

*Revenue Collection
for
Solid Waste Activities
in
Hungary*



*Local Environmental Management Project
(LEM)
Hungary*

September 1994

Improved Public Sector Environmental Services Project

Prepared for:

**Environment and Natural Resources Division
Bureau for Europe
Agency for International Development
Washington, DC**

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**LEM Project
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Contract No. EUR-0039-C-00-2065-00

PN-ACC-219

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LOCAL ENVIRONMENT MANAGEMENT (LEM) PROJECT

Prepared by:

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**U.S. Agency for International Development
Washington, DC 20523
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1. INTRODUCTION

1.1 Local Environmental Management Project Overview

The Local Environmental Management (LEM) Project is being conducted by the Center for International Development of the Research Triangle Institute (RTI), a not-for-profit organization based in the Raleigh/Durham area of North Carolina, with the financial support of the Environmental and Natural Resources Division of the Bureau for Europe of the United States Agency for International Development (USAID). The 3-year project commenced in July 1992.

During the fall of 1992, it was decided to focus the efforts of the program in Poland and Hungary, with the following three objectives: (1) to demonstrate the extent to which local governments can effectively manage their environmental problems if given adequate and consistent support; (2) to assist project municipalities in producing reliable and technically acceptable proposals for the funding of environmental projects for presentation to national and international funding agencies; and (3) to make available for use to other municipalities the replicable details as a result of the former two activities. A subpurpose of the project is to act, through the project manager, as broker-liaison by matching municipal requests for technical assistance not supplied by LEM with various USAID-supported projects that may be able to provide the needed information, data, or assistance.

Over the course of 1993, a series of detailed assessments was conducted of wastewater projects in five municipalities in Poland and solid/hazardous waste projects in four municipalities in Hungary. The assessments examined the technical, managerial, and financial aspects of the projects and outlined technical assistance and training needs. The LEM project immediately began to provide specific technical assistance, develop manuals, and prepare training sessions in support of these projects. This manual is one of a series the LEM Project has developed to build capacity at the local level to conduct environmental improvement projects.

1.2 Objectives of This Manual

This manual has been prepared to help Hungarian solid waste companies increase their productivity in collecting user fees for solid waste collection and disposal. It is based on the principle that these companies should maximize the collection of solid waste fees, but also

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minimize the financial resources they expend in the collection effort. As a general principle, solid waste companies not only should collect fees sufficient to pay for the collection and disposal of solid waste, but also should collect from every household, every large residential user, and every commercial and industrial user that is able to pay for the services. Given sufficient financial resources solid waste companies can operate like an enterprise, and provide more effective solid waste management services.

The reliance on fees for full cost recovery of public services is a relatively new experience for Hungarian cities. Even in the US and Western Europe, when user fees are charged for local government services, they do not necessarily cover the entire cost of the service. For instance, public transportation and recreation programs are frequently paid for by a combination of fees and government subsidies. Some national governments contribute funds to cities for wastewater treatment, similar to grants provided by the Hungarian national government. User fees for wastewater services are expected to cover operating and maintenance costs. Likewise, user charges for water are expected to cover operation and maintenance of the water system even though the city government may provide capital improvement funds from general city revenues. The long-run goal, however, is for user charges to cover the entire cost of providing the service.

The expectation that user fees will cover the costs of solid waste services varies from community to community. Some communities pay for solid waste services entirely from tax sources; some enact a user charge to cover the entire cost; and some combine tax sources and user fees to cover the expense of solid waste collection and disposal.

North American cities usually make it a top priority to obtain a high collection rate — in some instances, in excess of 98%. While these cities have some powers that are unavailable to cities in Hungary, such as the ability to withhold services for nonpayment, Hungarian cities could adapt some of these fee-collecting processes to increase their revenue collection rates.

Not every company wishing to improve its revenue collection operations will find every suggestion contained herein of equal value. Every company, however, should benefit from a review of its operations through the guidelines outlined in the manual. Thus, the elements of sound revenue collecting are spelled out in detail even though their applicability in each company will depend upon local circumstances.

Although this manual is about solid waste fee collection, many of the principles and procedures outlined here apply to a wide range of urban service operations. The business principles of recordkeeping, personnel accountability, internal controls, and effective organizational structure are applicable to other local government services that are subject to user fees, such as drinking water and district heating.

Some organizations collecting fees for solid waste services may find that they do not have the personnel or financial resources to follow all the suggestions contained in this manual. If this is the case, they may find it useful to combine their resources with those of one or more other small organizations. This larger unit is likely to result in more efficient and effective collection of solid waste bills. Or smaller organizations could hire a private contractor to perform some of the collection functions, with the private contractor following the principles outlined here. (This approach is discussed further in Chapter 2.) If it is determined that neither a private contract nor joining with other organizations is feasible, these organizations still can benefit by following the principles of revenue collection to the extent possible within the resources available.

1.3 Who Should Read This Manual?

The manual should be used by Hungarian officials directly responsible for revenue collection. Managers and administrators also should find it useful, both for management and for planning ways to collect fees more effectively.

This manual can be used as a guide for training sessions for all revenue-collection personnel. On the other hand, revenue-collecting personnel who are unable to attend formal training classes could use the manual for self-training by reading the manual and using the checklists at the end of each chapter.

1.4 Acknowledgments

This manual was primarily drafted by International City/County Managers Association (ICMA) Consultant and LEM Finance Specialist Dale Helsel. Company officials and governmental officials in the Towns of Ozd, Edeleny, and Miskolc provided information on revenue collection issues in Hungary and served as a sounding board for ideas and suggestions for increased revenue collection.

Assisting in the preparation of this manual were Hungarian specialists in local government Dr. Gábor Peteri, Dr. László Vékony, and Dr. András Kovács. An Advisory Committee composed of local, regional, and national government officials as well as academic and professional association representatives met and provided comments and input during the preparation of the manual. Members of this advisory board were: Mr. László Móré, Ministry of Interior; Mr. Ernő Kiss, Ministry of Environment and Regional Development; Mr. Tibor Szarvas, Communal Service Association; Mr. József Böhm, Miskolc University; Mr. László Galuska, mayor of Nyékládháza; Mr. Ferenc Tölgyesi, city management company of Székesfehérvár; and Mr.

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István Várfalvi, finance specialist, Kaposvár. In addition, the LEM Hungary Coordinator, Mr. Kennedy Shaw, of the Research Triangle Institute, provided guidance in the manual's preparation.

2. MUNICIPAL ENTERPRISES

The responsibilities of Hungarian local governments are very broad under the 1990 Local Government Act. To help meet these responsibilities, local governments are using a variety of methods to deliver and finance local services. Local communal service companies, established under national company laws, provide a wide range of municipal services, while municipal budgetary institutions also play an important role in service delivery.

Local companies that deliver municipal public services in Hungary are governed under specific company laws. These types of companies are highlighted in Appendix A, along with their accounting and financial practices. Municipal budgetary institutions, in contrast, are governed by budget laws, and are not subject to the same operating or financial regulations.

Both of these municipal service providers, however, share some common characteristics, which are described below.

2.1 Characteristics of Local Public Enterprises

Municipal government services can generally be divided into two categories: those that are provided to all citizens and are not "consumed" on an individual basis (e.g., police protection and fire protection); and those that may or may not be available to all citizens and that can be used in different amounts (e.g., water service, sewer service, refuse collection). Generally, services provided to all citizens must be financed out of local taxes or other forms of local general revenues since it is not possible to distinguish who benefits from these services and who should pay for them. The second category of services, however, is much different. Generally, the direct beneficiaries of these services can be identified and the amount of services used can be measured.

The second category of municipal services is known in the US as enterprise-type activities. The term "enterprise" denotes a businesslike activity, with the most common feature being the exchange of goods or services for a monetary payment. Because of their unique characteristics, these services can be provided by municipal budgetary institutions (or companies) on a businesslike basis, with the costs clearly identified and the "prices" established according to

Chapter 2: **Municipal Enterprises**

formal cost-recovery objectives. Also, since many of these services are mandatory in Hungary, such an approach can help to improve the efficiency of these operations by providing a profit motive for company management and employees and by ensuring a strong focus on company costs and revenues.

Because of the revenue-raising potential of these municipal services, they are similar to commercial enterprises in several important respects. First, they must recover their costs through the sale of their goods or services, and they must price their services based on both economic and market principles. If prices are too high, they increase the risk of nonpayment from their customers, while prices that are too low will generate insufficient revenues to meet company expenses.

Next, in the United States, the commercial nature of some municipal services has led to the "privatization" of these services in some cities. That is, a private company is authorized to provide the service through a contract with the municipal government, or, alternatively, the municipal service or utility is sold to a private company. In both of these cases, however, the municipal government generally retains some degree of control or oversight of the private company through contract performance standards or franchise terms.

Finally, whether a municipal service is provided through a company or through a budgetary institution, certain financial information must be available, either for contracting purposes or for effective business planning and management. Enterprise budgets can provide this information more effectively than can traditional governmental budgeting and accounting practices.

2.2 What Are Enterprise Activities?

As described in the preceding section, not all municipal services can or should be organized and provided through either private or public companies. Because of the need to relate payment for these services to individual "users," they are generally limited to specific types of services or programs. In the United States, the most common examples of local government enterprises are:

- water utilities,
- sewer utilities,
- electric utilities,
- gas utilities,
- district heating systems,
- airports,
- toll roads and bridges,
- parking facilities,

- refuse collection and landfills, and
- public stadiums and other recreational facilities.

In some Hungarian municipalities, these services are already provided through local communal services companies, which operate as self-supporting companies financed entirely through user fees. Other municipalities provide some of these services through municipal budgetary institutions, and do not use enterprise fund budgets to segregate them from other municipal functions. The creation of separate budgets for these activities, and the ability to "charge" a separate fee for their use, results in three distinct benefits:

1. the municipal government is able to use its general revenues to pay for services that benefit all citizens and that are not conducive to user fee financing;
2. the individuals who use these services are those who pay, according to the frequency and amount of service they receive; and
3. the enterprise is more able to qualify for loans from commercial or public institutions since it controls its own finances and can be evaluated as a credit risk on its own merits.

