

BEFORE THE COUNCIL OF THE
METROPOLITAN SERVICE DISTRICT

FOR THE PURPOSE OF RECOGNIZING) RESOLUTION NO. 92-1574
A BAD DEBT WRITE-OFF RELATED TO)
ACCOUNTS RECEIVABLE NO. 5481 -) Introduced by Rena Cusma,
O.K. SANITARY SERVICE, AND NO.) Executive Officer
5220. - HELZER SANITARY SERVICE)

WHEREAS, The Metropolitan Service District Code, Section 5.02.060 (i), provides that the Executive Officer may end pursuit of accounts receivable consistent with prudent credit practices, when the likelihood of collection does not justify future collection costs. Such actions will be reported to Council in writing when the amount exceeds \$500, and amounts over \$10,000 will require Council approval.

WHEREAS, the following accounts:

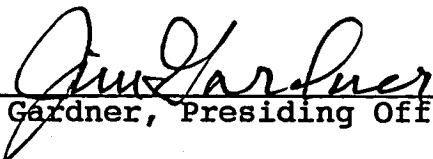
OK Sanitary Service	\$39,780.00
Will Helzer Sanitary Service	\$11,846.65

are over \$10,000 dollars and do not justify future collection efforts or cost.

BE IT RESOLVED,

That account number 5481, OK Sanitary Service, with a balance of \$39,780.00, and account number 5220, Will Helzer Sanitary Service, with a balance of \$11,846.65, are approved for an accounting recognition as bad debt write-offs.

ADOPTED by the Council of the Metropolitan Service District this 27th day of February, 1992.



Jim Gardner, Presiding Officer

FINANCE COMMITTEE REPORT

RESOLUTION NO. 92-1574, RECOGNIZING BAD DEBT WRITE-OFFS FOR SOLID WASTE ACCOUNTS RECEIVABLES

Date: February 24, 1992

Presented By: Councilor Hansen

COMMITTEE RECOMMENDATION: At its February 20, 1992 meeting the Committee voted unanimously to recommend Council approval of Resolution No. 92-1574. Present and voting were Councilors Devlin, Gardner, Hansen and Van Bergen. Councilor Wyers was excused.

COMMITTEE DISCUSSION/ISSUES: Jennifer Sims, Finance Director and Karen Feher, Associate Management Analyst gave the Staff Report. Ms. Sims pointed out that the resolution was in response to Metro Code requirements that the Council approve writing off any bad debt over \$10,000. In addition the Code requires the Executive Officer to report any bad debt write offs over \$500 a list of which are included in the Staff Report. Ms. Sims indicated that the District has not written off any bad debts for a three year period and now in response to a past audit management letter comment is taking this action. She indicated the Finance Department will in the future conduct annual reviews of over due accounts receivables for the purpose of writing off the bad debts.

Ms. Feher reviewed for the Committee the efforts staff have made to collect on over due accounts. If in-house efforts are unsuccessful then accounts are referred to a collection agency for further action.

In response to Committee questions, Ms. Feher pointed out that writing off a bad debt is an accounting transaction which removes the amount of money due from the list of accounts receivable. It does not necessarily mean that efforts to collect the money due will cease.

STAFF REPORT

CONSIDERATION OF RESOLUTION NO. 92-1574 FOR THE PURPOSE OF RECOGNIZING A BAD DEBT WRITE-OFF RELATED TO ACCOUNTS NO. 5481--O.K. SANITARY SERVICE, AND NO. 5220--WILL HELZER SANITARY SERVICE.

Date: February 11, 1992

Presented by: Jennifer Sims
Karen Feher

PURPOSE OF REPORT

The Solid Waste Department operations produce accounts receivable from charge customers using Metro's facilities. It is necessary and appropriate to recognize some of these balances as a bad debt expense when there is no financial justification for keeping them on the books. This recognition involves charging these balances to the allowance for uncollectible accounts. All of the listed accounts have previously been included in the allowance for bad debt expense and recognized as bad debt expense on the appropriate financial statements of Metro. Our current allowance for bad debt expense is \$141,479.

