



Budget Cuts Expanding Government ARM Sector

by Cynthia Wilson

insideARM.com

August 20, 2010

As the government budget crisis lingers, especially on the state and local level, ARM firms specializing in public sector clients are seeing an increase in work. Clients are requesting more services, which could lead to a more robust sector.

The government debt collection sector may be the next big growth sector for the accounts receivables management industry. Experts in government receivables management tell insideARM.com that they are seeing a definite uptick in business as local and state governments look to them to provide revenue cycle management functions formerly handled in-house.

“Over the past 18 months we have experienced a surge in new business,” said Mike Vallandingham, Partner & Chief Marketing Officer at Linebarger Goggan Blair & Sampson, LLP. The Austin, Tex.-based firm collects delinquent taxes, fees, fines, tolls, service charges and other local and state, and federal receivables for approximately 2,000 public sector clients. Vallandingham said the company expects to recover close to \$1billion in delinquent accounts receivable this year.

“I’m not sure that (the business growth) is due to staffing and budget cuts as much as it is an effort to make sure that these governments are doing everything they can to recover their outstanding revenue,” Vallandingham said.

Whatever the reason, Gila Corp. CEO Bruce Cummings told insideARM.com that he doesn’t foresee a return to government employees bearing the bulk of the receivable management work when the economy improves.

“Given the reduced budgets that the federal government is forcing on states, the trend is here to stay,” said Cummings, whose Municipal Services Bureau business unit focuses on state and local ARM services. “In addition, governments and the courts exist to serve justice; they are not expert collectors and can receive much greater economies by outsourcing to firms that specialize in government collections exclusively.”

Vallandingham agreed. He said that by outsourcing to collection agencies the governments often are able to avoid making cuts to the core services their constituents expect their local and state governments to provide.

“This economic downturn has been so deep that governments everywhere are looking for relief and they are looking to our industry for help,” he said.

If the government receivables sector takes off the way the health care sector did, the industry is likely to see a slew of new competitors enter the market. But unlike the health care sector, which newcomers -- and established firms such as Encore Capital Group and Asset Acceptance Corp. -- abandon after a few short years because of the unique business challenges health care revenue cycle management present, newcomers to government receivables could have a much greater chance of succeeding. After all, collectors of utility bills, fines and delinquent taxes aren't deprived of important information about the debt that collectors of health care debt often are.

Cummings, however, is not worried about the new competition.

“In any industry the cream rises to the top. This is especially important in government collections, where the jurisdictions have conflicting objectives, between collecting debts and not upsetting their constituent base. The best firms collect debts in a manner that minimizes complaints and disputes so the constituent base feels satisfied,” he said.

A more competitive environment, however, could affect the fees and margins established by more seasoned companies that specialize in managing government receivables.

“The new entrants to the market always try and break into the market based on price. However I can definitively show that higher fees, like those MSB charges, results in higher returns to our clients.”

While government collections may not face as many regulatory and liquidation challenges as health care receivables, governments are just as sensitive as health care providers about any potential bad publicity from outsourcing their revenue collections, noted Kaulkin Ginsberg Director Mark Russell. He warned that newcomers to the sector shouldn't take it for granted that governments will be so eager to have the extra revenue that they will adapt to the change easily or tolerate aggressive collection practices.

Like health care providers, Russell said government agencies have relationships with the people who owe them money and they want to preserve those relationships.

© 2010 InsideARM.com

Reprinted with permission from InsideARM.com

[InsideARM: Budget Cuts Expanding Government ARM Sector](#)

Note: Mike Vallandingham is no longer an employee of Linebarger Goggan Blair & Sampson, LLP. He has retired from the law firm.