

**FIRST AMENDMENT TO APPLICATION FOR DEBT COLLECTION SERVICES CREDIT  
BUREAU OF SAN JOAQUIN COUNTY (NOW KNOWN AS C B MERCHANT SERVICES)**

This First Amendment to the Services Agreement between C B Merchant Services, a corporation, and City of Stockton ("City") is entered into on \_\_\_\_\_, 2014.

**Recitals**

A. C B Merchant Services and City entered into a Services Agreement with an execution date of January 6, 2000 (the "Agreement") pursuant to which C B Merchant Services agreed to provide City certain third party collection services.

B. An addendum to the original agreement was executed by C B Merchant Services on June 26, 2009 that reduced the base fee for collection of third party debt to 25% of recovery on claims assigned thereafter, from the original 30% rate for fee collection.

The parties now wish to amend the Agreement to update the scope of services, establish a finite agreement period, and revise the Fee Schedule.

Now, therefore, in consideration of the mutual promises and covenants contained herein, the parties agree to:

1. The Agreement is hereby amended as follows:

A. Section 3 shall be changed to read: Except as herein otherwise provided, C B Merchant Services shall be entitled to commissions on each claim assigned, including those withdrawn from assignment. Commission rates shall be determined based on the amount collected, manner of collection, nature of the claim, and, as to commercial claims, the amount of the claim. For the purpose of this agreement, "consumer claim" means a claim incurred by an individual primarily for a personal, family, or household purpose; and "commercial claim" means all other claims. Other claims in subrogation or other referred claims shall also be pursued for the City's Human Resources/Risk Services division (Risk Services) on a first party and a third party basis as indicated in the rate recovery percentage rate below:

**Admin Services Third Party Claims:**

Consumer claims through June 30, 2009	30%
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Consumer claims from July 1, 2009 forward	25%
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**Legal Forwarded Claims:**

Consumer claims through June 30, 2009	40%
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Consumer claims from July 1, 2009 forward	25%
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Risk Services First Party Claims (Date of 2014 amendment forward)	15%
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Risk Services Third Party Claims (Date of 2014 amendment forward)	25%
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B. Section 9 shall have added to the end of the paragraph the following sentence: C B Merchant Services agrees to make smalls claims court appearances where appropriate

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and mutually agreed upon by the parties. For any agreed upon appearances, C B Merchant Services will present evidence to support a judgment for collections from third parties for all Risk Services claims.

C. Section 18 shall be changed to read: This agreement will be effective from date of execution through September 30, 2015 after which date it will terminate. Prior to this termination date, this agreement may be terminated by either party upon giving the other party one hundred eighty (180) days written notice, however, that terms and conditions of this agreement shall continue in full force and effect as to claims assigned prior to such termination.

D. Section 19 shall be added as follows: C B Merchant Services shall begin providing first party and third party collections services to the City of Stockton Human Resources/Risk Services Division by virtue of this amendment. These services shall include a data transfer process for all existing subrogation account data in the City's RevQ system. City of Stockton shall provide accounts in the format acceptable to C B Merchant Services. The basic process for transfer of this data, service implementation, and first party collections protocols is included in Exhibit A of this amendment. The basic scope of services for third party recovery activities for Risk Services accounts is included at Exhibit B.

2. All other terms and conditions of the Agreement shall remain in full force and effect.
3. This Amendment is effective upon execution.

IN WITNESS THEREOF, the parties have executed this Amendment to Consulting Agreement as of the date hereinabove set forth.

CITY OF STOCKTON

C B MERCHANT SERVICES

BY \_\_\_\_\_  
KURT WILSON  
CITY MANAGER

BY \_\_\_\_\_  
LINDA A. GUINN  
PRESIDENT

ATTEST:  
BONNIE L. PAIGE  
CLERK OF THE CITY OF STOCKTON

BY \_\_\_\_\_

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APPROVED AS TO FORM:

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JOHN LUEBBERKE  
CITY ATTORNEY

**C B Merchant Services  
Scope of Work  
Work Standards Set up Strategy and  
Protocol for First Party Collections**

As a local Company established in 1917, C B Merchant Services (CBMS) has several distinct advantages to offer to the City of Stockton designed to modify your customer's behavior regarding repayment of their account.