These benefits of local government enterprises justify the additional time and effort required to establish separate budgets and accounting systems for these activities. They also contribute to a more rational and equitable method of financing these important public services, according to the principle of "they who benefit should pay."

2.3 Competing with Private Companies

As services that are financed primarily through user fees, enterprise activities can also be provided either wholly or partially by private companies. In the United States, such private activity is generally regulated by the local government of that jurisdiction. Private companies are authorized to provide these services (such as refuse collection) under a contract or franchise issued by the local government, which stipulates the terms and conditions to be met. Payment for these contract services is generally made directly by the local government to the contractor, according to the terms of the contract. The local government is then able to decide whether to recover all or only a portion of these costs through user fees, billing the individual users accordingly. As an alternative to this procedure, some local governments simply authorize a private company to provide certain services and to bill customers directly. The user charges then are regulated by the local government.

Chapter 2: **Municipal Enterprises**

Under the Hungarian Local Government Act, a local government is granted broad authority to "select (its) own form of business as are appropriate to its tasks," and to "formulate its own rules to suit its own interests." Within this authority, each municipal government can choose whether to provide any service directly through the municipal government organization and budget or through a public or private company.

Decisions concerning the most appropriate method of providing and financing municipal services should be based primarily on local policy considerations, such as the following:

- If the municipal government does not provide the service, will a private company assume this responsibility?
- Should the local government determine the quality of service and its price to the users?
- Should the users of the service pay directly for most of the costs?
- Should general local revenues be used to finance all, or most of, the costs of the service?
- Can the service be provided by more than one company?

Government responsibility for providing certain public services can be transferred to private companies through contracts, or even through the sale of municipal companies. At a minimum, however, the local government must ensure that the private company is able to provide the service to all citizens equally and that the price charged by the company is not excessive. The local government should also ensure that service frequency and quality is consistent for all sections of the city. Finally, it is important to remember that private companies will seek to maximize their profits and minimize expenses if there are no requirements placed on them as to service standards and prices. The absence of such requirements can result in private companies offering to provide services only to certain sections of the city or to certain categories of customers. To avoid this situation, tenders for private services should contain very explicit conditions and terms with which all private contractors must comply.

2.4 Organizational Issues for Hungarian Municipalities

Many cities in Hungary have already established companies to administer water and sewer services, district heating, solid waste collection and disposal, and other local activities. Other cities are providing these services through budgetary institutions, or seeking contracts for their

provision. Based upon the experiences of some of these cities, several organizing principles should be considered as these enterprises are formed.

2.4.1 Enterprise Activities

The most important decision in establishing municipal enterprises is determining which activities should be assigned to the company. In this regard, two important principles must be considered:

- The enterprise should have complete responsibility for closely related functions of municipal government that can be financed primarily by user fees; and
- The enterprise should not be assigned services that are not related to the core business of the company and for which user fees are not a realistic financing mechanism.

These decisions will ultimately determine the long-term profitability of the company and should be carefully considered by city officials in establishing local enterprises. Examples of each of these situations follow.

In the first instance, one municipality has assigned solid waste collection to a municipal enterprise company while responsibility for landfill management remains with a municipal budgetary institution. Both services are partially financed with user fees, but the revenues from the landfill fee go to the city government. In this example, both of these services should logically be assigned to the municipal company, so that the services could be coordinated, company resources and personnel could be used more efficiently, and user charges could be reviewed and established at the same time, based upon a long-term solid waste plan for the city.

In the second case, some municipalities have assigned unrelated functions to municipal enterprises, such as street sweeping to solid waste companies, and bathhouses to water and sewer companies. In these cases, the functions are typically unable to recover their costs through user charges and must be subsidized from other company revenues. The inclusion of these types of activities in municipal enterprises weakens the company's profitability and is contrary to the organizing purpose of the enterprise.

2.4.2 Capitalization

Another significant issue for public enterprises in Hungary is insufficient capitalization. Many of the assets transferred to municipalities under the recent changes in ownership are old and fully depreciated, thus requiring major renovation or replacement. The capital costs of these investments are great, and generally beyond the means of most public companies to finance out of accumulated depreciation reserves or operating revenues. These investments must be planned

Chapter 2: **Municipal Enterprises**

and programmed over several years, and public companies will need the assistance of their municipal governments to finance these costs. It is critical that capital plans be developed to meet these needs and that financing assistance be considered by municipal governments in the absence of outside sources. These investments are essential for the long-term profitability and effectiveness of many public companies and should be given highest priority by municipal governments in their own financial plans.

2.4.3 Private Competition

A third issue for Hungarian municipalities is private competition. In the interests of promoting market competition for municipal services, some cities have allowed private companies to sell the same services that the city is providing through a public company. While this practice is consistent with free-market economics, it can fragment the market for these services so that the public company cannot recover its costs from user fees. This is especially the case if the private companies have offered service only to those households that are most able to pay their user fees.

To avoid this situation, we highly recommend that municipal governments authorize private contracts for these services only if the contractors agree to abide by certain conditions. Foremost among these is the requirement to offer services to all sections of the city, or, alternatively, to designated sections, rather than those chosen exclusively by the contractor. This can help to spread the risk of noncollectible accounts, so that they do not become the sole responsibility of the municipal enterprise.

2.5 Financing Municipal Enterprises

The principal reasons for establishing municipal enterprises are to determine the costs of certain public services and to finance them primarily out of user fees. Unlike budgetary institutions, these market principles help to achieve a strong business orientation in municipal companies and to instill a high level of employee motivation based on company performance. While user fee revenues constitute the largest single source of income for a municipal enterprise, other revenues are also available, according to the other activities of the enterprise. These include:

- rental income,
- sale of assets,
- interest on investments, and
- reimbursements for use of equipment, etc.

These and other revenues can be used to help meet both operating and capital costs of the enterprise and should be anticipated, to the extent possible, in preparing the annual budget.

In addition to these sources of operating income, a municipal operating grant or subsidy is a common source of financing for municipal enterprises, especially in the "start-up" phase of the company. The amount of such a subsidy is directly related to two other decisions that the city government and the company should make together:

- When is it realistic to expect the company to fully recover all of its costs from user fees (and other operating income), given local economic conditions, collection rates, and other factors?
- Is there a general benefit to all citizens from this service, which should be paid from general local revenues?

These important financial and public policy questions should be addressed each year, in conjunction with annual reviews of user charge levels and other local tax and fiscal issues.

2.6 Checklist: Municipal Enterprises

1. Has the community decided whether the company will be financially self-sufficient, with revenues from fees expected to cover the entire cost of operations?
2. Has the company established a detailed enterprise fund with capital and operating budgets for each of its major functions?

3. REVENUE COLLECTION

Solid waste companies that want to increase their productivity will not be able to meet that goal unless those responsible for solid waste collection and disposal have adequate financial resources to operate in a businesslike manner. Without adequate revenues, equipment will not be kept in good working condition and will be out of service more often, resulting in inadequate collection of solid waste. Without financial resources, landfills will not be able to prevent groundwater pollution, nor will they be able to eliminate breeding grounds for disease-carrying insects and other vermin.

Money for this type of operations and maintenance — as well as for capital improvements that could reduce operating costs, and for other improvements that could increase the effectiveness of the solid waste collection and disposal operation — usually comes in part or in whole from solid waste fees. Clearly, to be viable, a solid waste collection system requires effective revenue collection. Stated another way, revenue collection is a critical part of the company's total solid waste operations.

3.1 Revenue Sources for Solid Waste Services

Although solid waste collection and disposal is considered a mandatory local government service in Hungary, there is no standard method of raising the revenues necessary to pay for it. In the past, solid waste collection and disposal was provided in some communities with a minimum charge that did not provide for full cost recovery. Local governments now are looking to cover their costs for solid waste services in a number of ways: general local/city revenue sources, a special tax, fees to be paid by the users of the service, or a combination of two or more of the above.

3.1.1 General Revenues

Payment of solid waste collection and disposal costs from general city revenue sources (tax revenues) can be justified since it is in the interest of all citizens that solid waste be collected and disposed of properly. Even though solid waste may be produced in large quantities in some households and only minimal amounts in others, everyone has a right to safe and sanitary

drinking water through groundwater protection, and to health protection through the elimination of disease breeding grounds.

Many cities and towns, however, are finding it difficult to fund solid waste services from general revenues because of the many demands for services for which no fees can be charged. Thus, city councils are turning to user fees for a higher cost recovery as a way of providing mandatory solid waste services while freeing up funds from their general revenues for other projects and programs.

3.1.2 Special Tax Levies

A tax dedicated to solid waste services is an option for city councils to consider. The economics of the local situation should determine whether such a tax levy is possible or practical. In some communities, the public will accept a special tax if they understand the reasons for it and the value to the community of good waste collection practices. A special levy also has the advantage that the legal system can enforce it, as provided for in the administrative law. The use of special tax levies is not widespread but is a viable option for communities wishing to find more revenues for solid waste operations.

3.1.3 User Fees

More and more communities are discovering that they cannot meet their capital and operating needs by transferring funds from the national government or by assessing local taxes, which usually can only be applied to limited areas in limited amounts. Instead, they are turning to higher user fees for public services, particularly for solid waste collection and disposal.

User fees are attractive to city councils for a reason other than the needed funds they provide. The benefits of services provided by local governments can be attributed specifically to individual citizens, properties, or businesses. It is therefore appropriate and fair to charge these entities for the services provided directly to them.

Although fees may not supply all the needed revenues, they can cover a large portion of the total costs for providing the public service. Often the fees received by solid waste companies make the difference between breaking even and going bankrupt.

3.1.4 Combined Source

The fees charged in some municipalities are too low to enable the solid waste companies to become self-sufficient. Supplemental grants must then be made from their general operating funds to keep the company solvent. Combining tax subsidies and user fees in this way is

Chapter 3: Revenue Collection

justifiable in many communities: city councils recognize the value to every citizen of good solid waste collection and disposal, but also recognize that individual recipients of services should bear some of the cost of receiving those benefits.