As required by generally accepted accounting principles, it is necessary to periodically review the overdue accounts to identify those for which there is no likelihood of recovery. The accounts so identified are then "written off" or removed as accounts receivable, and the allowance for bad debt is reduced accordingly.

Metro has not undertaken a bad debt write-off for three years. In response to the audit management letter received in FY 1989-90, we have conducted a review of overdue accounts receivable in coordination with the FY 1990-91 audit and are making the recommendations contained below. Henceforth, we will conduct an annual review of overdue accounts receivable for the purpose of conducting a write-off of bad debt accounts.

CODE REQUIREMENTS

Metro Code 5.002.060(h)/(i) states that adjustments and charges to bad debt expenses will follow prudent credit practices. Amounts over \$500 will be reported to the Council and amounts over \$10,000 will require Council approval.

The attachment to this report provides the detail and justification for recognition as a bad debt write-off for the accounts listed below.

Staff Report
February 11, 1992
Accounts Receivable Adjustment/Bad Debt

<u>Account</u>	<u>Amount*</u>
ACCOUNTS REQUIRING COUNCIL APPROVAL:	
5481-O.K. Sanitary Service	\$39,780.00
5220-Will. Helzer Sanitary Service	<u>\$11,846.65</u>
	\$51,626.65
ACCOUNTS REQUIRING A REPORT TO COUNCIL:	
5393-T.J. Sunde Drop Box Service	\$ 7,787.16
5062-Multnomah Garbage Service	\$ 7,351.02
6076-SRH Associates	\$ 5,310.16
6140-Pacific Tank	\$ 6,558.18
5567-Plew Drop Box & Recycling, Inc.	\$ 4,614.86
5758-Aaron Roofing & Construction, Inc.	\$ 4,352.23
6058-Southeast Roofing Supply, Inc.	\$ 2,927.22
5915-Dan Obrist	\$ 2,244.15
5024-Dematteo Sanitary Service	\$ 2,184.21
5507-Norvac Services	\$ 2,024.56
5478-Tom Abraham Factory Homes	\$ 1,144.10
6172-RMF Design	<u>\$ 742.18</u>
	<u>\$46,236.03</u>
TOTAL	\$98,862.68

*AMOUNT is the account balance as of December 31, 1991

CREDIT VOLUME AND COLLECTIONS PERFORMANCE

The total write-offs covered in this report are \$98,862.68 as of December 31, 1991. This figure represents about .7% of combined Solid Waste year-ending receivable for the fiscal years 1989, 1990 and 1991. This low percentage supports Metro's effectiveness in accounts receivable and credit control.

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REVIEW OF THE CREDIT APPROVAL/COLLECTION PROCESS

Businesses, municipalities, and non-profit entities may apply for Metro credit by completing a Metro credit application and submitting it to the Credit Manager. Approval shall be consistent with prudent credit practices. Credit accommodations are not provided to individuals since their sporadic use and minimal volumes are more appropriate for payment by cash, credit card or guaranteed check (Metro Code 5.02.060).

Billings are provided to the customers by the accounting division on the tenth of each month, payment is due by the last day of that month, and the account is considered "past due" thereafter. An accounts receivable aging report is provided to the Credit Manager to identify the accounts that are "past due" and in need of collection effort. Collection consists of telephone calls and letters, with placement of the account on "cash only" or "access denied" as a collection tool. Collection efforts are more effective with commercial haulers with a continuing need for use of the facilities than with other commercial users who use the facilities less frequently.

Customer delinquencies are caused by a poor economic climate, inadequate capital, inadequate management, and errors in billing that must be reconciled before the customer will pay.

Extensive effort is devoted to the collection of overdue accounts. The payment aging schedule is reviewed daily and a past due letter is sent at 45 days past due. Immediate phone contact is established with customers whose balances are more than 60 days overdue. A detailed procedure of demand letters and legal actions follows such contact. The current procedures are contained later in this Report.

