MINUTES
CASH MANAGEMENT REVIEW BOARD
SPECIAL MEETING OF AUGUST 22, 2012
HOUSE COMMITTEE ROOM 3
STATE CAPITOL BUILDING

The items listed 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:
Afranie Adomako, representing Deputy Commissioner Ray Stockstill
Ray Stockstill, Deputy Commissioner, designee for Commissioner Paul Rainwater
(arrived during Receivables Exchange presentation)
Paul Pendas, designee for Legislative Auditor Darrell Purpera (Non-voting member)
John Kennedy, State Treasurer
Ron Henson (replaced Treasurer Kennedy before the Coface presentation)

OTHER PERSONS PRESENT:
Representative Chris Broadwater
Ginger Eppes, Collections Section Chief, Attorney General Office
Bryan Henderson, Collections Section Chief, Attorney General Office
Stacy Landry, Chief Legal Counsel for Collections, Attorney General Office
Jim Napper, Executive Counsel & Assistant State Treasurer
Laura Lapeze, CFO, State Treasury

Afranie Adomako moved for the approval of the minutes from the Special Meeting on July 12, 2012, seconded by Paul Pendas, and without objection, the minutes were approved.

Treasury staff distributed articles and other pertinent information as instructed by Treasurer Kennedy. Treasurer Kennedy turned the discussion over to Representative Broadwater. Representative Broadwater briefly explained the purpose of HB 741 was to provide an opportunity for the Cash Management Review Board (CMRB) to conduct a cost benefit analysis on outstanding accounts receivable held by the state and to explore the possibility of implementing a new collection method that would provide a better return for Louisiana. HB 741 also established a two-year pilot program to sell, securitize or auction portions of the state's long-term delinquent accounts for not more than 25% of the aggregate face dollar amount of the obligation. Representative Broadwater stated he thought it was beneficial for companies possessing expertise in the collection area to make presentations that would allow new ideas and procedures to be considered for achieving that goal.

Treasurer Kennedy introduced Nicolas Perkins of Receivables Exchange to make the first presentation. Mr. Perkins explained his company acts as the middle man in facilitating electronic transactions involving receivables or long-term delinquent accounts. Receivables Exchange does not have or deploy capital but makes rules on how people trade with each other. He indicated it was his opinion the present was the perfect time for the state to contemplate a collection program. Due to low interest rates, individuals and companies are currently investing in assets with performance potential. While investors must have at least 5 million dollars in capital to invest on the Receivables Exchange platform, they typically have significantly more capital.

Mr. Perkins explained transparency would be the fundamental key in buying and trading assets. The transparency could come in the form of financial statements, registration of companies, and transaction history. Through the examination of such information, buyers could verify the company was legitimate. The ultimate goal should be to provide the same information to all interested parties to allow all to make educated decisions whether or not to purchase the receivables.

Mr. Perkins stated transaction history was important to investors. With each additional sale, the seller's profile would be more firmly constructed giving buyers a more credible history which could be used to make more educated decisions. Transaction history can also be used to assess risk. If a debt is sold as non-recourse, the state's responsibility for debt would be absolved. The state would get less than face value for non-recourse debt.

Representative Broadwater suggested the best course of action for the state would be to pull together a history of data on these accounts and determine which debt would be most eligible for sale. The state could then determine the mix of debtors, the history of payment responsiveness and then place a value on collectibles.

Mr. Perkins explained the seller is who sets the price. When buyers have the option to bid against one another, the seller potentially gets more than the asking price and has the right to accept or reject the bid. Sellers can batch invoices and vendors together. Both sellers and buyers have their own strategies. Mr. Perkins suggested the state should implement a "Phased" strategy. In that type of approach, the state would sell the strongest collectable invoices, develop the program over a period of time and could extend further outside the risk spectrum as people become more accustomed.

Mr. Perkins stated sellers have an asset that buyers want because there is an associated yield with the asset. The yield is typically tied to the risk perception for the asset with the higher risk perception resulting in a higher yield.

Mr. Perkins opined the state could manage its cash flow using that platform. The State should not only contemplate selling receivables but should also consider money owed to contractors and determine how such debts are paid. The state could extend payment terms to vendors for an additional 60 to 120 days. Mr. Perkins explained the state should balance working capital (money going out and coming in) to achieve a "net neutral" balance. Normally the most current debt (under 180 days) is most preferred debt to sell. Debt over 180 days is usually sold at a reduced rate of return.

Mr. Shawn Romero and Mr. Ryan Aldridge, representatives with SAS, were introduced next to make their presentations. It was stated SAS was the largest privately-held software company in the world with their three main sectors of business including financial services industry; health and life sciences; and state, federal and local government. It was also explained SAS was currently the worldwide leader in advanced analytics software, and the State of Louisiana has been a SAS customer for more than 29 years with more than 10 state agencies currently utilizing SAS solutions. Mr. Romero explained the SAS approach can assist clients make fact-based decisions utilizing information management and advanced analytics.