3.1.5 User Fees and the Ability to Pay

In general, user fees are based on the service provided and do not take into consideration the customer's ability to pay the amount charged. When a solid waste company establishes a user charge but is willing to provide the service even to those who cannot pay, it can recoup the cost of the service by charging higher fees to those who can pay, or by drawing on tax-based municipal funds.

3.2 Organizational Issues

Revenue collection operations should be organized with clear lines of responsibility for all personnel, avoiding a situation in which collection responsibilities are divided and individual employees must report to more than one person. The organizational framework should consist of a single agency for billing and collection, with clear division among employees performing billing, collecting, and depositing (see Exhibit 1 for an example). Each employee should have a distinct set of duties and a single supervisor.

Employees in the revenue collection office should report to the chief financial officer of the company. This official's duties include making recommendations to the managing director on financial matters. In companies in which the managing director is also acting as chief financial officer, the revenue collection office should report directly to the managing director.

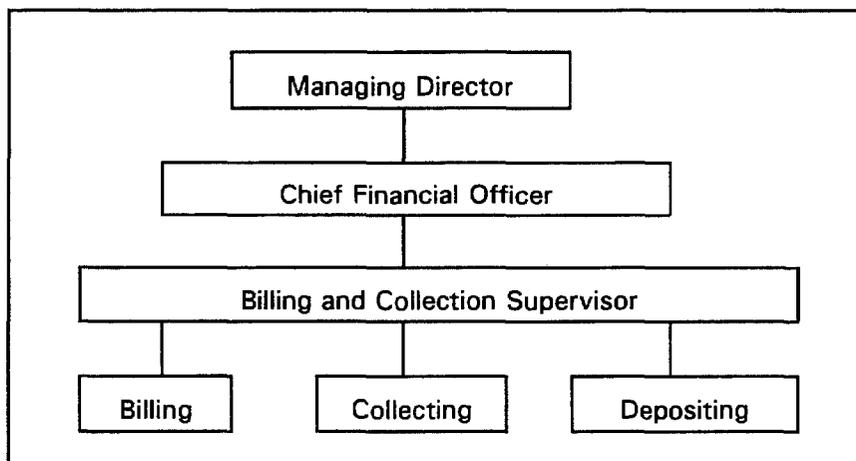
The managing director needs financial reports on the status of revenue collections to understand fully the economic condition of the company. The revenue collection reports should be sent to the director either through the chief financial officer or directly from the revenue collection office.

Yearly, the company should evaluate the revenue collection office and determine how it is meeting its goals of improving revenue flow and treating citizens equally. Improvements to the operations should become a priority and should be fully explored before requests are made for increased rates.

In some smaller villages, one person may perform many different duties since the village does not have the financial resources — or a large enough workload — to justify obtaining the services of separate individuals for the different functions outlined above. Villages in this

position should still strive for financial accountability, however, by dividing the duties of billing, collecting, and depositing as much as possible under the circumstances.

Exhibit 1. Organization Chart



3.3 Checklist: Revenue Collection Administration

1. Has the community determined what the source of revenue will be if fees are not sufficient to cover operation and maintenance expenses?
2. Has the company prepared an organizational framework clearly outlining responsibilities?
3. Is there an organizational diagram showing the lines of authority for all the employees in the revenue collection office?

4. USER FEES

Two decisions are necessary before a user charge is implemented for solid waste services. First, a decision must be made on whether fees are expected to cover the entire cost of solid waste services, including capital expenditures and operating and maintenance costs. If instances occur in which the fees are not sufficient to cover the cost of collection and disposal, and a subsidy is required to make the company financially sound, is the city willing to provide a subsidy?

Second, the basis for the fee must be determined. Several possible options are to charge a single rate for every household unit, or to establish charges based on the volume of solid waste produced, the number of people in a household, etc. An important consideration is the citizens' ability to pay proposed user charges. Moreover, a **determination must be made** whether additional employees and capital are **needed** in order to initiate a particular type of user charge, and whether those additional expenses can be justified as cost-effective.

Fees need to be easily administered and easy for the public to understand and accept. On the other hand, computerization has helped many companies and towns administer complex user charges. The rate of revenue collection — and thus the amount of resources available to the company — will improve if the public understands the need for the charges and believes that they are fair and equitable.

When fees for service are established by whomever has the authority over service pricing, those fees must be collected fairly from all users in accordance with a fee schedule. The Board of Directors of a shareholding company, members of a city council charged with overseeing operations, or any individual or group that has responsibility for the operations of the solid waste company, should expect the company to treat all citizens in an equitable manner in collecting the fees that have been established.

4.1 User Charges for Full Cost Recovery

Self-sufficiency for solid waste companies through user charges is an appropriate goal for communities faced with the mandate of solid waste collection and disposal, but it is sometimes not attainable in specific communities. In some cities or villages — because of their economic situation, for example — fees for solid waste collection and disposal are not designed to cover

all the costs. In communities that have high unemployment, decreased economic activity, and solid waste companies with large capital needs, it may be difficult to establish fees large enough to cover the full cost. In these communities, a conscious decision is made to establish a user charge that is less than the full cost of the operation. User fees are expected to cover only the operation and maintenance costs; capital funds come from other sources. (Unfortunately, for some solid waste companies, no funds at all are made available to cover the difference between the full cost of the operation and the revenue received from user fees.)

Even if user charges do not match the full cost of providing the service, it is important for the company and the local government to be aware of the full cost of solid waste collection and disposal services. For example, realistic projections of capital requirements should be made and included in the cost of providing services. Failing to include capital requirements gives a misleading picture of the financial status of the company. A company may appear to be making a profit since its revenues exceed its expenses, but if it is not replacing worn-out capital equipment or making provisions for future capital expenditures, the "profit" is illusionary. The use of enterprise fund accounting, as described in Chapter 2 above, gives managers and policymakers data on the true financial condition of the company.

Two sample budgets for the same company are shown below (Exhibits 2 and 3). The first one shows the expenses for operating the collection and disposal service *without* capital or depreciation costs. This budget shows a positive net income for the company.

Exhibit 2. Budget Statement Without Depreciation and Capital Needs

Annual Budget, Solid Waste Company (in forints)	
Anticipated Operating Revenue	
User Charges	18,000
Rental Income	100
Sale of Assets	1,000
Interest Income	75
TOTAL	19,175
Budgeted Operating Expenses	
Direct Costs	13,000
Overhead Costs	4,000
Taxes and Other	500
TOTAL	17,500
Net Income	1,675

Chapter 4: User Fees

When capital and depreciation costs are included in the budget, a deficit net income results:

Exhibit 3. Budget Statement With Depreciation and Capital Needs

Annual Budget, Solid Waste Company (in forints)		
Anticipated Operating Revenue		
User Charges		18,000
Rental Income		100
Sale of Assets		1,000
Interest Income		75
TOTAL		19,175
Budgeted Operating Expenses		
Direct Costs		13,000
Overhead Costs		4,000
Taxes and Other		500
Capital Outlay		1,000
Depreciation		1,200
TOTAL		19,700
Net Income		(525)

It is important to show capital and depreciation costs, since equipment wears out and needs to be replaced, and new capital is needed at times to make operations more efficient. Equipment and other capital investments are paid for at the time of purchase but are used for several years. Charges to pay for these investments, then, should also be assessed over the years of life expectancy of the investment.

As noted earlier, whenever there is a difference between the revenues received from a user charge and the cost of operating the solid waste company, the local government must determine where to obtain additional revenues. If the city or town prepares a plan for providing the full cost of the operations, it can avoid financial instability of the solid waste company in the future.

Communities and companies frequently do not prepare budgets that cover capital costs or make plans to provide capital funds. There are limited sources for capital funds — increased user charges, the city's general revenues, capital formation through loans and debt, or outside investments in the operations. Each community needs to determine its best source of capital

funds. A solid waste company with adequate fees, an accounting system that takes into account the full capital and operational costs of the service, and an efficient revenue collection operation is most likely to attract outside investment or favorable interest rates for commercial loans when they become available.

4.2 Residential Charges

Most communities distinguish between the charges they assess for single-family residential customers and fees for commercial or industrial customers. City government officials who must respond to citizen concerns and are responsible for setting user charges are primarily concerned with residential charges. The company therefore needs to thoroughly research user charges and provide the city with information that will assist it in choosing the best user charge for the community.

4.2.1 Determining the Fee

The unit cost for solid waste collection can be determined through a simple formula:

$$\frac{\text{Full Cost}}{\text{Number of Units}} = \text{Unit Cost.}$$

In enterprise fund accounting, the full cost of operations should include direct costs, indirect costs, capital outlays, and future needs.

- Direct costs are directly related to the service being provided. Examples of direct costs are the labor cost of personnel hired to remove solid waste from the containers and place it in the collection trucks, the cost of gasoline and oil for operating the equipment, and repairs to the company's motorized equipment.
- Indirect costs are related to the activities of the company but are not directly involved with producing the service. Examples of indirect costs are rental on office space for administration of the company, and charges by the central office for general supervision and administration.
- Capital outlays are charges for new equipment that was purchased either by borrowing or by spending the company's cash resources. For determining full costs, the accounting reporting system should include capital expenses as well as operating costs. Managers need to ask their operating supervisors and administrators for input on capital

Chapter 4: User Fees

needs, then use that knowledge to plan future operations and estimate financial requirements.

Despite the care taken to set fair and reasonable rates, there inevitably will be residential customers who cannot pay the charge because of their economic status. Other customers will find ways to evade paying the charge. As a result, service companies will have to designate a certain portion of user charges as uncollectible. Accounting systems for enterprise funds should show uncollectibles as an expense, estimating the amount of lost revenues based on previous billings. In enterprise budgeting, this loss is shown as a reserve for uncollected fees in the expenditure budget. Although some accounting practices show uncollected charges as a negative receipt, there is an advantage to showing them instead as an expenditure at the time rates are set, as discussed later in this chapter. Ignoring uncollectible bills at the time user charges are established will misrepresent the ability of the revenues to meet the anticipated budgetary expenditures.

