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Taxes, fines, and fees: Customers who owe caught in maze of inconsistent and uncoordinated collection strategies

Report



The City's decentralized way of collecting taxes, fines, and fees requires Portlanders to navigate different approaches that may cause harm, especially to people with limited English proficiency or means. We recommend improvements to this disjointed experience for City residents and businesses.

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Summary

The City's inconsistent and uncoordinated approach to collecting taxes, fines, and fees from residents and businesses can be confusing. It can also be harmful for some Portlanders, especially those with limited proficiency in English or who can't pay their bills. The City needs to fund the services it provides, but as a public entity, it should also ensure it does so fairly and does not cause harm to the people it serves.

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Translations

[Impuestos, multas y tarifas: Los clientes que adeudan quedan atrapados en el laberinto de estrategias de recaudación inconsistentes y desorganizadas](#) (Spanish)

[Налоги, штрафы и сборы: клиенты, которые задолжали, попали в лабиринт непоследовательных и нескоординированных стратегий сбора](#) (Russian)

[Thuế, tiền phạt và lệ phí: Những khách hàng mà bị lạc vào mê cung của các chiến lược thu nợ thiếu nhất quán và thiếu phối hợp](#) (Vietnamese)

[税款、罚款和费用: 欠费的客户对不一致和不协调的催收策略像进了迷宫](#) (Chinese)

For some people, unpaid bills can quickly spiral into burdensome debt as well as damage credit ratings. People may have multiple overdue bills with the City, which can lead to multiple referrals from different bureaus to the City's collection agency. Portlanders don't always understand or have the skills and access to set up payment plans or negotiate fee waivers, even when they are eligible. Without a centralized place to go for help and uneven access to hardship accommodations, the people who most need assistance may not get it.

Our audit found that bureaus use different strategies and tactics to collect money owed to the City. Each program offered some hardship accommodations to people who have difficulty paying, but there was no central guidance or standards for bureaus to follow. The City's decentralized structure means that no one entity is in charge of making sure the different programs work together to achieve City goals. We recommend the City develop Citywide collection standards to improve collections practices.

City has a patchwork approach to collecting money

Governments require funding to operate but should collect money from residents and businesses using a process that is clear, fair, and makes it as easy as possible for people to meet their obligations while recognizing that some people may struggle to pay. The City of Portland does not consistently meet those standards. There is no one entity within the City that oversees collection methods, and no one place for Portlanders to go for help with unpaid bills.

Instead, the City uses a patchwork approach, with most of its collections work done in isolation by each billing bureau. This siloed approach can contribute to a spiral into burdensome debt even though each of these collection efforts is being carried out by the same government. Some bureaus used aggressive tactics or tacked on fees the longer bills went unpaid. Others were more lax. Someone may be behind in payments to more than one bureau, each operating under different policies. Unpaid debt is eventually transferred to a collection agency, which adds a charge of 23 percent of the amount due, plus interest. The City Attorney's Office sometimes collects unpaid debt on larger accounts.

Consultants recommended the City consolidate collections in both 2005 and 2014, citing inefficiencies and customer service gaps as reasons to do so. In 2005, the City began to consolidate some aspects of City collections, but later reversed course. City officials we spoke to disagreed about whether collections should be consolidated, and the audit did not evaluate whether consolidating City collections was the best course of action.

Our audit assessed how the City collects the Business License Tax, Arts Tax, utility bills, and fees for fire inspections and permits.

Inconsistent collections practices result in inequitable treatment

City collections should involve clear rules and communication to reinforce good behavior and further equity goals. Each program we looked at had its own way of collecting money.

The City has had a finance policy on collections since 2004, which was updated in 2020. But the policy does not go as far as it could in providing guidance to bureaus and there has not been centralized oversight to ensure all aspects of the policy are followed.

City collections were inconsistent in several areas

| | Business License Tax | Arts Tax | Utility Payments | Fire Bureau | Collection agency |
|--|----------------------|----------|------------------|-------------|-------------------|
| Letters used plain language | No | Yes | Yes | Yes | No |
| Letters included translation information | Some | Some | Some | No | No |
| Extra costs added by City for late payment | Yes | Yes | Yes | No | N/A |
| Letters included cost of referral to collection agency | Some | No | Some | Yes | Yes |

Most letters used plain language, yet communication could be improved to promote better understanding

Collection letters should use plain language that is straightforward and easy to understand. Arts Tax mailings, utility bills, and Fire Bureau letters for inspections and permits all used plain language, but some Portlanders may still require additional information or clarification. A representative from one community organization said some people with limited English proficiency have trouble understanding their utility bills, and that there is a false belief among the group’s East Portland constituents that the Arts Tax only funds Portland Public Schools.