As collection efforts prove unsuccessful because of the inability or unwillingness to pay, a determination is made to refer the account to a collection agency, to Metro's Office of General Counsel, or to discontinue further effort as cost ineffective. When collection efforts reach this point it is also appropriate to remove these accounts from the accounts receivables by writing them off.

FUTURE REFINEMENTS

Established procedures continue to remain effective as evidenced by Metro's low overall write-off percentage; however, the experience gained by the comprehensive review of accounts leading to this Report has resulted in the following updated procedures. These procedures have been implemented.

1. Prompt and persistent collection effort is necessary at the first sign of delinquency by the following actions:
 - a. Immediate phone contact at the onset of delinquency.
 - b. If no resolution of the delinquency is achieved by phone, a series of three letters is to be sent. The intent of these letters is to elicit payment from the customer and to minimize Metro's exposure to non-paying customers by quickly placing the account as cash only or deny access to the facilities.
 - c. If there is no response to the series of letters, each account will be reviewed on the basis of the possibility of collection and the cost of further collection activity. On the basis of the review, one of two actions will be taken as follows:
 - (1.) Referral to the Office of General Counsel for legal action. Accounts under \$2,500 to be pursued in a small claims action, accounts over that amount to be reviewed by legal counsel for direct suit.
 - (2.) Referral to a collection agency on accounts where we are unable to identify or locate assets to proceed against, the company has been reported out of business, or the company has moved with no forwarding address.
2. To minimize accrued finance charges, accounts that file bankruptcy will be immediately placed on non-accrual of finance charges.
3. The Credit Manager will perform a quarterly review of all accounts receivable for collectability. This review will include accounts that have previously been identified in the allowance for uncollectible accounts as well as any account over \$500 and over ninety days past due. This review will be submitted to the Financial Planning Manager, Accounting Manager and Solid Waste Budget and Finance Manager for their information and action as required.

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EXECUTIVE OFFICER'S RECOMMENDATION

The Executive Officer recommends adoption of Resolution No. 92-1574 for the purpose of recognizing a bad debt expense related to account receivable No. 5481, O.K. Sanitary Service, and account receivable No. 5220, Will Helzer Sanitary Service.

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Section 5.02.060(i) - Write-offs

<u>Account</u>	<u>Amount</u>
ACCOUNTS REQUIRING COUNCIL APPROVAL:	
5481-O.K. Sanitary Service	\$39,780.00
5220-Will Helzer Sanitary Service	\$11,846.65
ACCOUNTS REPORTED TO COUNCIL:	
5393-T.J. Sunde Drop Box Service	\$ 7,787.16
5062-Multnomah Garbage Service	\$ 7,351.02
6140-Pacific Tank	\$ 6,558.18
5076-SRH Associates	\$ 5,310.16
5567-Plew Drop Box & Recycling, Inc.	\$ 4,614.86
5758-Aaron Roofing & Construction, Inc.	\$ 4,352.23
6058-Southeast Roofing Supply, Inc.	\$ 2,927.22
5915-Dan Obrist Trucking	\$ 2,244.15
5024-Dematteo Sanitary Service	\$ 2,184.21
5507-Norvac Services	\$ 2,024.56
5478-Tom Abraham Factory Homes	\$ 1,144.10
6172-RMF Design	\$ 742.18

BACKGROUND:

ACCOUNTS REQUIRING COUNCIL APPROVAL:

5481-OK Sanitary Service

<u>Tip Fee</u>	<u>Finance Charge</u>	<u>Total</u>
\$27,588.87	\$12,191.03	\$39,780.00

This customer was granted credit privileges in September 1983 on the basis of a Dun & Bradstreet report indicating a clear history and a fair financial condition.