Recovery activity includes all attempts to resolve the account by our billing staff (including billing follow-up with insurance carriers). Telephone procedures involve the psychology and timing of telephone calls, resolution of questions and disputes, settlements, identifying third party payers, and refusals (unable or unwilling) to pay.

Notices are used to support and re-enforce our telephone efforts when we have not been able to contact your consumer.

**Billing**

At CBMS, we approach your consumer as advocate, not adversary. We will work with your consumer to assist them with billing questions and establish payment arrangements in accordance with your financial policies. We will also attempt to identify additional insurance and third party payers, in order to help your consumer get their obligation paid.

**It is understood and accepted that CBMS will:**

- Perform to a level consistent with or above **City of Stockton** performance goals.
- Will not mingle data from the City with data of any other clients
- Will maintain data security and consumer confidentiality
- Will strive continually to maintain the humanitarian image and integrity of **City of Stockton**

**Corporate Commitment**

CBMS emphasizes and maintains quality assurance and control systems to ensure the effective and efficient operation of all of our recovery operations. Quite simply, we do not allow for anything but the highest quality work. We have found it less expensive to do things right the first time, and this is part of our corporate culture. The many specific quality control checks currently in place are a standard adjunct to any CBMS partnership. Additional quality control procedures will be established, depending upon your ongoing needs and requirements. We look forward to and encourage interaction with and feedback from our clients, which we consider absolutely essential for any agency to maintain superlative service.

We consider monthly teleconferencing and quarterly meetings to be an excellent start on developing a long-term quality partnership with your organization. In addition, we propose to provide a written Monthly Business Review Report, which will include suggestions and observations, a recap of the previous month's performance, pertinent feedback from consumers, any complaints and their resolution, potential systems enhancements, etc.

### **Quality Control as an Integral Part of CBMS's Culture**

The effectiveness of any quality control and assurance program is contingent upon the commitment of the agency's management and staff. Without a strong personal commitment to high quality from everyone involved, quality control, in any real sense, does not exist. Such things as quality control check points, supervision, and systems support will all be ineffective if the people involved in the system do not believe in the value of performing at the highest level possible.

Accordingly, several steps must be taken before quality control systems can become an effective and dependable reality:

- 1) Senior management must be dedicated to the highest quality possible, and must lead by example.
- 2) Agency personnel must be selected carefully. They must have personal standards and characteristics conducive to the performance of quality work.
- 3) All personnel must be properly trained. They must be taught the necessary skills to do the right job, and the value of high quality work.
- 4) Continuing and consistent support of high quality work must be provided by all levels of management.
- 5) Working conditions must reflect our corporate dedication to quality.
- 6) Because performing at the highest quality levels is more difficult than simply meeting minimum standards, everyone must be motivated properly.
- 7) People must be rewarded for good work. Raises, promotions, bonuses, and recognition must all clearly support high levels of performance; and when they do, the best people grow with our agency, and provide ongoing, exemplary leadership.

CBMS has practiced these principles since our inception, and they have been major factors supporting our organization's success for almost a century. The effect of our commitment to quality is probably best seen in our performance (CBMS's average

recovery ratio is substantially above the industry average), and our many long-term quality partnerships with our clients.

We cannot emphasize too strongly, that one of the most important phases of quality control is preparation. As previously stated, specific quality procedures uniquely necessary for your organization will be developed and implemented as needed.

### **Pre-Placement Start-Up Session**

The philosophy behind CBMS's billing solutions are that "time is money," and that we can make time work for you, if we combine efficiency, professionalism, and persistence, with a commitment to client service and strict compliance with all of your requirements. Our dedication to this philosophy has resulted in a client roster of long-term quality partnerships.