Letters for the Business License Tax from the Revenue Division of the City's Office of Management and Finance used legal terms that may be difficult for non-lawyers to understand. It is important to include accurate information, but technical or legal terms such as presumptive tax, civil penalty, and judgment can also be explained in plain language. These letters were also used to collect the Multnomah County Business Income Tax, meaning there was broader information that needed to be explained, but the letters did not clearly explain what the recipient was supposed to do and why. An employee of a community organization described the Business License Tax as especially unclear for their constituents because the language in the letter was difficult for people with limited English proficiency to understand and because they found the tax itself to be confusing.

The private collection agency under contract with the City also did not consistently use plain language in its letters. An employee of a community organization said some constituents did not understand the agency's letters. They also worried that receiving their letters would affect their immigration status and credit record. The employee said some people may pay out of fear without understanding the letters.

Many letters did not consistently include translation information

The stakes are high for people who do not understand their bills from the City because they could eventually have their account referred to a collections agency, lose services, or face very large bills as a result of not paying on time. Almost half of the documents we reviewed did not provide any translation information. For example, none of the letters used to collect money for Fire inspections and permits or from the City's collection agency included translation information.

We also found City bureaus that did provide translation in one type of letter did not do so consistently across all of their communications. In several cases, translation information was provided only in Spanish. If a customer called a City office with questions about a bill, the programs we assessed used Language Line, a telephone translation service available for over 240 languages, or had Spanish-speaking staff assist when possible.

Extra charges, penalties, and timing for assessment varied

Like any entity, governments also use strategies to encourage timely payment. All the programs we reviewed included extra charges and/or penalties for late payments. But when and how these were applied, or when in the process accounts were referred to the collections agency, varied.

- Escalating penalties of 5-to-20 percent were assessed at various times on overdue **Business License Tax** payments. The City also added a 10 percent annual interest charge for late payments, as well as additional penalties if bills weren't paid by a given date.
- The **Arts Tax** is a flat tax – the same for everyone – with exemptions for income. Portlanders who fall under the \$1,000 income threshold must submit a request to be exempted. The Revenue Division adds a penalty

of up to \$35 for late payments. Because the City billed people unless they filed an exemption, it sometimes referred people to the collection agency when they did not owe the tax. To avoid incorrect referrals, the City allowed more time for payments of the Arts Tax than other City bills.

- Starting at four weeks overdue, the Water Bureau adds charges to **utility bills** at various points, ranging from 1 percent of the total due to a \$105 water shut-off fee. The Bureau warns customers about an impending shut-off on day 42 of nonpayment and may generate a shut-off service order on day 56 if no payment is received or payment plan arranged. The Bureau sometimes postpones a shut-off when it determines a lack of water would endanger health or cause substantial hardship.

For some apartment buildings and other types of multifamily housing, the property owner gets notice of a potential water shut off two weeks earlier than tenants. The City advises tenants to contact their landlord or property owner and provides information about tenants' rights resources.

For inactive utility accounts – for example, if someone moved away without paying their bill – with rare exception the Water Bureau instructed the City's collection agency to collect the full amount owed, although payment plans were allowed. The Bureau did not consider the age of the debt in its approach to collecting on inactive accounts. Debts from 10 years prior were sometimes pursued. No other City bureau or program gave such directives to the collection agency.

- The Fire Bureau does not assess any extra charges when a **fire inspection or permit bill** is past due. There were no additional charges until someone got sent to collections after 120 days of not paying their bill.

Some of this variation was expected because of legal constraints or requirements. But the City also has the power to change many of the rules it operates under. There was little effort, however, to make the charges or timing consistent in areas where the City had the flexibility to do so.

The disjointed approach may contribute to people getting caught up in escalating and differing collection strategies from different City programs, all while they may not have understood or been able to respond to the letters they already received.

When the City turns a customer over to the collection agency, the person may experience additional financial hardship in the form of extra charges and a damaged credit rating. The collection agency may make three to five phone calls to customers each day, including at work, and may also contact references in an attempt to locate and contact customers. Eventually the agency may begin to identify assets, monitor customers to see if their financial situation improves, and file lawsuits.

Options for those who could not pay were inconsistent and sometimes difficult to use

Governments can offer hardship plans when someone who owes money is unable to pay. The plans should be based on a clear, consistent policy as part of the government's commitment to treat everyone fairly. The City has no policy or protocol on which to build hardship plans.

The programs we assessed approached customers who could not pay in ways that were inconsistent, not always clear, and sometimes difficult to use, especially for people with limited proficiency in English or because of other barriers. For example, a community organization reported that clients faced difficulties setting up payment plans or requesting fee waivers. These approaches included:

- Some **Business License Tax** penalties are sometimes waived or reduced once a business paid its bill in full or started a payment plan, or in some hardship situations. However, there was no hardship policy related to the Business License Tax.
- People who owed the **Arts Tax** could request a payment plan, but that option was not well publicized. Arts Tax policy provided for "good cause" penalty waivers for circumstances such as a death in the family or a natural disaster. Revenue Division officials said they were trying to use federal taxpayer information to proactively exempt people who don't need to pay the tax.
- The Water Bureau offers accommodations for **utility** customers who need financial assistance. For example, the Bureau offers payment plans, discounts, a temporary pause in bills for certain qualifying events, and crisis vouchers for people already enrolled in the bill discount program. Customers can also choose to be billed monthly rather than quarterly.