This company paid slow early in its relationship with Metro but was usually current until mid-1988. There was no response to demand letters sent December 2, 1988, and February 14, 1989, resulting in this account being referred to a collection agency March 8, 1989. The collection agency has collected \$1,917.06 on this account.

Based upon the referral to a collection agency and the slowly declining balance on this account, we recommend the Council recognize this loss at this time. If any additional funds are received from the collection agency, they will be considered a recovery to bad debt, consistent with generally accepted accounting principles.

5220-Will Helzer Sanitary Service

<u>Tip Fee</u>	<u>Finance Charge</u>	<u>Total</u>
\$8,255.55	\$3,591.10	\$11,846.65

Records for this account indicate activity back to July 1980.

In May of 1989 it was discovered this account was 91+ days past due and a certified demand letter to the company was sent. It was received and signed for by Joyce Helzer. Upon further investigation it was found that this company was sold to Metropolitan Disposal Corp in December 1988. A copy of that sales agreement was obtained. A call from Gary Dilley, son-in-law of Mr. Helzer, indicated that all proceeds of the sale went to the IRS to pay back taxes. He indicated Mr. Helzer is 72, retired and living on social security. Mr. Dilley suggested a negotiated settlement of approximately 24% of the outstanding balance. At that time the decision was made to pursue the full balance.

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In a memo dated July 11, 1989, the account was referred to Legal Counsel for action to sue for the full balance of the account. An additional demand letter was sent at the advice of Counsel July 20, 1989. No response was received from that letter. No assets were discovered justifying pursuit of the lawsuit.

Based upon the age of this account and the low probability of collection, we recommend the Council recognize this loss at this time.

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ACCOUNTS REPORTED TO COUNCIL:

5393-T.J. Sunde Drop Box Service

<u>Tip Fee</u>	<u>Finance Charge</u>	<u>Total</u>
\$4,674.16	\$3,113.00	\$7,787.16

This account was granted open credit privilege in May 1983 on the basis of a May 14, 1983, Dun & Bradstreet report indicating that the company was in business two years and maintained a clear payment history.

It appears the company developed a delinquency problem in late 1987 and was unresponsive to collection efforts. The account was referred to a collection agency March 8, 1989. This account should have been charged to loan losses at that time and any funds received from the collection agency booked as a recovery of a bad debt. The collection agency continues to work this account and from time to time forwards funds to be applied toward this balance.

Based upon the referral to a collection agency, we are recognizing our loss as this time.

5062-Multnomah Garbage Service

<u>Tip Fee</u>	<u>Finance Charge</u>	<u>Total</u>
\$5,997.82	\$1,353.20	\$7,351.02

This customer was granted credit in April 1980 as a Sole Proprietorship owned by Max J. Hostenstein. Credit was granted on the basis of good trade references indicating prompt payment.

The company developed a history of late payments to Metro but always eventually paid. In May 1990 balances began growing and demand letters and phone calls were ignored by the customer. On June 26, 1990, the account was placed on cash only and on July 11, 1990, was denied access to facilities.

A July 16, 1990, a letter from Mr. Doyle C. Dahl, a lawyer representing Multnomah Garbage Service, and Max Hostenstein indicated the IRS had filed liens against all of Mr. Hostenstein's assets.

On the basis of this information, action was taken to recognize our loss on this account.

6140-Pacific Tank Corp.

<u>Tip Fee</u>	<u>Finance Charge</u>	<u>Total</u>
\$6,558.18	\$ 0	\$6,558.18

This account was opened without credit application May 1990 by providing a cash down payment. This procedure has since been discontinued.

The account was not delinquent when we received a notice of Chapter 11 Bankruptcy filed September 30, 1990. A proof of claim in the bankruptcy was filed in a timely manner. A Motion for Authority to Sell Property Free and Clear of Liens and Notice of Hearing Thereon was received November 26, 1990. No apparent action was taken on that notice. It appears that this notice was notification of the sale of the only assets netting \$65,830.00 to the bankrupt estate. Pacific listed assets of \$949,000 and liabilities of \$1,137,000. Subsequent contact with the bankruptcy trustee indicates this account was converted to a Chapter 7 and the sale of assets fell through.