A separate expense category for uncollected bills is useful if the city has not agreed to make up the shortfall. In this case, citizens who do pay for solid waste services pay higher rates to compensate for citizens who do not pay their bills.

Once an appropriate fee has been proposed and accepted, the agency responsible for setting fees must decide on a unit cost. Communities have chosen different approaches as discussed below.

4.2.2 Single-Unit Charges

Solid waste user charges are assessed against those who produce solid waste for collection and disposal. Because solid waste is collected from each household, one way to create a single-unit charge is to require each household to pay the same fee. The unit, therefore, is the individual property or household. A fee based on households can be calculated easily by dividing the total cost by the number of household units in the service area:

$$\frac{\text{Total Cost}}{\text{Number of Households}} = \text{User Charge.}$$

For example, if the cost of the service is determined to be 1.2 million forints to collect from 2,000 households, a user charge of 600 forints per household will be needed. If the anticipated amount of uncollectible bills has been considered as an expenditure and included in the total cost, the revenue produced by this user charge will be sufficient to cover all the anticipated costs of the service.

As pointed out earlier, the community may have opted to charge less than the full cost of the service. When this is the case, the above formula can still be used; the user charge and the number of households are known, and completing the equation will yield the amount of revenue the user charge will produce.

This arrangement has the advantage of being easy to administer. It is generally a simple matter to count the number of households and to design a billing system that is based on each household paying an identical charge. Some communities that use the single-household unit charge apply it to separate households within large rental units as well. Thus, 50 individual apartments in a single building are each charged the same amount as a detached single-family dwelling.

This method of billing is also easy to understand and to audit. If a question arises on the number of units being charged, it is simple to go and count the household units. The total amount billed can also be easily checked by counting the bills prepared and multiplying by the unit charge.

The disadvantage of this simple system is that it does not allow for differences in the amount of services rendered. Thus, a housing unit that contains one person pays the same fee as another housing unit with five residents and a correspondingly larger amount of solid waste (i.e., more work for the solid waste company and more use of landfill space). Billing departments using the single-unit system receive many complaints from people living alone, in part because citizens who are used to purchasing products based on quantity often think in terms of disposing of the refuse based on quantity as well. There is some validity to the argument that if user fees are supposed to charge individuals for solid waste services received, the fees should bear some relationship to the amount of services rendered.

4.2.3 Charge by Room (*Lakrész*)

Perhaps the most frequently used unit cost in Hungary is one based on the *lakrész* in an individual's household. The word *lakrész* refers to certain rooms of a house or apartment that are lived in: kitchen, dining room, bedroom, living room, etc. Example: A house with two bedrooms, a kitchen, bathroom, and garage would have three *lakrész*. If the charge were 10 forints for each weekly collection for each *lakrész* in this three-*lakrész* house, the solid waste bill would be 1,560 forints annually (10 forints \times 3 *lakrész* \times 52 weeks).

Using *lakrész* as a unit cost is an attempt to charge on the basis of the amount of solid waste produced. This system assumes that more rooms in a house will mean more people living there and producing additional solid waste.

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This method has the advantage of being only slightly more difficult to administer and audit than the single household unit. An initial physical inventory of the dwellings will show the number of *lakrész*, and this number will not change significantly over the years. Rooms added to a house may be difficult to detect, but other periodic inventories will uncover these additions.

Using this unit charge has the same disadvantage as charging each household the same amount, however, since the charge is not truly based on services received. There is no certainty that there will be more people living in house with more *lakrész*. Further, the number of *lakrész* usually will stay constant in a building while the number of persons living in that building will change over the years.

4.2.4 Other Unit Charges

Communities have established other unit charges in an attempt to make the fee more directly related to the amount of solid waste collected. One such method is to base the rate on the number of inhabitants in a household. This method is harder to administer since the number of inhabitants in a household changes from time to time.

A variation of the *lakrész* charge is a charge based on the size of the dwelling unit in square meters. This method is also based on the assumption that bigger houses produce more solid waste and should be charged more. Another assumption is that the owners of bigger houses have a greater ability to pay.

Thus, neither the number of inhabitants nor the number of square meters necessarily corresponds exactly to the amount of services received.

4.2.5 Volume-Based Charges

Volume-based charges for solid waste are gaining in popularity worldwide. A volume-based user fee charges for solid waste collection in proportion to the services provided. With this method, the household with few residents producing small amounts of solid waste pays only for the solid waste actually collected from the house.

Another advantage is that volume-based billing gives householders an incentive to reduce the amount of solid waste they produce. Less waste means lower collection costs and longer life for the landfill because of the reduced amount of refuse placed there.

Container Charges

There are several ways of levying volume-based charges. One way is to note the volume of the household solid waste container and charge according to its capacity. The volume of containers can be determined and recorded for billing purposes. Solid waste collection crews then would record the number and type of containers collected from each household in a log book at the time of collection.

Basing a user charge for solid waste collection on the volume of the container requires that each container and its size be registered. In communities where containers are not of a standard size, the initial measuring of the containers can be a cumbersome and time-consuming effort. However, most containers at least fall within a range of standard sizes. Communities that provide the householder with containers know the volume of each container automatically and need only to note the number of containers that a citizen uses.

Volume-based billing does not eliminate questions or controversy, unfortunately. Residents may request a partial bill when they have only partially filled their container. However, it would be difficult for collection crews to note which containers were partially filled and to determine just how full they were. Because it takes the same amount of collection equipment and the collection crew's time to stop at the house to pick up the solid waste from a partly filled container as from a fully filled container, a full-container charge is usually justifiable.

Volume-based fees do have some potential disadvantages. For example, one reason for collecting solid waste from householders each week is to prevent the accumulation of refuse, which can become a breeding ground for flies, rodents, and disease-causing bacteria. If user charges are based on volume of refuse set out for collection, households may either accumulate refuse on their own property, or illegally dispose it along the roadside or on vacant lots in an attempt to reduce their solid waste bill.

If customers reduce their solid waste volume by way of illegal disposal, the authorized collection and disposal operation will certainly be less orderly, and the company may have to pay more attention to enforcement of disposal regulations.

Prepaid Plastic Bags

Another volume-based collection method is to use prepaid plastic bags. They can be sold at local retail stores with the cost of collection added to the cost of the bag. A householder can control the amount of the collection charge by determining the number of bags purchased and used. For a bag system to be effective, only waste that is in the official bags can be collected.

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The charge for the plastic bags can be adjusted for residents who cannot afford it. Furthermore, social service funds can be made available for distributing bags to residents who qualify.

User Charges by Weight

Because landfill fees are determined primarily according to the weight of the material deposited there, a charge for solid waste collection at the household may be established according to the weight of the solid waste collected. One advantage of the weight basis for user charges is that the solid waste company can charge equitably for partially filled containers. Further, the charge by weight is directly related to the landfill charges.

This method does add to the responsibilities of the collection crew, however, which must weigh each container, record the weight of the solid waste, and submit the results to the office where customer bills are prepared. The use of portable scales for this purpose is very time-consuming. This method also requires a capital investment in the scales for weighing at the point of collection, and requires training of collection crews in using the scales and recording the results. As a result, the weight method generally is reserved for measuring solid waste material deposited in the landfill from large trucks.

Combined Charges

Another residential option is to have a two-part charge for solid waste collection: a customer charge for each household, and a per-bag additional charge. This option is useful in communities where the amount of refuse collected at a given residence may vary widely from week to week.

4.3 Charge by Type

Some communities charge according to the type of solid waste collected and disposed. For example, additional fees may be charged for collection and disposal of unusual or large items such as old refrigerators, automobile tires, and debris from home improvements. These charges should be based on the hourly cost of collection and the actual cost of disposal.

Incentives for recycling can include a "free" pickup of recyclables such as glass, certain kinds of plastic, and newspapers. There is a cost, though, for collecting recyclables even though this type of disposal may cost less than placement in a landfill. If there is a charge to customers for collecting recyclables, it should take into account the reduced cost of disposal.

4.4 Business, Industrial, and Large-Residence Charges

Fees for producers of large amounts of solid waste can be charged by number of containers, by volume, or by weight. Although some communities use the *lakrész* to bill large residential customers, this method is not recommended since it is not truly based on the proportion of services received.

When weight or volume is the basis for the fee, these charges can be levied in the same way against all users — residential, large residential, business, or industrial.

4.5 Landfill Tipping Fees

Landfill fees can be based on the capacity (volume) of the vehicle depositing solid waste. However, the trucks that deposit solid waste at a landfill are of many different types and volumes, and this method requires the landfill operator to be able to judge correctly the volume of each vehicle — a difficult task. A more precise method is to charge by weight. Even though a charge by weight requires purchasing scales that can weigh heavy trucks, the investment in scales enables the solid waste company to keep accurate records of the material disposed at the landfill and to charge appropriately for landfill use.

Landfill charges can vary depending upon the type of solid waste being deposited. For instance, a rate for depositing earthen material at a landfill that needs covering dirt is often less than the charge for ordinary household waste. An extra charge may be made for material that requires special handling, such as petroleum-based refuse.

4.6 Checklist: User Fees

1. Has the community determined the portion of costs to be recovered through user fees?
2. What will the unit basis for the charges be?
3. Will the public understand the fee schedule?
4. Has the company analyzed the cost-effectiveness of the proposed user charge?

5. BILLING PROCEDURES

Once the solid waste company has determined the cost of solid waste collection and disposal, decided on the portion of the costs to be raised by user fees, and determined the basis and amount of the fee, it must turn its attention to billing procedures. Efficient, businesslike billing procedures form the foundation of the revenue collection system. This system provides operating revenues, cash flow for financial management, and data for managerial reports used in administrative planning. Good billing practice depends on clear procedures, simple but informative billing sheets, and prompt delivery of bills.

Regardless of the size of the city or village collecting solid waste bills, the principles of good billing operations should be adhered to. Thus, smaller towns should follow the procedures described in this chapter as closely as they can within their staffing and financial limitations.

