

Collecting Overdue Municipal Vehicle License Fees: A Case Study

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One solution to the fiscal pressures on local governments is a more intensive effort to collect delinquent revenues. Nationally, this alternative has been underused. A case study of Elgin, Illinois, is presented to examine the potential of this approach for the sale of overdue municipal vehicle licenses. To this end, Elgin currently uses police roadblocks and two sequential collection letters; however, the noncompliance rate is over 10 percent. This noncompliance results in a loss of \$200,000 to \$400,000 in revenue. At current levels, roadblocks return \$6 in revenue for every \$1 of cost; expansion is indicated if police time can be spared. The two collection letters return \$6 and \$2, respectively, for every \$1 of cost. It does not appear that a third mailing would be warranted. Three experiments are suggested to establish costs and revenues: sending collection letters by certified mail, making state registration records *prima facie* evidence that a sticker is required and using Small Claims Court, and using civilian employees to search parking lots for scofflaws.

Fiscal concerns facing local governments, fueled by political resistance to increased taxes, state-imposed tax and spending limits, reductions in aid from higher levels of government, and slow growth rates, have placed officials in a bind. Cutting back on services is unpopular; reducing waste and inefficiency is difficult. In response, many localities have turned to benefit-based taxes and user charges (1). The need to establish mechanisms to collect the resulting bills is incumbent.

Often overlooked for increasing revenue is a more intensive effort to collect delinquent accounts. Debt collection has tended to be a low priority in many municipalities (2). The lack of a prompt and aggressive system for collecting outstanding accounts results in the loss of significant amounts of potential revenue. A survey of California cities revealed that the vast majority did not have an adopted debt collection policy or formal debt collection goals (3). Private-sector debt collection tools and techniques are not universally used in the public sector (2).

The issue of the collection of accounts is explored through a case study of motor vehicle license fees in Elgin, Illinois. The city, with a population over 60,000, is located about 40 mi northwest of Chicago. The city's licensing of vehicles dates back to horse-and-buggy days. All motorized vehicles, including motorcycles, trucks, and buses, registered to an Elgin city address are required to purchase the license. In 1988 over \$1 million was collected, based primarily on a \$25 fee on automobiles. Senior citizens and motorcycles receive lower rates; trucks pay higher amounts. After an annual February 15 deadline, an escalating late fee is imposed.

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ENFORCEMENT

Enforcing the purchase of a vehicle license is more difficult than enforcing water bills or real estate taxes, for which service can be denied or liens placed on property for nonpayment. It is necessary to determine who is noncompliant and to choose a method of extracting payment. Elgin currently uses two approaches.

Immediately after the annual deadline, police officers set up roadblocks at key intersections in residential subdivisions during the morning rush hour. Vehicles without an Elgin sticker are stopped; if the driver's state license shows an Elgin address, a citation is issued. A bond of cash, a driver's license, or a bond card is taken to assure appearance in court. Before the citation can be cleared, proof of sticker must be shown and court costs of \$28 must be paid.

A second method involves mailing collection letters to vehicle owners suspected of being noncompliant. These are derived from vehicle registration records acquired from the state, which are matched against the names of those who have already purchased stickers. Addresses not within the corporate limits of Elgin, post office boxes that could belong to persons or businesses outside the jurisdiction, and persons known to be deceased are eliminated manually. The remaining names are mailed a computer-generated notice. Later in the year, the procedure is repeated, exempting those who corrected erroneous information (e.g., the vehicle was sold or is not used) and mail returned from the first mailing (i.e., the vehicle owners no longer reside in Elgin).

A number of questions about enforcement efforts could be explored. Are the police roadblocks cost effective? Do the roadblocks show diminishing returns? Are the collection letters cost effective? Should a third collection letter be sent out? Are there other effective methods for compliance?

CURRENT LEVELS OF COMPLIANCE

The number of motor vehicles in Elgin is constantly changing due to purchases and sales of vehicles and population movements. An upper limit can be obtained by calculating the number of stickers sold before the first followup letter and adding the number of letters mailed. State information on registration lags the current situation but provides the basis of the mailing. This measure suggests 52,000 vehicles. This number would have to be decreased by the number of returned letters and the phone calls correcting the state records (both of which are compiled and total 6,000) and increased by the number of vehicles added in the community (which is not known). A lower limit of 46,000 vehicles is possible.