But those hardship options are not available to those who live in multifamily units and do not have their own water meter. Most apartment dwellers, who are more likely to live in poverty, pay for utilities as part of their rent, meaning their landlord is the direct customer of the Bureau. These utility customers, even those who would qualify for relief if they lived in single family housing, help subsidize the program for others because they do not receive discounts and other forms of relief.

At the time of our 2017 audit of [utility payment assistance](#), the City had been studying how to extend low-income assistance to residents of multifamily units for 20 years and still has not developed a comprehensive policy to do so.

- Fire Bureau managers sometimes paused **fire inspection or permit** fees or stopped referrals to the collection agency if the debtor was working to resolve the violation. The Bureau initiated contact with certain types of customers, including hospitals, schools, and Home

Forward housing, about past due accounts and did not always send charitable organizations to the City's collection agency. Payment plans were available but not mentioned in collections letters.

For all City bills, the **collection agency** said if people responded to its initial letter within 30 days, they could avoid paying fees and interest. But the collection agency's initial demand letter did not make that clear. Of the nearly 17,000 accounts we reviewed where this option was available, just eight customers made payments during the initial 30 day time frame. Customers whose accounts moved into full collection status could set up payment plans using the collection agency's web portal.

Recommendations

1. The Chief Administrative Officer or Chief Financial Officer should develop Citywide standards for collections by convening a City Council work session or other collective effort. The standards should, at a minimum, include:
 - A consistent collections process, including timing and content of collection letters, how additional charges are handled, availability of payment plans and waivers, timeframe for sending accounts to a collection agency, and how long the collection agency should pursue payment.
 - A requirement and review process to write documents in plain English and translate them into other languages or provide translation information in every document.
 - A hardship process that makes accommodations more explicit, consistent, and easier to access, while preserving flexibility where necessary. One advocate suggested the City develop a consumer protection office for people to contact with questions about their bills.
 - The Council work session should include discussion of whether improved collections practices could best be accomplished by consolidating City collections.
2. Once the City adopts collection standards, City bureaus should report their progress toward meeting the new standards to the City's Chief Administrative Officer on an annual basis; the Chief Administrative Officer or Chief Financial Officer should post a progress summary publicly until all bureaus are in compliance with the standards.

The Bureaus and their commissioners-in-charge generally agreed with our recommendations

View the responses to the audit from the [Chief Administrative Officer](#), [Director of the Portland Water Bureau](#), and [Fire Chief](#).

How we did our work

Our audit objective was to evaluate whether the City's approach to collections was consistent, coordinated, and responsive to hardship considerations. Our review focused on the calendar year 2019 to reflect practices before the COVID-19 pandemic. We limited our review to four programs but gathered sufficient evidence to draw conclusions about the City's approach to collections as a whole by reviewing other information and conducting interviews as noted below.

We reviewed four programs:

- Business License Tax,
- Arts Tax,
- Utility bills, and
- Fire Bureau inspections and permits.

To accomplish our audit objective, we:

- Reviewed relevant City audits and audits from other jurisdictions, Federal and State laws and Portland City Code, binding City policies, administrative rules, and City documents related to equity.
- Interviewed the City's Chief Administrative Officer; current and former Chief Financial Officer; Chief Hearings Officer; City Ombudsman; staff and managers from the Office of Management and Finance Revenue Division, City Attorney's Office, Portland Water Bureau, and Portland Fire & Rescue; the Multnomah County Auditor; representatives from Professional Credit Service; and representatives from the following community-based organizations – APANO, Disability Rights Oregon, Interfaith Alliance on Poverty, the Rosewood Initiative, and Unite Oregon.
- Reviewed collections materials for the Business License Tax, Arts Tax, utility billings, and Fire & Rescue inspections and permits.
- Reviewed materials related to best practices for government collections; and other relevant materials, including a City Auditor intern report, consultants' reports, ombudsman reports, a City Council resolution, contracts between Professional Credit Service and the City, Professional

Credit Service policy and procedure documents and website, and City Attorney's Office workflow information.

- Reviewed and analyzed data obtained from Professional Credit Service and the City Attorney's Office.

Auditing standards require auditors to be structurally independent of the audited organization to avoid any actual or perceived relationship that could impair the audit work performed or findings reported. The City Auditor is responsible under City Charter to conduct audits of the City, which are performed by the Audit Services Division. Under [City Code](#), the City Auditor is also empowered to investigate the City's administrative actions and recommend appropriate changes. This work is conducted by the City Ombudsman, a unit separate from the Audit Services Division. Given this audit's scope and focus on Citywide collection activities, we do not believe the City Auditor's other non-audit responsibilities constitutes a threat to our independence.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.