5.1 Billing Strategy

Some communities hire a person to distribute bills and collect the payments from the users. The manager of the revenue-collection operations must determine whether this is the most cost-effective method. If there are clear standards for delivering bills, collecting revenues, and providing reports, contracting with a private organization to provide this delivery and collecting service is a possibility.

Almost all the citizens receiving solid waste bills also receive bills for other public services such as water, wastewater, or district heating. Sending a separate solid waste bill to these same citizens is costly, although many Hungarian cities or towns have little alternative. Contractual arrangements with other utilities sending bills should be considered. As an alternative, the municipality could establish a centralized billing operation, either within the city governmental structure or as a separate entity, to provide revenue-collection services for a variety of organizations that collect user fees. The community would save on billing costs by combining several user charges on one bill. Any contract for billing and collection services should be prepared very carefully, even if the contracting agency is another city-owned company.

Chapter 5: Billing Procedures

5.2 Billing Procedures

The billing process should be guided by a clear, written set of operating procedures that personnel in the billing office can refer to during their daily tasks. Their purpose should be to increase accuracy and efficiency in the billing and collection operations.

Standard operating procedures for solid waste collection should include:

- A list showing what information is required for each customer
- A description of how to prepare bills
- The schedule of dates for sending bills
- The process and timing of entering customer payments in each customer's account
- Daily task priorities, such as:
 - entering payments from the day before into customers' accounts
 - preparing bills
 - preparing managerial reports
- Job descriptions for all personnel positions
- A description of the required management reports and how they are to be prepared
- The dates for submitting reports to management.

The procedures for billing should be reviewed from time to time to improve efficiency and make certain the billing operations are meeting the goals of the organization.

Employees must be given a clear understanding of their job responsibilities. Supervision is required to ensure that the proscribed billing procedures are being followed and are producing the maximum revenue possible.

5.3 Customer Account Database

Initial data required on each customer include such items as name, account number, address to which bills are to be sent, location of service, and basis of billing (whether by *lakrész*, container, number of people, etc.). Payments and amounts due will also be recorded in the database for each customer.

5.4 The Bill

The following information should be stored in the customer account database and presented on each bill:

-
- Name and address of billing and collections department
 - Name and address of person responsible for paying the bill
 - Location of the service if different from above
 - Account number
 - Type of service provided
 - Date the bill was prepared
 - Billing period covered
 - Due date
 - Amount previously billed
 - Amount of previous payment(s)
 - Balance on account
 - Basis of the fee
 - VAT (value-added tax)
 - Penalties and interest (if applicable)
 - Total amount due.

An example of a typical bill is provided in Exhibit 4.

5.5 Timing

Prompt and accurate billing of accounts is essential to good revenue collection procedures. Computerization of the billing process assists greatly in producing bills accurately and in a timely manner. (The use of computers, however, does not guarantee accuracy or timeliness. Employees must be trained for these benefits to accrue.)

Bills that are based on a fixed charge should be sent out before the end of the billing cycle. For example, fixed-charge monthly bills can be sent out by the 20th of the month, giving the customer 10 days to pay before the end of the service period. Bills should be sent out on the 20th of the month especially for large residential users, commercial users, and industrial users whose rates do not vary from bill to bill.

When charges are based on volume or weight, only a short time should elapse between the end of the billing period and the issuance of the actual bill. The billing system should be able to produce bills quickly. Smooth cash flow requires prompt billing and collection.

Chapter 5: Billing Procedures

Exhibit 4. Sample Bill for Solid Waste Services

City of Anywhere Anywhere Solid Waste Company 1234 Main Street																									
Name and Address of Person Responsible Peter Sandor 5678 Edmund Street City of Anywhere	Account Number 98765																								
Service Address 5678 Edmund Street	Type of Service Solid Waste Collection - Container																								
Date Prepared January 1, 1994 Billing Period January 1 through March 31, 1994	Due Date January 10, 1994																								
<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left; width: 15%;">Date</th> <th style="text-align: left; width: 60%;">Description</th> <th style="text-align: right; width: 25%;">Amount Due</th> </tr> </thead> <tbody> <tr> <td>10/1/93</td> <td>Previously Billed</td> <td style="text-align: right;">450</td> </tr> <tr> <td>10/3/93</td> <td>Previous Payments</td> <td style="text-align: right;">450</td> </tr> <tr> <td></td> <td>Balance on Account</td> <td style="text-align: right;">0</td> </tr> <tr> <td></td> <td>Current Bill</td> <td></td> </tr> <tr> <td>1/1/94</td> <td>1 Container (0.11 cu m)</td> <td style="text-align: right;">435</td> </tr> <tr> <td></td> <td>VAT</td> <td style="text-align: right;">15</td> </tr> <tr> <td></td> <td>Total Amount Due</td> <td style="text-align: right; border: 1px solid black; background-color: #e0e0e0;">450</td> </tr> </tbody> </table>	Date	Description	Amount Due	10/1/93	Previously Billed	450	10/3/93	Previous Payments	450		Balance on Account	0		Current Bill		1/1/94	1 Container (0.11 cu m)	435		VAT	15		Total Amount Due	450	
Date	Description	Amount Due																							
10/1/93	Previously Billed	450																							
10/3/93	Previous Payments	450																							
	Balance on Account	0																							
	Current Bill																								
1/1/94	1 Container (0.11 cu m)	435																							
	VAT	15																							
	Total Amount Due	450																							
<p>Note: 10% penalty charge for bills not paid by due date</p> <p>Bills may be paid at central office, 1234 Main Street</p>																									
<p><i>This space for use by Anywhere Solid Waste Company, Kft. Billing Office:</i></p> <p>Account Number: 98765</p> <p>Amount Due: 450</p> <p>Date Due: January 10, 1994 Date Paid: Collector:</p>																									

In some communities, the fee is based on an annual charge but is billed semiannually or quarterly. Revenue collection administrators should consider monthly billing instead since it is sometimes easier for citizens to pay a smaller bill each month than to pay a larger one every 6 months. The increased cost of monthly billing will be offset by increased revenue collection.

The timing of billing affects when a government can expect to receive revenues during the fiscal year, which in turn governs not only the activities of the revenue collections office but also spending, borrowing, and investment decisions of the government.

5.6 Linkages Between Billing and Collections

Once payment is received, the bottom portion of the bill should be completed by the collector with the amount paid and date paid. The collector's signature or initials should also be marked. Then the form should be detached and returned to the company's collection office along with the money received.

The person paying the bill should obtain a receipt signed by the person accepting payment. The receipts should be serially numbered. This provides an internal control to verify that the money collected is credited to the person making the payment and that there is an audit trail showing the flow of money from the customer to the company.

It is important for the collections office to move money from the cashier to the bank promptly and to work closely with the accounting office to record the transactions for better cash flow and control. Also, the collections office should be prompt in providing the billing operations with information on who has paid their bill, for accuracy in preparing the next bill.

Whether the system is computerized or not, there should be daily reports of the total of billings and collections.

5.7 Checklist: Billing Procedures

1. Is there clear administrative responsibility for billing and all the associated tasks?
2. Has the company established written operating procedures for billing and collecting personnel?
3. Is the billing form designed so that the billing department and the customer both find it clear and informative?

Chapter 5: Billing Procedures

4. Can the billing procedure be done more quickly?
5. Has the company considered early billing?
6. What is the connection between the billing procedures and the cashier?

6. COLLECTION PROCEDURES

Once user fees are accepted and established, and billing procedures begin, the company must put in place efficient and effective procedures to collect the user fee payments. An effective collection process involves prompt receipt and handling of the payments. Whether payments are made by mail or in person, there should be only a brief interval between the time the company actually receives the money, records receipt in the company's records, and deposits it in the bank. Good collections depend on simple and clear procedures, adequate controls and reporting on collections.

6.1 Collection Process

The company must bill promptly for services and then promptly collect the payments due. Likewise, customers should be encouraged to pay promptly. Customers should have about 10 days from the time they receive their bills to pay them. As a result of prompt billing and collection, the solid waste company should receive most of its monthly income before the middle of the month, leaving the remainder of the month for following up on delinquent bills.

Some companies employ a person to deliver the solid waste bill to each householder and collect the amount due at that time. However, since only a fraction of the bills is delivered each day, only a limited portion of the total expected revenue is collected in a given day. Another drawback is that some customers are billed at the beginning of the month, immediately after they receive service, whereas others do not receive their bills until several weeks later. Thus, although using one person to deliver and collect bills cuts down on the time between billing and receipt of revenues, it violates the principle of billing immediately after the service has been performed. In communities where there does not appear to be any viable alternative to in-person delivery and fee collection, efforts should be made to speed up the time between billing and fee collection. The use of several part-time collectors who concentrate their time early in the billing cycle will produce revenue for the company more quickly.

The solid waste company may wish to consider entering into a contract with a private organization to collect the bills. However, privatization should occur only when strict rules and regulations have been established for the private company doing the collection. The same internal controls on reporting the receipt of money, sending information to the billing section,

Chapter 6: Collecting Bills

and promptly depositing revenues received should apply to the private contractor as well as to the solid waste company itself.

Using the postal service for sending bills increases postage costs but reduces personnel time to deliver and collect each bill. Any time saved in delivering bills and collecting from users who will respond to a mailed bill can be used to collect from customers who are delinquent in their payment.

6.2 Controls

The company should promptly note in the account record each bill that was paid. The record should show the name of the person who paid, how much was paid, and the date of payment. This information will enable the billing office to prepare the next bill with correct information on whether a balance is owed.

When a bill is paid, the collection department should give the person making the payment an original receipt and then file a copy.

The solid waste company should deposit in the bank each day all payment money received. The company should not keep cash payments in its possession any longer than necessary. Before the money is deposited, the collection department should verify that the record of the day's receipts accurately shows the total of all the individual payments. Two reasons for the prompt deposit of money are (1) the company needs the money to pay its outstanding obligations, and (2) money kept on the premises is tempting for thieves.