Prior to the first placement of your accounts, we will conduct a project management review and start-up session with you and your staff. These start-up sessions are an essential component of CBMS's standard procedures, in order to establish the following:

- ✎ Specific billing "strategies" customized for your organization
- ✎ A final review of your service requirements and work standards
- ✎ Review communication procedures and personnel (service dept.)
- ✎ Review quality control measures and procedures
- ✎ Review performance goals
- ✎ Confirm placement media, volume, and workflow procedures in accordance with financial policies.
- ✎ Review Data Security procedures

On an ongoing basis, tests are run to provide early indication of any potentially desirable systems enhancements, so that they can be analyzed and implemented if appropriate.

### **Quality Control Plan**

To guarantee this commitment to quality and to ensure the continuation of our success, we approach quality management in three ways:

- 1) Every month, senior management reviews the quality control reports and recommendations submitted by our Quality Managers. These reports are then reviewed with the individual department managers and staff. Feedback is encouraged during these

meetings, so that all employees feel empowered to effect positive, long lasting results for our clients.

- 2) We encourage regular "user conferences" with our clients to review our performance, and stay apprised of changes in each client's needs and/or requirements.
- 3) Sophisticated monitoring and support systems are in place and used daily.
- 4) The training process for all CBMS personnel is an *ongoing* process that takes a pro-active approach to Management support for our staff. Our employees are constantly refreshed, reviewed, and re-trained on all aspects of regulations, client specific requirements, and internal policy and procedures.

For City of Stockton, we propose the following Quality Control Plan:

**Phase One:**

CBMS runs a series of "test accounts" through our system based on each new client's requirements, prior to the first placement of that client's accounts. This provides assurance that all systems, from computers to the mailroom, are functioning properly.

**MIS Quality Control Checkpoints:**

- ☒ Confirm all Electronic Data Transmission protocols and interface requirements
- ☒ Submission and review of any test tapes or disks
- ☒ Review reporting layouts and schedules
- ☒ Review all payment procedures

**Contractual Requirements:**

CBMS review all procedures with respect to any City of Stockton contractual requirements during Phase One. Any aspect of CBMS's proposed Business Plan that is not in strict compliance will be modified.

Compliance Quality Control Checkpoints will include:

- ☒ Review all statements with client
- ☒ Review clients financial policies and workflow



- ☒ Review all procedures and time frames
- ☒ Review performance goals
- ☒ Review all reports for content, frequencies, and formats
- ☒ Review payment procedures
- ☒ Confirm City of Stockton-specific training program content
- ☒ Review Quality Control Program Interface

### **Phase Two:**

Upon approval of all of the above, CBMS will initiate all programming and procedural changes, and commence training. Each consumer accounts representative is required to pass a written exam on client specific requirements and internal procedures before working accounts.

As stated earlier, one of the most important phases of quality control is preparation. A series of three "test contracts" will be run through our system based on your requirements, prior to the first placement of your accounts. This will provide assurance that all systems, from computers to the mailroom; are functioning properly.

### **Ongoing Quality Controls**

On an ongoing basis, CBMS runs tests to provide early indication of any potentially desirable systems enhancements, so that they can be analyzed and implemented if appropriate. Additionally, ongoing daily reviews cover:

1. # of accounts worked
2. # of consumer contacts
3. # of accounts with first payments
4. Dollars collected
5. Viability of ongoing payment arrangements

Each administrative task is handled by specific individuals:

1. Mail opened
2. Accounts reconciled
3. Accounting and finance balanced

### **Quality Management Interface Program**



CBMS has implemented a "Quality Management Interface" program. Every month, this team will interact with the managers and staff from City of Stockton:

- ☒ Data Processing
- ☒ Compliance Assurance
- ☒ Consumer Relations
- ☒ Consumer Accounting

This team will participate in both the monthly teleconferences and proposed quarterly meetings with your management team, to discuss the quality of service you have received from CBMS in the previous month. The team will be responsible for follow-up with each department during the month, to evaluate each department's performance, and address any potential deficiencies or areas for improvement. Our Quality Management Team will be responsible for monitoring all changes and modifications instituted for each department. Unless otherwise directed (such as, for example, a client-requested long-term pilot program) the team will ensure that all such changes are completed and tested within 30 days, and the initial results will be reviewed in the next monthly review.