Mr. Aldridge provided an overview of the scientific approach whereby information would be cataloged, categorized into segments based on amounts and age of the delinquency, and drilled down into existing data to better understand the distribution of accounts receivable and the rate at which debts are accumulated across various agencies. Mr. Aldridge explained data consolidation would create the necessary foundation for making decisions on which debts should be pursued internally and which debt should be sold for collection. Further he indicated data consolidation would also assist in the process of accurately valuing debt to be sold. He said an electronic central depository should be used to store the state's accounts receivable data.

Mr. Romero explained the SAS analytical approach could be successfully deployed with all available data that would drive the decision process and achieve maximum outcomes. Analytics could then be used to determine which accounts receivables should be sold by the state and rank all accounts receivables based on the highest probability of collection. It was stated that local government debt and private sector debt must be analyzed differently. Both types of debt should be cataloged and variables researched.

Representative Broadwater stated to monetarily value the debt, the state must collect various data from agencies, determine specific classes of debtors, obtain historical information regarding the debtor's ability to pay, and assess data availability (i.e., if data is protected under a confidentiality provision). That level of information is required to evaluate the existing long-term delinquent accounts. The state must also identify its existing collection resources.

Mr. Stockstill stated as had been agreed during the last Cash Management Review Board meeting, the Commissioner of Administration would present a plan within 60 days to define a cost-effective approach to collecting debt owed to the state. He asked the SAS representative if they would collect debt data and identify the receivables most likely to be considered as "collectible". Mr. Romero replied that SAS, through software and data packages, would be willing to assist the state rank and score each debt type.

Mr. Kennedy announced he had to attend another meeting and relinquished chair responsibilities to Ron Henson. Before leaving, Treasurer Kennedy thanked participants for attending and providing input.

Mr. Henson introduced representatives of Coface, an accounts receivable firm headquartered in Kenner. The representatives were Tom Brenan, Ashley Flesch, and Mark Lackey. The representatives explained the major pros of selling receivables were instant liquidity and elimination of cost of collection while the primary cons were low yield and failure to address systemic issues that initially generated the write off.

Mr. Brenan presented a macro view summary and ratios report showcasing potentially collectible state debt compared to private sector targets. His report reflected the private sector targets consistently out-perform the state's accounts receivables. Since much of the state's accounts receivables are students and indigents, it would be important to segregate debt and identify the type(s) of receivables that do not have the means to pay early in the collection process.

Mr. Adomako explained "write-off" does not apply in state government in the same manner as it normally does in accounting practices. He explained an account becomes dormant after three years but cannot be considered as written off because the state's Constitution prohibits the excusing of debt.

Mr. Brenan stated it would be imperative to identify and collect state's debts in the early stages of delinquency including personal contact with debtors. He explained collection efforts should begin 30 days after the invoice is due. It was stated the state's three-year dormant requirement would be problematic since it would be unlikely to collect older debt. Mr. Brenan stressed it would be beneficial for the state to have a centralized location for the control, management, and collection of accounts receivables.

The state should invest in experts who have the ability, tools and processes to reduce write off rates. A Louisiana company who will share a common goal to strengthen Louisiana's financial position should be considered. Colace's fee schedule ranges from a fixed, pre-determined hourly rate to a contingent basis, whichever best fits the collection model.

Representatives from the Attorney General's office, Collection Section spoke next. Representatives were Ginger Eppes, Bryan Henderson, and Stacy Landry. It was explained the Attorney General's office currently has $36 million assigned for collection purposes, with average outstanding debt being $300 or less. Even though all state agencies aren't required to turn collection efforts over to the AG's office, over 100,000 borrowers/debts have been assigned to their office by over 20 colleges and 20 state agencies. A contingency fee is charged for their collection efforts.

The AG's recommendation to improve communications across state agencies and ultimately collect debt would be to utilize a centralized collection agency and a centralized reporting agency. The AG's Office agreed to prepare a report for the Cash Management Review Board that would outline how to achieve a centralized collection and reporting agency. The report would also include performance indicators for current debt collection.

Mr. Paul Pendas, with the Legislative Auditor's Office, stated he had several concerns about the presentation made by the Receivables Exchange, which were: (1) if both cash flow and delinquent receivables are addressed by CMRB, the original intent of Representative Broadwater's legislation could be bypassed; (2) the existence of laws that would prevent the state from delaying payments to coincide with collections and (3) potential conflict with Article 7 if receivables were sold at a lower price than face value. These are legal hurdles that we must cross when moving forward in this process.

Having no further business to discuss, Mr. Henson adjourned the meeting