



**MINUTES
CASH MANAGEMENT REVIEW BOARD
SPECIAL MEETING OF SEPTEMBER 28, 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

Daryl Purpera, Legislative Auditor (Non-voting member)

Tom Cole, designee for Legislative Auditor Daryl Purpera (Non-voting member)

(arrived during Archon Information Systems presentation)

John Kennedy, State Treasurer

OTHER MEMBERS PRESENT:

Afranie Adamako, Statewide Reporting and Accounting Policy Director

Representative Chris Broadwater

Richard McGimsey, Assistant Attorney General

Clarence Lymon, Undersecretary, Louisiana Department of Revenue

Ron Henson, First Assistant State Treasurer

Jim Napper, Executive Counsel, State Treasury

Laura Lapeze, CFO, State Treasury

Daryl Purpera moved for the approval of the minutes from the Special Meeting on September 14, 2012, seconded by Ray Stockstill, and without objection, the minutes were approved.

Treasurer Kennedy introduced Dek Terrell, Director of the LSU Division of Economic Development. Mr. Terrell explained that the Division of Economic Development specializes in economic and survey analysis with 10-15 projects at any one point in time with State and Federal agencies. It was stated the PhD and Master students work on default models on a regular basis.

Mr. Terrell presented the following suggestions for study components:

1. Merge debt data across all agencies including current and historical data
2. Merge with other relevant state data where permissible
3. Merge with private data sources

Mr. Terrell cautioned that the State could face issues with availability of data. This includes cooperation across agencies/universities as well as matching records subject to data error.

Mr. Terrell recommended the following data analysis be completed:

1. Append accurate contact information
2. Categorize debt based on hard cuts
3. Model probability of repayment of debt
4. Analyze patterns to recommend policies to improve collection



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It was stated the State might possibly face additional issues when analyzing the data. These issues could include the availability of data and selection of variables for modeling probability of repayment and developing an institutional knowledge of current practices.

Mr. Terrell stated the LSU Division of Economic Development can help the State in this project. It has existing research units, bright students, an existing analytics program and existing relationships with many state agencies. Mr. Terrell cautioned that some data is not available by federal law, and some state agencies are reluctant to impart data that is accessible. Another concern is a lack of stream-lined data within the state.

Representative Broadwater suggested drafting a general provision changing the state law to make information more accessible. It was mentioned that in the interim, an Executive Order by the governor could facilitate the exchange of information.

Lastly, Mr. Terrell recommended that the State seek an outside vendor for the following:

1. Established database with personal corporate data for merging into this data
2. Experience in large scale data management
3. Existing, proven algorithms for merging data subject to error

Treasurer Kennedy introduced Mr. Dave Ludwig, President of the National Loan Exchange, Inc. (NLEX). Mr. Ludwig explained NLEX is the nation's leading broker of distressed financial assets, or bad debt. NLEX markets portfolios on a national, regional and state-by-state basis, including past sales of Louisiana-specific debt portfolios. NLEX does not buy debt. Since the early 1990's, NLEX has closed over 5,000 contracts, totaling a face value of over \$100 billion. NLEX works to customize the marketing and sales strategy of their clients' unique needs.

Mr. Ludwig explained that the sale of distressed assets does not replace the collection process. After collection efforts have been exhausted, this process is used to sell what is left. The value of the portfolio to be sold is determined in two ways: the net present value of what the State thinks we will collect over a period of time or the market value. If the net present value of collections is below the market value of the portfolio, the debt should be placed on the market for sale.

Mr. Ludwig stated the benefits of selling aged delinquent receivables include an immediate cash infusion to boost the bottom line, remove stagnant assets from account portfolio, and a current demand for the product. Selling distressed assets is a "win-win-win" opportunity for everyone. The seller generates immediate recoveries. The sale allows the debtor flexibility in payments and terms. Finally, the sale provides the buyer an opportunity for profit by collection above purchase price.