At least one member of the team will interact directly with your management team during the monthly tele-conferences, and the quarterly meetings as well. An integral part of the team's mission will be to interface directly with your management and staff regarding our performance and report on the results of that interaction.

As part of our monthly monitoring activity, accounts will be selected on a random basis by the Quality Control Team and submitted to extensive computer and manual tests. Selected accounts will be audited for balance discrepancies and verified against acknowledgement reports. In addition, accounts will be audited for contact activity and the effectiveness and frequency of follow up schedules.

In addition to the regular computer reports, you will receive our quarterly "Business Review" report. This report will include a summary of our overall collection performance for the previous month, including:

- Administrative issues requiring discussion or resolution
- A review of disputes, insurance billing issues, etc
- Account dispositions by category
- Dollars recovered (PIF's, PPA, etc)
- Systems issues
- Customer/client service issues
- Suggestions

### **Evaluating the Effectiveness of CBMS's Quality Controls**

Monthly teleconferencing and regularly scheduled meetings are an excellent start on developing a quality partnership between our organizations. In addition, we propose

to provide a written "Quarterly Business Review Report" that will include suggestions and observations, a recap of the previous quarter's performance, feedback from your consumers, any problems and their resolution, potential systems enhancements, etc.

Follow-up reports will be conducted monthly on all areas deemed to need improvement. The findings of the previous quarter, the subsequent actions taken, and the measured results of those actions; will be reported in the quarterly written Quality Management / Business Report.

### **Management Controls and Supervision**

As explained in our Standard Procedures, daily and weekly internal reviews of CBMS's activity will take place on several levels:

- ☑ Daily reviews of activity
- ☑ Daily reviews of Broken Promise follow-up
- ☑ Daily reviews of accounts flagged for insurance follow-up
- ☑ Weekly quality control management meeting findings
- ☑ Weekly City of Stockton team meetings (if appropriate)
- ☑ Weekly overall performance reviews
- ☑ Weekly review of client service logs
- ☑ Monthly inventory reconciliation (balances, etc)
- ☑ Weekly remittance to City of Stockton
- ☑ Monthly review of routine correspondence handling
- ☑ Monthly review of account disposition categories:
  - » Paid in Full
  - » Client Approved -Compromises / Settlements
  - » Payment arrangements-follow up
  - » Recalled accounts processing
  - » Bad debt account review and advise to collections

Finally, on a regular basis, active accounts are randomly selected and submitted to extensive computer and manual tests. They are checked for balance discrepancies, verified against acknowledgment reports, checked for activity, and evaluated as to the effectiveness and frequency of follow up schedules.

CBMS's commitment to quality is ingrained into every employee, from the moment they are hired. Accounts Receivable Management is a "service" business, and our job is to serve our clients.

While our staff may be CBMS employees, they know that they work for you.

## **C B Merchant Services Scope of Work Third Party Collections**

As a local agency established in 1917, C B Merchant Services (CBMS) has several distinct advantages to offer to City of Stockton designed to modify your customer's behavior regarding repayment of their account.

- Most importantly, we approach each customer as an advocate, not an adversary. Our cooperative, yet firm approach consistently results in higher recoveries with fewer complaints - a distinct CBMS advantage.