On the basis of the total number of stickers sold in 1988 (41,700), the noncompliance rate is in the range of 10 to 20 percent; between 4,500 and 10,300 vehicles did not have the required stickers. Decreasing the rate by 5 percent would yield over \$100,000. The goal of the city manager is to achieve a 95 percent compliance rate.

TABLE 1 CITATIONS
ISSUED FROM POLICE
ROADBLOCKS IN 1988

Date	Citations
February 16	20
February 17	21
February 22	22
February 23	9
March 2	19
March 7	10
March 16	5
March 17	9
March 29	4
March 30	3
March 31	3
April 7	7
April 14	10
April 15	17
Total	159

COSTS AND REVENUES OF ROADBLOCKS

In 1988 the Elgin Police Department used 14 roadblocks to enforce compliance between February 16 and April 15. This frequency is a typical yearly number. The activities take place between the hours of 7 and 9 a.m., which is a relatively quiet time for the police. The evening rush hour is not used because manpower is necessary for more pressing enforcement activities during that period. Roadblock decisions are based on personnel availability; days when scheduling makes the number of available officers higher than normal are candidates.

The choice of location is based on a number of considerations: (a) areas with suspected high rates of noncompliance according to computer printouts from the Finance Department, (b) areas generating reasonable volumes of local residential traffic, and (c) complaints from residents regarding noncompliance in the neighborhood. Through streets are not used due to the resulting traffic disruption and the higher number of non-Elgin residents that would be present. Although officers do not count the properly licensed vehicles that pass by, it is likely that they see a higher percentage of noncompliers than indicated by the overall city rate because of the way locations are selected.

Determining revenue attributable to this method is difficult because sales of stickers resulting from citations are not noted as such. However, because a citation requires bond to be posted, it can be assumed that each will result in \$48.50 in revenue (the average cost of a late-purchased sticker plus \$10 of the court cost, which is rebated to the city).

This amount is apt to understate the revenue that actually results from this method. Elgin police report that some vehicles see the barricade and turn around before reaching it. Although such motorists may be trying to avoid a traffic delay, others may realize that the police are checking for stickers and wish to avoid a citation. The latter group may be motivated to then purchase the license.

A list of the number of citations issued at each roadblock is presented in Table 1. On the basis of the 159 citations issued, revenues approximated \$7,700.

Costs were based on labor expended and a portion of vehicle costs. The deputy chief of police for operations estimated that blockades lasted 1 hr, with two or three officers and two or three squad cars. Thus, 35 hr of both officer and car time was used. The city attorney estimated that, in the 95 percent of cases that are not contested, under 5 min for both the assistant corporation counsel (the attorney responsible for vehicle-related court appearances) and the court liaison officer is required; if contested, 10 min would be required. In addition, 3 hr of a finance clerk's time is necessary.

Applying the average of the 1988 salary ranges (including benefits) to the hours spent produced the total labor costs presented in Table 2. Hourly costs for a squad car were based on yearly budgeted amounts for vehicle purchase, fuel, and

maintenance. Cars are used around the clock over a 2-year period, producing an hourly rate of \$1.62 per squad. It could be argued that vehicle expenditures can be considered as overhead or fixed costs for the purposes of roadblocks and should therefore be excluded. However, their inclusion will not have a significant effect on the results.

At the intensity prevailing in 1988, the roadblocks returned almost \$6 for every \$1 of cost. Thus, this method appears cost effective. Whether expansion would be appropriate depends on the extent to which returns will diminish. The average costs associated with a roadblock are approximately \$92. If three or more citations result, revenues will exceed costs. Given the history cited in Table 1, it would appear advantageous for Elgin to expand its roadblocks. This action would be qualified by whatever activities would have to be curtailed to obtain the additional time.

COSTS AND REVENUES OF COLLECTION LETTERS

The first collection letter was mailed in mid-June to over 14,928 owners of suspected noncompliant vehicles. In the subsequent 14 business days, 1,076 stickers were sold. Of these, 866 were attributed to the mailing on the basis of Finance Department calculations of the difference in average daily sales during the 10 business days before the mailing. A second letter was mailed in mid-September to over 10,440 owners; 287 stickers were sold in the subsequent 11 business days, of which 201 were attributed to the letter. Revenues were determined by multiplying the identified sticker sales by the average cost of a late-purchased license during the respective period (\$48.50 and \$56). Revenues of \$42,000 were

TABLE 2 COSTS OF POLICE ROADBLOCKS

Item	Hourly Cost ^a	Total Hours	Total Cost
Police	\$20.93	35	\$733
Squad Car	1.62 ^b	35	57
Court Officer	14.90	14	209
Finance Clerk	6.52	3	20
Ass't Corporation Counsel	19.58	14	<u>274</u>
Total			\$1,293

^a Based on salary range midpoints for personnel plus average benefits.