Mr. Ludwig cautioned that it has been his experience that state governments have been reluctant to sell bad debt. If a state engages in selling bad debt, it is frequently impeded at the agency level. He opined that measures need to be in place that will direct agencies to move forward with the sell. For example, measures such as withholding appropriations or elimination of jobs if collections are not made could certainly be effective in giving agencies incentive to push the collection process or sell the debt.



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Mr. Ludwig stated he thought there is no difference in collecting debts owed by the federal government, states, or municipal governments. It has been NLEX's experience that there is no difference at all in the collection process. It all depends upon collection practices and techniques that have been utilized in spearheading the effort to collect delinquent accounts. Analytics need to be done on the front-end. If you cannot measure the debt, you cannot manage the debt.

Mr. Ludwig explained the typical pre-sale requirements include the following:

1. Confidentiality agreement signed
2. Seller provides available receivable data
3. Seller completes NLEX's seller survey and provides sale documentation (e.g. purchase agreement template)
4. NLEX provides pricing/pooling guidance and recommends optimal sale strategy
5. NLEX and Seller execute a marketing agreement

Once a portfolio is placed on the market, the sale is typically closed within fourteen days. Mr. Ludwig informed the board that NLEX is paid a commission of whatever debt is sold.

It was Mr. Ludwig's opinion that significant returns can be made on old debt as long as average collection efforts are made, the debt is legally collectible and the debt is within the statute of limitations. Mr. Ludwig estimated that the market value for debt 3-5 years since the last delinquency ranges between 3 to 10 cents on the dollar.

Treasurer Kennedy inquired how long it would take Mr. Adomako to calculate the total amount of debt written off over the last ten years that has not been collected. Mr. Adamako estimated he could have this information within a week.

Representative Broadwater noted that Act 500 allows for the CMRB to recommend sale of debt on long-term receivables as of January 1, 2013. Representative Broadwater recommended in the interim the CMRB needs to officially establish a definition of long-term receivables as being anything over 180 days old.

It was stated the current RFP does not cover a debt broker. It only includes analysis, ranking and scoring of current debt. Mr. Stockstill suggested the State narrow the scope of the current RFP, which will save the State money. Mr. Stockstill will also research releasing a RFP strictly on the sale of debt on long-term receivables.

Mr. Kennedy inquired how long it would take the Department of Revenue to calculate the total amount of debt between three and ten years old. Mr. Lymon estimated he could have this information within a week.

Treasurer Kennedy introduced Mr. Bryan Barrios and Mr. Brian Brantley with Archon Information Systems as well as Joseph Brantley with Brantley & Associates. Archon provides all levels of government with comprehensive collection, online tax sale and progressive tax related solutions. The



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SPECIAL MEETING OF SEPTEMBER 28, 2012
HOUSE COMMITTEE ROOM 1
STATE CAPITOL BUILDING

company's philosophy is to provide clients with the highest quality products, services, and counsel, on a timely and responsive basis, while upholding the highest ethical standards.

Mr. Barrios stated that Archon currently collects outstanding debt in the 1-3 year old category. The company focuses on municipal and parish governments but is branching out to the state level as well. They serve as agents for government collectibles. Their mission is to find individuals who owe and find ways for them to pay the debt owed. Archon is paid a pre-determined percentage of the amount they are able to collect. There are no up-front costs.

Rick McGimsey stated that the Collection Section of the Attorney General's Office has returned over \$25 Million in uncollectable debt to state agencies over the last five years. Of this \$25 Million, \$4.2 Million was sent back to the Department of Revenue.

Mr. Dan Dorko with Debt Resolve was scheduled to present via telephone call; however, Mr. Dorko did not answer the telephone when Treasurer Kennedy attempted to call.

Treasurer Kennedy set the next meeting for October 12, 2012. Mr. Lymon and Mr. Adomako will present the information requested to the board at the next meeting. The board will review the information before making any recommendations of accounts to be sold. Representative Broadwater reminded the board that Act 500 excludes the sale of any debt owed to the state due to medical treatment rendered at a state-owned hospital.

Having no further business to discuss, Treasurer Kennedy adjourned the meeting.