If the collections office can train its employees to use computers to record the account and the amount of money received, the likelihood of error will decrease. Balancing the accounts at this time is a good internal control procedure and means that the billing operation can proceed without further handling of the actual bills.

The company should issue prenumbered receipts for every payment received personally from users. One copy should be filed for use in the next billing cycle and for auditing. Receipts should contain the payer's name, address, the amount, the date, the purpose of the payment, the form of payment, and the account number.

The person collecting the money should report the amount collected. In all communities where staffing levels permit, a different person should then prepare the bank deposit slips and hand the money over to the bank.

Amounts paid should be recorded promptly so that bills are not sent out showing an incorrect balance. Incorrect bills diminish the citizens' faith in the company's competence.

6.3 Collection Reports

Collecting bills efficiently means more than just receiving money and depositing it in the bank. Records must be kept for internal reference and for supporting management decisions.

At a minimum, collection reports should list for each customer the account number, the date and time of the remittance, who received the money, amount received, whether by check or by cash, and any comments for use by administrators. Computerization may require additional information, such as a batch number.

A summary report for managers would contain the number of accounts billed, balances due, and the amount of the current billing. This report should be combined with the collections report showing number of accounts collected, balances paid, and current bills paid.

Reports should be checked for accuracy. Managers will be making decisions based on reports from the billing and collection operations and these reports need to reflect the actual billing and collection data.

6.4 Administration

One person in the company should be responsible for supervising solid waste billing and collections. Cashiers and bill collectors should report to this person, such that a clear line of authority over the collection process is maintained.

Each town will have to determine for itself whether it has the employees or the financial resources to develop the collection procedures described in this chapter. However, the principles outlined apply to the collection of solid waste bills regardless of the size of the government.

6.5 Checklist: Collection Procedures

1. Is there a set of written standard operating procedures (an SOP) for the collectors and depositors?
2. Are different people responsible for billing accounts, collecting, and depositing money?

Chapter 6: Collecting Bills

3. Are deposits made daily?
4. Are accounts kept up to date?
5. Are records kept and forwarded to the decision makers on a regular basis?
6. Has contracting with a private company for collection been considered?

7. ENFORCEMENT

Enforcement of the payment of user charges for solid waste services is one of the most difficult tasks facing revenue collection departments. While equity requires collection from every person able to pay, the power to require payment is limited.

One of the most effective methods of enforcing the collection of bills is to withhold services until the bill is paid. Unfortunately, for a mandatory service such as solid waste collection and disposal, this is not a viable option. With commercial customers, for whom there is no mandate to collect solid waste, withholding services can be an effective tool for enforcing payment. If solid waste is allowed to accumulate at a commercial establishment, it can begin to affect the business. This strong incentive for ensuring regular solid waste collection encourages businesses to pay what they owe and to avoid delinquent bills. However, if firms other than the city's solid waste company also collect refuse, withholding city services may only drive the business to use a private collector instead of paying the city bill. Withholding services at large, multifamily dwellings because of delinquent bills may not be possible either, since in most communities it would be a violation of the mandatory collection obligations.

The challenge to revenue collection departments is to maximize collections through a series of small steps. These steps are described below. The cumulative effect of several techniques will be improved collection rates.

Some communities or companies may believe they are too small to have effective enforcement policies. When a user charge is instituted, however, those in charge of collection should make every effort to see that the maximum amount of money is collected and should use as many of the following suggestions as possible.

7.1 Second Notices

Sending second notices to those who have not paid their bills is an effective way to remind citizens of their obligation (see sample, Exhibit 5). A well-worded second notice usually brings

Exhibit 5. Sample Second Notice

*** SECOND NOTICE ***

Name: _____ Date Due: _____
Address: _____ Amount Due: _____

*CITY OF ANYWHERE SOLID WASTE COMPANY, LTD.
1234 Main Street*

According to our records, we have not received a payment from you for solid waste collection and disposal from your property. The services were provided to you during the previous 3 months.

Your city government officials have determined that a fee should be charged for the collection and disposal of solid waste so that the city can afford to protect the groundwater supply and to eliminate breeding places for rats and disease-bearing vermin. The solid waste company is depending on you to pay for the services you have received. Your payment of the bill is necessary to enable the company to continue to provide solid waste services.

You have approximately 7 days to pay this bill. Additional costs and penalties may result if you fail to do so.

The bill may be paid at the central office of the company between the hours of 7:00 and 15:00, weekdays.

Please do not delay in paying this bill.

If you have any questions concerning this bill, please contact the Collection Office at 1234 Main Street.

*** SECOND NOTICE ***

results and increased revenue. These second notices should have an official look, be worded firmly, and be printed on paper that is a different color from the original bill (or printed with a different color of ink) to draw attention. If practical, the collection department should telephone customers with high bills to exert additional pressure.

The purpose of second notices — which should be sent as a matter of routine — is to exact payment for delinquent bills. Customers who require a second notice for each billing period should receive special attention. The goal is for bills to be paid when due, not after a second notice.

7.2 Social Funds

As discussed in an earlier chapter, there will always be residents who cannot afford the solid waste user fee. Social funds have been established in many towns to assist households with these costs. Citizens who are delinquent in paying their solid waste bills due to their low economic status should be encouraged to apply for social funds in order to pay for services. Communities whose city government has not established a social fund to help pay solid waste charges should consider this idea.

7.3 Penalties for Late Payment

A financial penalty should be added to a bill that is not paid when it is due, or that is delinquent for 10 days or more. A penalty could range from 10 to 15% of the current bill. Percentage penalties are especially effective in obtaining prompt payment from customers with large bills, such as commercial and industrial users. A variation of a late-payment charge is to offer a discount for on-time payments. For example, for a bill in the amount of 1,000 forints, the customer could pay 950 if the collection office received payment before the date the bill is due. Thereafter, the full 1,000 forints would be due. After 10 days there could be an additional penalty imposed.

7.4 The Court System

Delinquent solid waste user charges can be collected through the local court system, although using the courts to collect bills is time-consuming because of the courts' workload. It can take the courts a year or more to hear a case and rule on it. Meanwhile, new bills continue to accumulate. Even when the courts rule in favor of the solid waste company, enforcement of the court ruling can be difficult, especially among low-income homeowners. Furthermore, court

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action does cost the company. Company managers must determine whether it is cost effective to use the court system for collecting delinquent bills.

Although there are disadvantages to routinely turning delinquent solid waste bills over to the court, there is a place for such court action. It is cost effective to use the court system for accounts with large outstanding bills, as might occur with large commercial or industrial users.

Newspaper or other publicity regarding legal action taken by the solid waste company to enforce the collection of delinquent bills usually has a positive effect on collection rates overall.

7.5 Individual Collectors

Having individual collectors go to the house or business of a person owing a delinquent bill is often effective in obtaining payment. This is a costly but sometimes necessary solution. Offering a discount for paying a bill directly to the company without using the collector often will encourage individuals to pay the bill immediately rather than waiting until the collector appears.

The usual practice for personal collection of bills is to offer the collector a percentage of the amount received, as a fee for collecting. If the company uses a collector for all bills — not just delinquent ones — a sliding-scale collection fee would be an added incentive for the collector to obtain delinquent payments. The fee should be based on the community's experience in collection. For example, a community that only collects approximately 65% of the bills issued could set the following schedule of fees:

- 2% of the revenue collected from 65% of the customers
- 5% of the revenue collected from the remaining customers.

A community with a higher collection rate should set the higher percentage at the normal collection point.

7.6 Automated Bank Payments

Some banks, upon the request of the depositor, will make payments from a customer's account directly to a public company. Having the banks make the transfer gives the Collections Department more time to invest in enforcement, so solid waste companies should contact the banks in their town and make arrangements for automatic bank payments whenever feasible. In some cases, a bank may have indicated previously that it was not interested in making

automatic payments for solid waste charges because the charges were assessed only twice a year, for example; or because the charges were too small to make it worthwhile. However, it is in the interest of the company to encourage collection through the banks. Therefore, whenever rates increase or the frequency of billing changes, these banks should be asked again if they will offer depositors the service of paying solid waste charges directly to the company.

7.7 Increased Efforts and Planning

Company managers should meet regularly with the revenue collection personnel to discuss the status of unpaid bills and how to collect them. Increased efforts should be planned and new efforts discussed. Ideas that have proven unworkable in the past should be reviewed for changes that might make them effective now.

Collection operations should constantly be looking for effective methods of collecting bills, in the interest of ensuring that the company has the revenue it needs to operate. They should find ways to collect from every user of the service who can afford to pay. The goal of collecting a maximum amount of revenues from a maximum number of users can only be met through enforcement.

7.8 Checklist: Enforcement

1. Has the collections department designed second notices and made them a part of its operations?
2. Has the city government provided social funds to pay solid waste bills? If not, has the company officially requested consideration by the city for such funds? Are low-income users urged to apply for social funds to pay solid waste bills?
3. Have penalties for late payments been instituted? Are discounts for prompt payment offered?
4. Has the idea of individual bill collectors been evaluated?
5. Would use of local courts be effective means to enforce payments?

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6. Are the local banks providing automatic payments to the company for individuals' solid waste bills? If not, have the banks been asked recently to make automatic payments?
7. Does the company hold regular meetings to plan for increased efforts to collect bills?

8. ACCOUNTING, INTERNAL CONTROLS, AND AUDITS

The solid waste company, the city government, and the citizens who generate solid waste and require its collection and disposal, all need to know the full cost of collection and disposal. It is not unusual for the waste producers (citizens and businesses) to be unaware of the total cost of collection and disposal, especially since the user charge for the service does not always pay the full cost. Many times, company administrators and city officials are not aware of the full cost of solid waste services either, because they lack reports showing capital needs. As discussed earlier in this manual, equipment replacement and landfill improvement costs are a part of the total cost of operating a solid waste company even though they may not appear in the company budget. An accounting system must be developed to show the full cost of the operations.

Internal controls also guard against fraud and theft. Outside audits are done only periodically — perhaps once a year — but a good internal control system will provide a daily check on the transfer and reporting of money. Outside independent audits are necessary in order for the financial reports of the company to be accepted by other decision makers, such as the city government, the public, and potential lenders.

