



CITY OF HOUSTON

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Written Testimony Regarding Interim Charge 5 to the House Committee on Ways & Means for the 86th Texas Legislature: Review the use of third-party tax collection firms, including law firms and tax specialty firms, by governmental units. Evaluate what methods other states use to collect taxes. Determine whether the use of those firms is cost-effective for the taxing jurisdiction or if the tax collection efforts should be performed by the taxing units directly.

February 5, 2020

Dear Chairman Burrows and Committee Members:

I am an Assistant City Attorney for the City of Houston (the “City”) offering testimony for the City about Interim Charge 5 regarding the cost-effectiveness of the use of third-party tax collection firms (“IC5”). The use of third-party collection firms has proven to be efficient and effective for the City.

Before 1984, the City collected property taxes in-house. Since then, the City has contracted with outside firms to perform delinquent tax collections. Before 2014, one law firm collected delinquent property taxes for the City. Since 2014, the City has contracted with multiple firms as part of a managed, multivendor competition process.

Using the managed, multivendor process, the City’s collections have remained consistent even though its delinquent account balance has consistently decreased. The firms run large-scale operations that include skip tracing, letter writing, phone banking, accounting, litigating, post-judgment collections, and bankruptcy practices. Their contingent compensation incentivizes the firms to run their businesses efficiently. They invest in capital and in the professional development of attorneys and staff to make the process run smoothly. They also know that being mean does not increase collections and that helping taxpayers navigate the maze of local administration is in everyone’s best interest.

The firms offer services in addition to tax collection, at no cost to the City. They send regular reports to the City about collection activities, attend meetings with the City’s finance and legal departments, and respond to requests from City departments and councilmembers. They offer counsel on matters pertaining to delinquent taxes and liens and coordinate the collection efforts of multiple jurisdictions that they represent. One firm also performs checks of potential City vendors to ensure that they are up-to-date on their taxes and coordinates a “strike-off” program allowing the City and County to resell properties that did not meet the minimum bid at foreclosure sale. This strike-off program results in hundreds of properties returning to the tax rolls. Finally, the firms monitor pending legislative changes that might impact the City.

The City does not currently have the phone banks, proprietary software, personnel, or expertise necessary to run a collection practice in-house. Creating such an infrastructure would take time and entail a significant up-front investment; funds the City simply does not have.

Moreover, state law does not allow a municipality acting for its own account to recover collection costs before filing suit. Pre-suit collection costs provided in sections 33.07, 33.08 and 33.11 of the Texas Tax Code are contingent on local governments hiring outside collections firms. *See* Tex. Tax Code Ann. §§ 33.07, 33.08, 33.11 (West 2015). After commencing litigation, the City may recover the costs provided in section 33.48 of the Texas Tax Code. Tex. Tax Code Ann. § 33.48 (West 2015). The City would be incentivized by state law to commence litigation to cover its costs – an inefficient collection practice for all involved.

As explained above, the firms bring value to the City with their expertise, infrastructure and additional services. The City could not create that value through in-house collections with its current funding and non-existent collection infrastructure. For this reason, the City supports the use of third-party collection firms as a cost-effective method of collecting taxes.

Sincerely,



Joseph R. Crawford
Assistant City Attorney
City of Houston