Based upon the unlikelihood of recovery, this account balance has been written off while we continue to pursue recovery through the bankruptcy courts. Because this account had no finance charges owing at the time of bankruptcy filing, the financing charges were incorrectly applied.

6076-SRH Associates

<u>Tip Fee</u>	<u>Finance Charge</u>	<u>Total</u>
\$4,617.46	\$692.70	\$5,310.16

This account was opened October 9, 1989, on the basis of a favorable Dun & Bradstreet report, trade references indicating prompt payment and a satisfactory bank report.

This account became delinquent in late 1989 and early 1990. The account reached a high balance of \$44,455.02 in March of 1990 at which time it was placed on cash only. The company indicated cash flow problems. A repayment program was initiated and maintained until December 1990. Frequent contact and promises to continue repayment failed to materialize. Ron Shubert, comptroller of the company, indicated early in October that the business was being taken over by employees and repayment would commence with the completion of this restructure. The employee purchase apparently took place as expected but the company is now unresponsive to messages left. This account will be referred to legal counsel to

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investigate the prudence of legal action or referred to a collection agency for their efforts in collection.

On the basis of this information, we are recognizing our loss at this time. Any funds received will be treated as a recovery of bad debt.

5567-Plew Drop Box & Recycling, Inc.

<u>Tip Fee</u>	<u>Finance Charge</u>	<u>Total</u>
\$4,144.67	\$470.19	\$4,614.86

This account was originally opened in April 1980 and ownership of the company changed hands several times as indicated by various credit applications on file. It appears that the decision to continue credit privileges to the latest stockholders was based upon the credit history of previous stock ownership. New ownership commenced October 1989.

In October 1990 the company became delinquent and on January 28, 1991, we received a letter indicating previous owners had repossessed assets and the company had gone out of business.

Upon the basis of this information, action was taken to recognize our loss on this account.

5758-Aaron Roofing & Construction, Inc.

<u>Tip Fee</u>	<u>Finance Charge</u>	<u>Total</u>
\$3,259.38	\$1,092.85	\$4,352.23

This customer was approved for credit May 24, 1988, on the basis of a positive Dun & Bradstreet credit report.

Delinquencies began in early 1989, and a subsequent Dun & Bradstreet report disclosed deteriorating payment habits. There were at least five letters and numerous phone calls to remedy the delinquency. The customer was placed on "cash only" August 14, 1989, and access was denied November 1, 1989.

On October 27, 1989, \$1,000 was received, reducing the balance owed to the tip fee amount listed above.

The account was referred to Metro counsel February 25, 1991. During the course of our obtaining judgment rights, we were notified of the company's petition for bankruptcy (Chapter 7) dated June 21, 1991. A review of the supporting schedules reveals \$4,692 in

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assets, \$6,104 in priority claims, and \$147,310 in unsecured claims (including our balance).

On the basis of this information, action was taken recognize our loss on this account.

6058-Southeast Roofing Supply Co.

<u>Tip Fee</u>	<u>Finance Charge</u>	<u>Total</u>
\$2,267.23	\$659.99	\$2,927.22

This customer was approved for credit September 12, 1989, on the basis of a positive TRW credit report.

The first collection letter was sent December 6, 1989, followed by phone calls and additional letters. They were placed on "cash only" January 9, 1990, and "access denied" February 22, 1990.

A small claims judgment was obtained October 24, 1990; however, no assets were located for attachment/garnishment at that time. The account was referred to Metro counsel February 25, 1991. The judgment was used to garnish a bank account; however, the reply from the bank stated that no funds were available.

Action was taken to recognize our loss on this account. It is our intention to take the proper steps to renew a contract with a collection agency and assign this account for their collection. Any future collection from their efforts will be treated as a recovery of bad debt.