No community or company is so small that it cannot have a proper accounting system with controls over the money received to ensure that it is distributed to the appropriate authorities. If an operation is so small that it cannot employ its own personnel to ensure proper accounting, it should consider a contract with a private organization for this function. Independent auditors also should be employed to see that the collection operation is proper, whether the collection is done by a private contractor or by employees of the town or company.

8.1 Accounting System

To reflect the true cost of solid waste operations, the accounting system needs to gather and maintain information related to all the financial activities of the company. Formation of the accounting system should be a joint effort between financial reporting experts and the managers who will need and use the information generated. As an example of such usage, if expenditures exceed the rate anticipated at the time the budget was developed, management needs to know

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in order to bring expenditures in line with the expected budgetary figures. If revenues are not being produced at the anticipated rate, management needs to know this also.

A billing system ensures that bills are issued in a timely fashion. Accurate information must flow from the billing and collection operations to management so that managers will understand the true status. Expenditures projected at the beginning of the fiscal year need to be reviewed if revenues do not meet expectations. If a subsidy will be required of the city government, an early warning of the need for the subsidy can then be forwarded to the city along with the factual data generated by the billing and collections department.

Maintenance of an accounts receivable report is the responsibility of the revenue collection operations. The report needs to show number of outstanding bills and delinquent accounts by classification (residential, commercial, business, industrial, etc.); the amount of money owed and an explanation of the amount likely to be collected within a designated time; how this amount meets the budgetary expectations; and what efforts are being made to collect all outstanding bills.

Financial forecasts are derived from the data in the accounting system. Some automated financial systems can project likely revenues, while other systems only supply data for the revenue collection office to make these predictions:

8.2 Accounting and Administrative Controls

Accounting controls are measures directly related to protecting the company's funds and ensuring the reliability of accounting information. For example, an accounting control may consist of electronic or mechanical cash registers to create an immediate record of payments. This record can be used as a check on the bank deposits. Other controls might be automatic transfers of information to the billing operation for use in the next billing cycle. Automatic bank transfers reduce the probability of error caused by recording the payment two times — once when received and once when notice of the payment is forwarded to the billing operation.

Administrative controls are designed to increase the operation's efficiency. For example, an administrative control report would show the names of people contacted for payment of delinquent accounts along with the number of second notices sent and other relevant facts. These administrative controls are not subject to independent financial audits but are important for management to use in administering the functions of the department.

Revenue-handling operations should be monitored, and both accounting controls and administrative controls should be tested and evaluated periodically. The accounting division

should report to the chief administrator on findings and recommendations for improving the system whenever necessary.

Serially numbered documents should be used and checked from time to time to verify that no documents are unaccounted for. It is particularly important that receipts be numbered and that they be checked regularly for gaps in the numbers.

It is not enough just to design the accounting system well. Employees also must be trained and supervised in operating the system. A well-run revenue collection office selects competent employees, trains them, supervises their activities, and motivates them to perform well.

8.3 Internal Controls

A good internal control system has several basic principles regarding the collection of revenues. These are: proper authorization of transactions, segregation of duties, proper design of documents, security for records, use of sound procedures, evaluation of employee performance, and employment of qualified personnel.

Internal controls — which ultimately tell managers the status of revenue collection — should be designed to check the accuracy of information produced in each part of the operation, to show that all money collected is accounted for, and to verify that the company has been paid all that it is owed.

The billing office should record the amount of cash collected each day, noting the source of the revenue. Mechanical or electronic data entry at the collection offices guards against theft or misuse of the revenue received from customers.

Internal controls can help the revenue office ensure that balances shown on new bills are accurate, thereby preserving the confidence of the public.

Internal controls show the lines of responsibility clearly for each employee and each position. They show who is responsible for performing certain functions and who supervises employees.

Operating procedures should cover each transaction involving the transfer of money. The record should show who authorized the transaction, who approved it, who made the transaction, and who recorded it.

Chapter 8: Accounting, Internal Controls, and Audits

The subdivision of duties is important for internal control. If at all possible within staffing constraints, no one person should be responsible for handling a monetary transaction completely from beginning to end.

The system should be able to verify the accuracy of financial records, thereby protecting assets (cash) from fraud; it also should be ongoing so that it can locate problems long before the annual audit by outside independent auditors. (While a good internal control system is essential, it is not a substitute for an outside independent audit. An audit not only will uncover errors, but also can provide information for the revenue collections office by locating problems. Also, an auditor can suggest possible solutions.)

8.4 Automation

Electronic data processing allows large amounts of data to be handled quickly and efficiently. It also helps keep accounts up to date by way of automatic transfers from one operation to another, such as from cashier to billing operations to accounting ledgers.

Further, electronic data processing makes it easier to produce related data at no additional cost. Once the basic information has been entered, it can be reported in several different ways, depending on the needs of the requestor. For example, managers may wish to know the effect of holidays on revenue collection. They can request information on revenues collected a week before and a week after a holiday. This information is not needed on a regular basis but it is readily available since the computer contains the basic data from which to draw the report.

Under a manual system, it is much more difficult to obtain instant feedback on transactions, or to apply many internal control procedures. Where such a system is the only one available, managers should take special care to develop reports that provide internal controls within the system's limitations.

Electronic cash registers that record money received and customer account data are available. They provide information that can be used in a number of ways. For example, the record of cash received can be forwarded electronically to the person responsible for depositing the money in the bank. If the cash register is capable of providing customer account data, that information can be transmitted to the billing department for use in preparing the next bill. The dates and amounts of money received can be incorporated into a managerial report on revenues. Managers should carefully examine the cost effectiveness of electronic cash registers and their value to the accounting system, internal controls, and audits.

8.5 Checklist: Accounting, Internal Controls and Audits

1. Have accounting and internal control procedures been written?
2. Are employees trained to perform their tasks?
3. Are receipts and other documents serially numbered?
4. Are tasks segregated among the staff?
5. Is automation used to the maximum extent possible?

9. MANAGEMENT INFORMATION REPORTS

Administrators of public or private organizations can only make good management decisions when they have financial data that are current, accurate, and applicable to the issues. Managers of solid waste operations are no exception. They need sound financial data in order to plan for the future operations of the company. Managers need to know the financial condition of the company, the status of cash flow, revenue projections, trouble spots, trends, and the financial impact of earlier decisions regarding organizational and financial matters. Therefore, information from the revenue collection department should be an integral part of the total managerial information system.

The guiding principle in designing a management report is to include information that a manager might need in order to make a decision. Too often, reports are prepared with no consideration given to their use. There is no point in including information just because it is available, or because it was once needed (even though that need has passed). Managerial information reports should be redesigned from time to time to meet the changing needs of the organization. However, they should not be changed so drastically that the information is no longer comparable.

9.1 Revenue Collection Status

The revenue collection office should inform the manager on whether the revenue being received meets the anticipated amounts as outlined in the budget. Reports on expenditures are important and sometimes are the only financial reports sent to a manager. However, when a revenue report is combined with an expenditures report, management gains more complete knowledge of the financial condition of the company.

The revenue collection report should show both the factual data on revenues and a narrative explanation of what the data mean to the operations of the company. It is not enough for a manager to be told that revenues are less than expected. A manager needs input from the revenue collection office on the reason revenue is down, for example, and whether it is likely that the revenue will be received at a later date.

Chapter 9: Management Information Reports

The revenue collection office should clearly mark areas requiring special attention in the revenue report. Managers need assistance in spotting problems that are critical to the operation.

9.2 Cash Flows

Cash flow reports showing actual receipts and sound projections will help managers decide the timing of expenditures. A manager needs to know when a product is ordered that sufficient funds will be available to pay for it.

9.3 Revenue Projections/Trends

It is important for management to know both how much money the company has received and what amount is likely to be received in the near future. Are revenues more or less than expected? What revenues can be anticipated using information gathered from the present data? Personnel in the revenue collection office are the best source of information on what revenue to expect, chiefly because they know about past activities on which to base a comparison. They can detect patterns, another valuable piece of information for management. If the billing and collections office detects reduced collections and anticipates further reductions, it needs to express this finding to management, which can then make spending decisions as well as beginning the search for new revenues.

9.4 Impact of Decisions

One of the most useful managerial reports is one that shows the effect of earlier decisions on the company's operations. For example, a decision to delay a rate increase can have a serious effect on cash flows, funds available for capital expenditures, the need for a temporary loan to pay operating costs, or the financial solvency of the company. A manager needs to know what is likely to happen to the company when certain decisions are made.

A report that shows the impact of decisions is valuable not only to the manager of the solid waste company but to other decision makers, such as the city council and the company Board of Directors. Boards, committees, and individuals responsible for company policy need to understand the full effect of their decisions. Reports like these are particularly valuable when rates are being discussed; the effect of a delay in rate increases needs to be shown in a revenue report.

9.5 Use of Reports

Managers of some companies may require training in the use of managerial information reports if they never received them in the past and so have not had the opportunity to use them.

Managers need to work with revenue collection personnel to design reports that can actually be used. The staff should prepare a complete, annotated list of what items should appear in the report, and the manager should review it and comment. These are essential steps for designing workable, practical reports.

Managers who regularly use managerial information reports will learn how effective they can be in the decision-making process. Likewise, when employees of the revenue collection office see managers using their reports, they will view the reports not as just another task but as an important ingredient in the total operations of the company.

9.6 Checklist: Management Information Reports

1. Does the company supply revenue reports to management along with expenditure reports?
2. Does the billing and collection office add narratives to reports to explain the data?
3. Are the collection office and management spotting trends?
4. Is the collection division drawing management's attention to trouble spots?
5. Are managers using the reports for decision making?
6. Are both the report-preparation staff and the managers who request the reports reviewing them regularly to assess their value?

10. PUBLIC INFORMATION

Citizens can play a valuable role in meeting the goals of sound solid waste collection and disposal. They are more likely to accept and abide by rules and regulations when they understand their value; and if they are aware of the reasons for user fees, they are more likely to pay their refuse bills. Understanding comes about with a good public information program: communications that are understandable, trustworthy, and relevant.