### **Work Standards Strategy proposed for City of Stockton:**

- Once accounts are submitted we follow a systematic and thorough procedure to insure all accounts, no matter the balance, are given the attention needed to effect collection.
- Upon placement, each and every account will be processed through our data center on the day it is received. Within 24 hours, the accounts will be downloaded into our system, processed overnight, the customer information file will be generated and simultaneously the first notice to the customer (which includes the required "Mini-Miranda") will be sent. This first notice to the customer will be sent to the address located in the address field on the transfer of accounts. The first notice will include notification to the customer that the account has been placed with CBMS for collection and that we are trying to assist them in resolving their account.
- The acknowledgment of receipt of the referred accounts will be generated and forwarded to City of Stockton.
- Initial skip tracing activities are conducted, whenever necessary. Utilizing local and national resources we dramatically shorten the collection cycle by successfully locating and delivering the first notice on what would have otherwise been skip accounts.
- The account is assigned to an Account Representative within 5 working days of placement. All new accounts will be scheduled for immediate telephone contact through our fully integrated Predictive Dialing System. This insures timely telephone contact with the account when a valid phone number exists.
- Upon initial contact, CBMS's account representatives will verify that the customer name, balance, address, and telephone number are current.

**This initial telephone contact serves three purposes:**

- Establishes two-way communication emphasizing the importance of the matter
- Identify resources for payment
- Account is paid or payment arrangements are established

Phone attempts will be made at alternate times, during business hours and non-business hours (within FDCPA guidelines). Accounts worked on Saturdays will receive both morning and afternoon attempts.

On all initial phone contacts our account representatives ask questions and listen. Our focus is cooperative and designed to motivate "payment-in-full." When "payment-in-full" is not possible, every effort is made to work out an appropriate payment schedule.

- For the customer convenience we accept Visa, MasterCard, Discover and checks by phone. Settlements are not accepted without specific authorization from the City of Stockton.

#### **Account Follow up**

- Following the initial collection effort, the accounts are automatically categorized in to eight main processing types, and our Collection Staff initiates the telephone follow-up effort.

These categories are:

- Broken Promise
  - Third-Party Liability
  - Hardship- Unable to Pay
  - Itemized Statement/More Information Requested
  - Accounts with No Phone Numbers
  - Accounts with Work Phones
  - Accounts with Home Phones Only
  - Skip-Unable to Locate
- 
- Account Representatives are presented with an automated work map which controls the number of accounts to be worked for each individual category. Accounts are categorized and worked based on balance ranges, client preferences and criteria, and other information available. All are trained to work accounts at the most appropriate times of day and week (i.e. accounts with work phones and home phones are called both daytime, evening hours and weekends until contact is established.)

- When a promise for payment is received on an account, a code is entered that requires a promise amount and due date. This account will not be presented to them again unless the customer does not pay by the due date; at this time the account will “pop-up” as a Broken Promise Follow-up for immediate attention. To increase the likelihood of contact, Broken Promises are followed-up at the same time of the day that the original promise was made. Follow up continues until payments are reestablished or the account is paid in full.

**30 Calendar Days from the date of placement:**

- Upon verification that the account is a skip or upon initial notification from City of Stockton that an account has been coded “Skip”; CBMS will flag the account for skip tracing. If a customer is contacted at an address other than the last address known, CBMS will re-issue the first letter to the customer at the new address. The new information will be updated in our computer system. The account will then be “re-sequenced” to the beginning of the collection cycle.
- **Skip tracing has proven to be the one of the primary tools necessary for successful collections.**

**Accountability**

- Supervisors and Managers review the Account Representative’s progress and performance on a daily and weekly basis.
- All repayment arrangements are monitored for consistency of payment and the viability of the arrangement.

All funds collected are posted and deposited daily to a general trust account and net proceeds are remitted on a monthly basis. Net proceeds are remitted to the City of Stockton, along with account details, by the 5<sup>th</sup> business day of the month following recovery.

CBMS voluntarily subscribes to an independent audit by a Certified Public Accounting firm on an annual basis, which includes a review and testing of CBMS internal controls and procedures.