5915-Dan Obrist Trucking

<u>Tip Fee</u>	<u>Finance Charge</u>	<u>Total</u>
\$2,058.87	\$185.28	\$2,244.15

This account was granted credit July 5, 1988, on the basis of a Dun & Bradstreet report that indicated a clear financial picture and prompt payment of trade debt.

The account paid generally as agreed until January 1991. At that time the company was doing a large government job and accrued tip fees in excess of \$180,000. They suffered delays in receiving payment for that job and were late paying the tip fees, accumulating finance charges. Mr. Obrist requested we waive the finance charges. We declined to do so. After being denied an appeal, Mr. Obrist has refused to pay the balance on this account.

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On the basis of the above information, action was taken to recognize our loss on this account. We will proceed against the company on a small claims action.

5024-Dematteo Sanitary Service

<u>Tip Fee</u>	<u>Finance Charge</u>	<u>Total</u>
\$1,383.45	\$ 780.01	\$2,163.46

This customer was approved for credit April 28, 1980, on the basis of excellent credit references indicating a very prompt payment history.

Delinquencies began in February 1988. The company was a sole proprietorship. Certified demand letters were sent and signed for by the owner. The company ceased business on July 11, 1988. No response was made to demand letters. A small claims action was filed and a payment program of \$200 a month was agreed upon by the owner in a mediation session September 24, 1990. The owner never paid the payments, therefore the settlement was converted to a judgment October 23, 1990.

On the basis of inability to locate assets to execute upon, action was taken to recognize our loss on this account.

5507-Norvac Services Inc.

<u>Tip Fee</u>	<u>Finance Charge</u>	<u>Total</u>
\$1,410.89	\$613.67	\$2,024.56

This account was granted credit in May 1986 on the basis of a positive Dun & Bradstreet report dated May 12, 1986.

The company became delinquent in mid-1988. A letter from the company, dated August 22, 1988, indicated they were experiencing financial difficulties and attempting to recapitalize the company. That letter was accompanied by a July 31, 1988, financial statement displaying a \$117,000 book overdraft and a \$379,000 negative net worth. Contact with a previous shareholder and creditor indicated that the business ceased in November 1988. A memo in file dated June 21, 1989, recommended prompt legal action.

Action was taken to recognize our loss on this account.

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5478-Tom Abraham Factory Homes

<u>Tip Fee</u>	<u>Finance Charge</u>	<u>Total</u>
\$773.93	\$370.17	\$1,144.10

This customer was granted credit privilege September 18, 1983, on the basis of a positive Dun & Bradstreet report.

The account began to become delinquent in April 1989. The customer was placed on cash only after ignoring a series of demand letters sent to them in June 1989. All subsequent attempts at contact have failed and several reports have been printed in trade journals indicating various fraud and breach of contract suits against this company.

August 17, 1989, contact with a John Barringer, who represents one of the plaintiffs of the law suits, explained that in addition to the various lawsuits we knew about, the State of Oregon was also suing Tom Abraham and Tom Abraham's Factory Homes. We have received information indicating that the State has appointed a "receiver" who is operating the business.

On the basis of this information, action has been taken to recognize our loss on this account.

6172-RMF Design

<u>Tip Fee</u>	<u>Finance Charge</u>	<u>Total</u>
\$684.94	\$57.24	\$742.18

This account was granted credit privileges July 24, 1990, on the basis of a satisfactory bank report, five years in business and trade credits reporting prompt satisfactory payment habits.

This account paid well until January 1991 when it continued to charge through March but stopped making payments. Attempts to contact the customer by phone were unsuccessful. Certified letters were signed for but no payment or contact was made. The account was placed on deny access. Further attempts to contact failed as the phone was disconnected with no new number. One of the principles, Robert Ficker, filed personal bankruptcy.

On the basis of the above information, action was taken to recognize our loss. This account will be referred to a collection agency for skip tracing and funds recovered will be treated as a recovery to bad debt.