10.1 The Importance of Effective Solid Waste Management

An explanation of the purpose of the company's solid waste operations is the beginning of a good public relations program. Many people have become so accustomed to the service that they hardly give it a thought. The landfill location may be known only to a few citizens who had to go there to dispose of a special solid waste not picked up at the home. Once solid waste has been removed from the house, people forget about it. They generally do not consider the need to protect water supplies or to eliminate breeding grounds for pests until it is brought to their attention. With good information, however, most people easily understand these issues and the importance of a proper landfill. When citizens understand the importance of the refuse collection and disposal service, as well as the need for revenues to support it, the percentage of revenues collected will increase.

Once the public accepts the importance of solid waste management, additional messages can be conveyed. Publicizing the total cost of this service, and the rationale for the user fee, will help users understand why they are being asked to pay the requested fee, and make them more likely to pay regularly and quickly.

10.2 Means of Communication

Communication with the public can occur in several ways. The best communication occurs with good service. Pleasant employees with positive attitudes have an excellent influence on public relations. Furthermore, written communications should be in a form that is easy to read, easy to understand, enjoyable, and factual.

Chapter 10: Public Information

Using the school system is a good way to get citizens involved with the ecological issues of solid waste collection and disposal. School projects such as poster contests encourage sound solid waste practices and bring to many people's attention the concerns of the solid waste company.

Another method of getting information to the public is to produce and distribute leaflets and brochures telling how citizens benefit from the services being performed by the company. Newspapers — and radio and television stations, in communities where they are available — also are a valuable way of communicating with the public. News releases on matters of importance to the solid waste company should be a regular part of the company's public relations efforts.

10.3 Public Relations and the Goal of Reduced Volume of Solid Waste

The revenue collection office, as a part of the overall operations of a solid waste company, shares in the company's desire to reduce the waste stream at the landfill. Offering volume-based rates as an incentive to reduce waste is one way that the collection office can actively participate. Another method for reducing waste is to encourage citizens to voluntarily reduce the amount of solid waste they produce; reusing materials reduces waste volume, as does recycling. The revenue collection administration also can assist in this effort by publicizing how reduced amounts of solid waste affect rates.

10.4 Checklist: Public Information

1. Does the public understand why proper solid waste management is worth paying for ?
2. Has the company explained to the public the cost of solid waste collection and disposal and the basis for fees?
3. Are schools involved with solid waste issues?
4. Has the local newspaper been asked to cover the story of solid waste?

11. EVALUATING THE REVENUE COLLECTION OPERATIONS

Since revenue collection is important to the financial viability of a solid waste company, evaluations should be conducted regularly (e.g., quarterly) to determine whether the goals of the collection office are being met. In addition to reviewing checklists like those at the end of each chapter in this manual, managers of the solid waste company should periodically assess the collection costs, employee performance, and effectiveness of the managerial reports.

11.1 Cost of the Revenue Collection Office

The true cost of the revenue collection operations should be reported, including:

- the direct cost of personnel,
- personnel fringe benefits,
- the cost of supplies and materials,
- the cost of equipment,
- the costs for the use of office space, and
- overhead costs of management.

The financial report of the collection operations should be reviewed by the managing director and by the chief financial officer of the company. This review is helpful in determining the cost/benefit of proposed changes in the operation — for example, if additional personnel are to be hired, or if new technologies, techniques, or procedures are to be introduced.

Especially if any portion of the collection operation is being considered for contracting with a private company, the full cost of the public operations must be known. When company managers review a proposed contract with a private company, they must compare costs. Thus, in addition to the current cost of operation, the financial analysis should include what costs in the public operation could be reduced by a privatization decision. Financial information on the true cost of collection is critical to a sound decision on privatization.

11.2 Evaluation Measurements

The company should evaluate its operations by first establishing standards and measurements that are understood by those performing the work in the office, and then reviewing performance objectively, according to those standards. Personnel always should be told beforehand what is expected of them and how their office will be evaluated.

11.2.1 Objectives

For a performance evaluation to be established, specific objectives for the solid waste organization and the revenue collection office have to be articulated first. These objectives should be realistic and clear. For example, one goal might be to collect an additional 5% of bills owed. That is, if the office is now collecting 75% of the bills issued, a goal of collecting 80% might be considered.

All employees in the collection office should know what the goals are and how their performance on the job will affect attainment of the goals. Evaluations should take place regularly, and the employees told whether the goals are being met.

11.2.2 Performance Standards

Whenever possible, measurable standards should be set in line with the objectives. All personnel should know what they are. For example, there should be a standard for how many solid waste bills are delivered to and collected from property owners. The person responsible for delivery and collection should know how many bills should be delivered within a certain period of time. When the evaluation takes place, supervisors can objectively review whether the delivery and collection of bills is meeting expectations by checking the number of bills actually delivered against the number of bills expected to be delivered as stated in the performance standard.

Other areas for numerical standards are:

- production of bills,
- number of second notices sent for delinquent bills,
- percentage of bills collected without second notices, and
- percentage and amount of revenues collected vs. anticipated.

Performance evaluations should note what efforts are being made to collect bills, including delinquent bills; and the results of that effort in terms of the amount of revenue collected. This combined review of efforts and results will demonstrate the effectiveness of the collection efforts.

11.2.3 Productivity Measurements

Another way to review the operations of the collection office is to analyze the amount of revenues collected in comparison with the amount of money spent for collection. This comparison shows the productivity of the collection operation from a monetary point of view. In addition to the cost analysis, productivity can be measured through the amount of personnel time spent in comparison to the revenue collected. These two productivity measurements will help managers understand how well the collection office is performing; over time, they will also help to identify improvements in the operation and to quantify those improvements.

Companies should measure the number of bills produced as well as those collected. Over a period of time, managers can then observe both changes in productivity and how management decisions affect productivity. For example, the productivity report can show how new billing equipment decreases or increases the unit cost of producing solid waste bills.

11.2.4 Outstanding Bills

The billing office should prepare a report on outstanding accounts for the chief financial officer and the managing director each month, even if the formal evaluation process is only quarterly. Revenue collected from solid waste bills is so important to the company that the amounts collected need to be tracked and reviewed for early signs of problems that can be corrected.

11.2.5 Collection Reports

If managers are to fully understand the financial condition of the company, the billing and collection division must declare the amount of revenues it has collected or realistically expects to collect. Managers should closely examine the reports referred to in Chapter 9 to determine the company's financial condition and whether the revenue collection office is meeting the company's financial goals. Trends should be noted and brought to the attention of the managing director and the chief financial officer.

11.3 The Budget

Management should review the budget for both expenditures and revenues to determine whether the operation is meeting expectations.

11.4 Checklist: Evaluating Revenue Collection Operations

1. Are the costs of the collection office being regularly tabulated and reviewed?
2. Have precise objectives and related standards or targets for the collection office been established?
3. Are all employees in the collection office aware of these objectives and standards?
4. Is the information that is being generated useful in budget and decision making?

APPENDIX A

Types of Organizations Providing Services in Solid Waste Management

Types of Organizations Providing Services in Solid Waste Management

Legal form	Legal status; member's responsibility	Founding; minimum value of capital	Representation	Supervision; auditing	Accounting
Unlimited partnership (KKT)	Not legal entity, unlimited and joint liability	Contribution of assets ¹ ; personal participation	Any member	Member of partnership: audit, getting information	Simplified balance sheet (net revenue lower than HUF 50 M), single-entry bookkeeping
Limited partnership (BT)	Not legal entity, active partner unlimited, jointly and severally with other active members	Other (silent) partner limited to capital provided; otherwise similar to KKT	Active member	Same as KKT	Same as KKT
Limited-liability company (KFT)	Legal entity, member's liability equal to primary stake and pecuniary contributions only	Min. HUF 1 M; if one owner establishes document, total capital should be paid	General meeting, (founder), manager(s)	Supervisory board (above HUF 20 M primary capital, or 25 members) ² ; auditor (above HUF 50 M primary capital)	Simplified/yearly reports, double-entry bookkeeping
Company limited by shares (RT)	Same as KFT	Min. HUF 10 M; capital consists of shares; closed or opened; might be one-man company	General meeting, (founder), board of directors, directors, president	Supervisory board, auditor	Yearly reports, double-entry bookkeeping

¹Assets generally are: cash, pecuniary contributions, property rights.

²Supervisory board is compulsory when number of full-time employees is above 200.

Types of Organizations Providing Services in Solid Waste Management (continued)

Legal form	Legal status; member's responsibility	Founding; minimum value of capital	Representation	Supervision; auditing	Accounting
Union	Legal entity; members bear unlimited, joint, and several liability	Legal entities	Board of directors, director	Supervisory board, auditor	
Joint enterprise	Legal entity, joint liability as guarantor	Registered capital and other assets provided by its members	Board of directors, directorate, director	Supervisory board	Simplified/yearly reports, double-entry bookkeeping
Cooperative	Legal entity, members provide pecuniary contribution		General meeting of the cooperative, directorate	Supervisory board	
Nonprofit company	Legal entity	For public purposes, based on company contract; same as KFT, with exceptions defined by Civil Code	Assembly on the contract, otherwise same as KFT	Supervisory board, auditor	Same as KKT
Entrepreneur	Not legal entity, unlimited liability	Entrepreneurial document			Simplified bookkeeping
Association	Legal entity, without members' liability	Social organization	Assembly, president		
Foundation	Legal entity, founder provides pecuniary contribution		Kuratórium		

Types of Organizations Providing Services in Solid Waste Management (continued)

Legal form	Legal status; member's responsibility	Founding; minimum value of capital	Representation	Supervision; auditing	Accounting
Municipal budgetary organization	Legal entity, independently responsible	Founded by the local government for public purposes	Manager of the budgetary organ	Local government as founder	Budget, report, budgetary basis double-entry bookkeeping
Local government	Legal entity		Council, mayor, notary (CAO)		Budget, report, budgetary basis double-entry bookkeeping

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