^b Based on yearly budgeted amounts for purchase price, fuel, and maintenance, assuming two year life and full time use.

produced from the first letter and \$11,000 from the second. These figures understate the revenue from the letters because some sticker sales resulting from the letters occurred after the 2-week followup period.

Roadblocks were not set up during the followup periods for the collection notices. Only sticker citations issued to motorists who were stopped for another offense were included in the followup period; this situation occurred more or less uniformly throughout the year. Thus, the revenue streams from each method are fairly distinct.

The costs of the collection letters were estimated by the Finance Department. For the first letter, the state computer

tape of vehicle licenses was provided free of charge by a nearby municipality; otherwise it would have cost \$500. The cost of the tape for the second mailing was incurred. Also included were the cost of computer time, letters, envelopes, postage, and personnel time. These amounts are presented in Table 3.

According to the data, the first letter resulted in a return of almost \$6 for each \$1 of expense. (If the computer tape had to be purchased, the return would be slightly lower.) The second letter returned about \$2 for each \$1 of expense. Another way of examining the effectiveness of the letters is to compute the percentage of stickers sold as a percentage of

TABLE 3 COSTS OF COLLECTION LETTERS

Item	First Letter	Second Letter
Computer Tape	*	\$500
Computer Time ^a	\$400	400
Letters and Envelopes ^b	452	317
Postage ^c	2,551	1,809
Personnel ^d	<u>3,854</u>	<u>2,348</u>
Total	\$7,257	\$5,374

Note: 14,928 copies of the first letter were sent to 12,148 addresses. 10,400 copies of the second letter were sent to 8,557 addresses.

^a Calculated at \$40/hour

^b Calculated at \$.01784 per letter and \$.0153 per envelope

^c Presorted first class at \$.21 each

^d Primarily customer service time (permanent employees) and temporary staff; average cost about \$10.50 per hour.

* The first tape was provided free by another municipality

letters mailed, which was 5.80 percent for the first notice and 1.93 percent for the second.

The revenues that could be generated by a third letter would depend on the response. After the second mailing, the subsequent sales, the returned mail, and the phone calls correcting information, about 8,200 vehicles remained noncompliant. If the sales response rate continued to decline at the same rate as between the first and second letters (67 percent), a third notice could result in a sales rate of 0.64 percent, or about 50 licenses. This amount would create revenue of about \$3,000. Expenses of labor, materials, postage, and computer time would total approximately \$3,500. Hence, a third letter would not be justified.

A related question is whether the cost of another state computer tape is justified for the second letter. The second identified 188 vehicle owners who were not in Elgin according to the first tape. Because these individuals were receiving letters for the first time, the 5.80 percent response rate was assumed, suggesting sales of 11 licenses, or about \$500 to \$600 of revenue. With the additional costs of personnel, stationery, envelopes, and postage added into the cost of the tape, expenses totaled \$580 for this group. Thus, the cost of the tape for the second mailing was not warranted. If the state were to provide the tape for free, or if it could be obtained from another municipality, it would be worthwhile.

A similar concern is the method used to mail the notices. Currently, they are sent by first-class mail. Another possibility would be to send the letters by certified mail, which currently cost \$0.85 and requires a signature for delivery. For an additional \$0.90, a signed receipt is returned to the sender upon delivery. There are several benefits to this method that might outweigh the costs. For example, the letter receives special attention by the recipient. In addition, the notice cannot be accepted by a new resident after the intended recipient has moved. This procedure would allow more accurate updating of the list of suspected noncompliant owners, particularly if a more aggressive letter and court threat (described in the following section) were used. A test of this option is recommended to establish costs and revenues.

OTHER OPTIONS

One alternative would be to strengthen the collection letters by making the state registration records prima facie evidence that a sticker is required. Persons who did not respond to the letter would then be scheduled for a hearing in Small Claims Court. If a judgment were placed against the violator, the city could facilitate payment by placing a lien on property, garnishing wages, or using a Denver Boot. This strategy has been used successfully in Oakland, California (4), and Newark, New Jersey (5).

