses with the goal of selecting the consultant by October, 2012. It was anticipated the consultant will provide information to the Commissioner on which accounts could be deemed collectable for decision making purposes. Based on that information, policies and procedures for long-term delinquent accounts receivables collection, sale or securitization could then be developed within six to nine months. The Commissioner stated it was his plan to make a recommendation to the Cash Management Review Board on sale or securitization on pools of long-term accounts and obligations prior to December 28, 2013.

Treasurer Kennedy introduced Ted London and Keith Pigue of CGI as well as Darrell Cohoon with Capitol Partners. Mr. Pigue stated CGI was a business and technology consulting firm that had been in business for 35 years and for the past 14 years they had done business in Louisiana with a variety of agencies in many capacities. It was also stated CGI had experience in successfully increasing revenues for US States.

It was explained CGI had performed a study of non-tax collection opportunities in Louisiana in May, 2010. Potential benefit opportunities had been identified at each of the six agencies reviewed with an overall estimated value of $115 million to $205 million over five years. Those six agencies accounted for over 50% of the state's debt. The study concluded that between $19 and $40 million in additional revenue could be collected annually by utilizing a centralized collection method. The report had been submitted to the Department of Revenue in April, 2010 as support for HB 1019 which would have centralized all debt collection in the department. However, HB 1019 was not enacted into law.

CGI has developed software solutions to effectively collect revenue. It was explained the company did not require upfront payment but would be paid a pre-determined fee from additional revenues generated by collection methods. Once the fee was paid, the state would receive 100% of the additional revenues. It was explained the key tools and approaches to driving increased collections included: centralize debt collections, offsets to automate collections, automated case management system, automated involuntary collections, predictive modeling and consider credit bureau reporting as a collection strategy.

It was explained CGI's philosophy was that 100% of debt should be eligible for offsets. For example, tax refunds should not be given to individuals owing the state, and no checks should be given to providers who may, in turn, have prior obligations owed to the state. It would most likely be necessary to update current statutes allowing offsets. It was also mentioned it may also be possible to apply federal debt as an offset to state debt.

By using existing state and/or third-party data, CGI's software can predict debt that is collectible. CGI would be able to capture data electronically and through image capture. It was CGI's recommendation that legislation should be enacted that specified debt would be transferred to the central collection authority in the period of 60 to 75 days after delinquency to optimize collection possibilities.

Next Treasurer Kennedy introduced Kent Stucki and Scott Straub with LexisNexis, a data aggregator and seller. Mr. Straub stated he was formerly employed with the U.S. Treasury where he helped implement best practices for debt collection, which significantly improved the department's collection rate by implementing identity collection solutions. Mr. Straub stated Louisiana's collection rate of outstanding accounts receivable could be vastly improved by implementing a system using identity management and resolution. It was explained the goal should be to increase the value of Louisiana's delinquent receivables portfolio before action is taken.

The key element in LexisNexis' approach to debt collection would be the identity of the debtor in addition to the debt itself. It was explained LexisNexis' software fuses messy, disparate, seemingly contradictory data regarding debtors into single identities. LexisNexis leverages identity resolution technology to receive more up to date information regarding the debtors to increase the value of the portfolio. Since the information regarding debtors may not be accurate, it would be valuable to debt buyers to understand more about the portfolio quality prior to purchase. It was stated that LexisNexis would not house the data provided to them but rather it would conduct identity resolution and return data back to the State.

LexisNexis explained the activities listed below must be performed before a determination could be made as to how to proceed with the State's delinquent receivables portfolio:

1. Conduct upfront Identity Management to increase knowledge of debtors
2. Conduct debtor hygiene to determine which of the portfolio identities would be actionable to increase the value of the portfolio
3. Score the portfolio to determine which of the portfolio identities were most collectable to increase the value of the portfolio
4. Increase the value and appeal in the marketplace for the portfolio

Treasurer Kennedy then introduced Sam Guarisco, Lisa Broussard, and Clare Talby with Portfolio Recovery Associates, Inc. (PRA). Ms. Broussard explained PRA was a market leader in the consumer debt purchase and collection industry and offers a broad range of debt purchase and business service solutions to a diversified base of clients. It was also stated the company was the largest public debt buyer as measured by market capitalization.

During the presentation, PRA identified key factors, which were age of the debt, customer demographics, and the actual debt, which should be given consideration for collecting and/or buying debt. It was stated the options to implement Act 500 should include:

1. Sell selected pools of outstanding debt at a discount and collect cash up front based on buyer's estimation of debt pool value
2. Lease the economic rights to the debt to a buyer for a period of time and receive a portion of the pool valuation in an initial payment, and then share in future recoveries
3. Explore and develop other debt management options that are best suited to meet the needs for the State's current and future cash flows and to reduce the balance of long term and "written off" debt

It was explained if the state sold a pool of debt, the buying company would own the debt. That would result in the state receiving more cash up front but it would have no future claims on any collections. Minimal resources are expended to get cash in hand. It was then explained that if a pool of debt is leased from the state, the state would receive less up-front cash but would be entitled to a portion of any collections the leasing company would be able to collect. Further the State would retain ownership of the debt at the conclusion of the project.

It was stated that selling/leasing data normally goes through a bidding process. The more data a bidder has, the more confidently they will bid yielding the highest price for the State. Therefore, based on the bid amounts, the State could make an informed decision.

It was recommended that the State must first determine the collectability of each debt pool using commercial underwriting tools and then focus efforts and expend resources on the most collectible debt pools and accounts.

Rick McGimsey reported that at the last Cash Management Review Board meeting the Attorney General's office had been asked to provide ideas regarding the best process/practice for the State to implement. Mr. McGimsey stated it was the AG office's recommendations that the State should amend rules already in place to establish a centralized debt collector and require agencies to send debt to that collector. After a reasonable amount of time passes and the centralized debt collector cannot collect the debt, the collector would then bring the uncollectable debt before the Cash Management Review Board instead of back to the agency for bundling and consideration of marketing for sale or leasing.

Treasurer Kennedy scheduled September 28, 2012 for the next meeting. Having no further business to discuss, Treasurer Kennedy adjourned the meeting.