This alternative would require additional time by city staff and the court. After two collection notices in 1988, over 8,000 vehicles were suspected of being noncompliant. A stronger letter with a court threat would likely reduce this number. For example, the proposed letter is similar to one currently sent to parking-ticket scofflaws. It appears that over 50 percent of these cases settle with the city before reaching court. If the same results occurred with vehicle stickers, 4,000 vehicles would remain noncompliant. Further analysis of costs,

along with the availability and cooperation of the court, would be necessary to determine if this option is cost effective. A small-scale experiment to determine the feasibility of this option is recommended.

A second alternative would be to search for noncompliant vehicles in parking lots within the city. The search could be conducted by police (as is done in one nearby municipality) or by other personnel. A printout of suspected vehicles or a hand-held computer terminal could be used for checking purposes. A nonscientific experiment suggested that this option may have merit. Vehicles in a parking lot next to City Hall were compared with a list of noncompliant vehicles. In 30 min, 180 vehicles were compared. Three suspected noncompliers were discovered, which compares favorably with the success rate of current police roadblocks. The search could be conducted by one person, without using sworn officers or squad cars. This employee could also carry a list of parking- and traffic-ticket scofflaws. However, because bond is not taken, collection rates would be lower than for the roadblocks.

MEASURING EFFECTIVENESS

An interesting question is, How many licenses would be sold after the deadline without enforcement actions? This number appears to be significant and could lower the number of non-compliers that any enforcement measure could reach. For example, in the 2 weeks before the first collection letter was mailed, license sales averaged 15 per business day. Some of these would be attributable to new residents or vehicles. In the 2 weeks before the second letter was mailed, daily sales averaged 8.

To address this question, Table 4 presents monthly vehicle license sales in 1988 and the timing of enforcement activities. Data obtained for 1989 had similar patterns. More intensive

TABLE 4 SALES OF VEHICLE STICKERS AND COLLECTION ACTIONS BY MONTH IN 1988

Period	Sales	Collection Actions
Pre-deadline	32,596 ^a	
Feb. 16-29	1,430 ^a	Police Roadblocks
March	1,540	Police Roadblocks
April	902	Police Roadblocks (to 4/15)
May	709	
June	1,521	Collection Letter
July	777	
August	539	
September	764	Collection Letter
October	579	
November	329	
December	15	New Stickers on Sale
Total	41,701	

^a Estimated

analysis of the period from February 16 to March 31 indicates that between 70 and 80 percent of sales are to noncompliers; the remainder are to new residents or new vehicles. Sales are greatest on Fridays. Those months in which specific enforcement activities were undertaken show a surge in sales. Other months show lower sales levels.

Unfortunately, the underlying nonenforcement sales rate cannot be determined because of the possible carryover effects of previous enforcement efforts. Although the bulk of police roadblock activity had ended more than 2 months before the first letter was mailed, the halo effect may have extended well beyond that period. Similarly, a halo from the first letter may have extended over the 3-month period before the second letter was sent.

As previously discussed, the attribution of revenue to roadblocks was based on citations issued and, for collection letters, on increments to the previous sales rate. These amounts are not diminished by whatever stream of delinquent sales were independent of enforcement efforts. Nevertheless, it would be useful if a way to link delinquent responders to the reason they purchased their license could be constructed. This would provide a more accurate measure of program revenues.

CONCLUSIONS AND RECOMMENDATIONS

In a time of fiscal pressure, tax increases and service cutbacks may not be desirable or politically feasible. More intensive collection efforts of existing municipal bills could be an answer. The current methods used by Elgin to secure overdue vehicle license fees—roadblocks and letters—are both cost effective. It appears that more roadblocks would be warranted, if additional officer time is available. Although both

collection letters are profitable, a third mailing would not be. Individual aspects of or proposed modifications in programs can be analyzed by costs and revenues. For example, if municipalities can share state registration computer tapes, it would be worthwhile to apply an updated tape to each mailing. If not, only the cost of the first tape for the first letter would be justified.

Three other possibilities are suggested and could be tested for feasibility. First, the method of mailing collection letters should be analyzed. Second, use of the courts in conjunction with the letters should be considered. Finally, the use of civilian employees to search parking lots for scofflaws appears promising.

Appropriate collection efforts will depend on the tax or charge involved, the legal and political options available, and an analysis of the costs and benefits. It is urged that municipalities make the efforts to apply this framework to their individual situations.

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