Findings of the APDA Debt Committee

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Overview

Debt would seem to be a zero-sum game: any benefit the debtor gets from not paying comes at the creditor's expense, and any benefit the creditor gets from collecting comes at the debtor's expense.

This, at least, has been the philosophy that's influenced most of the past debates about debt on APDA. Any time a proposal that would improve debt collection comes up for debate, it has been voted down by schools that are currently net debtors; any proposal that would require leniency in collection is voted down by net creditors.

The APDA Debt Committee believes this assessment is too simplistic, for several reasons. First of all, some schools rely on debt collection to fund their participation in other tournaments; if a tournament like Bucknell finds itself unable to collect its debt, it may go bankrupt and no longer be able to compete. We believe this is intrinsically bad, as it makes APDA unaccessible to people from that school.

Second, schools use the fact that they are taking in money—from, for example, their tournament—to demonstrate their solvency when trying to raise money from other sources. Thus, on average, paying \$100 in debt costs the debtor \$100 but increases the funding of the creditor by more than \$100.

Third, unsuccessful debt collection encourages tournament to raise registration fees in the hope that they'll be able to make more money from those teams that do pay. This amounts to a tax on responsible teams.

All members of our committee—those from the North and South, from large schools and small—therefore agree that it would be better for schools to be able to collect more of their debt[1].

Reducing incurred debt

The first way of reducing the amount of debt that needs to be collected is reducing the amount of debt that's incurred in the first place. There are a number of ways the league could do this.

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[1] This is not a claim about collecting any *particular* debt—all of us agree there are situations in which debt forgiveness is justified or even morally obligatory. Our belief is merely that were we to be able to choose between a league with more debt collection and a league with less debt collection, we should on average favor the former.

Mandatory registration fee caps
One way to make it easier for teams to pay for tournaments would be to forcibly lower registration fees across the board.

This solution was rejected by the committee for several reasons:

1. Many tournaments have extremely high fixed costs and could not operate under any sort of binding reg fee caps.

2. If the league decided to make a policy of granting exceptions, it would either have to make many (in which case the process would become extremely political) or few (in which case some schools that genuinely need to charge higher reg fees would not be allowed to).

3. Because tournaments have non-zero fixed costs, a reg fee cap would reduce every team's budget to the point that it was less financially capable of sending as many teams to tournaments as before, even under the lower reg fee regime[2]. Thus total team wealth[3] across all schools would be higher under a system in which tournaments are free to set their own registration fees.

Each tournament has unique reasons for charging the registration fees that it does, and we believe that tournaments are better at making this decision than the board or the APDA body.

Binding registration fee promises
Why should we trust teams to set their registration fees at a level that optimizes league wealth? The short answer is that in the status quo we shouldn't.

Tournaments in the status quo—especially unopposed tournaments—have tremendous pricing power, more like a monopoly than a competitive actor. We strongly believe, therefore, that tournaments should be required to indicate their maximum registration fee (MRF) when bidding for a tournament. These MRFs should be posted publicly on the forum by the board upon receiving all bids. Tournaments that violate their MRF promise should be penalized during scheduling.

This process will have many benefits:

1. Tournaments will reduce MRFs in an attempt to get a better weekend.

2. The transparency of MRFs will provide a check on the board during scheduling and help the body overturn schedules that do not provide adequate opportunities for inexpensive debate.

3. Teams will be better able to budget for the term.

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[2] This analysis would only apply to teams with tournaments. The intuition is this: holding outside funding sources constant, if all tournaments charge registration fees of $100 per team, and all have expenses of $20 per person, a binding reg cap of $20 would mean that no tournament ever made any profit, and as a result, the team would have no surplus money to spend on registration fees for other tournaments.

[3] Wealth here refers to the purchasing power of teams, not the quantity of money they have.

We also believe there should be an established mechanism for teams to indicate whether tournaments have refused to give them registration breaks when in need. One model would be the “comment period” currently used for EOF applicants: after MRFs were posted to the forum, teams could submit comments to the board about how they feel they have been dealt with in the past.

Increasing debt transparency

One of the core problems of debt in the status quo is that they are mostly a secret. As a consequence, the following scenarios are unnecessarily common:

- A tournament suspects a team is lying when it claims to be in great debt and thus refuses to provide a large registration break
- A pay-to-play tournament that runs at a loss incorrectly believes that a deadbeat team is good for its debts and thus grants it a one-time exception to the pay-to-play policy. The tournament never gets paid and therefore loses even more money.
- A team that has a slow administration would like to pay back its debts but would find it easier to engage in a registration swap than to cut individual checks. In reality, the team is part of a cycle of debts between three or four schools, but because the team doesn’t know this, it can’t engage in a multi-way reg swap.

All of us agree, therefore, that the league would be better off if more debts were made public. There are several ways to achieve this.

A reward system
In the status quo, teams voluntarily disclose debts when it is to their financial advantage. To encourage teams to report debts publicly, the league could provide incentives to do so—a break on APDA dues, a favored scheduling position, etc. We believe these rewards would either be too small to influence teams’ behavior, or so big they eclipsed other more important league priorities (e.g. awarding tournaments to centrally-located schools, having enough funds to pay for OTY trophies, etc.).

Even if it were possible to encourage teams to post their debt information, however, we believe there are many reasons to believe these data would be fundamentally flawed:

1. Typos, out-of-date information, and other accidental errors would be extremely common.
2. Teams would have an incentive to list debts for friendly teams or politically well-connected teams as lower than they actually are. This would undermine the trustworthiness of the system.
3. If the league decided to enforce data integrity, it would require a huge amount of policing.

A punishment system
Instead, the league could force tournaments to make debts public and impose punishments if they didn’t. We believe, however, that these punishments would never be politically palatable

enough to actually be enforced (much as desanctioning is in the status quo), and that even if they were the data would suffer the same problems listed above.

A disconnected incentive system

The only plausible way to encourage teams to list their debt information and do it honestly, we believe, is to provide concrete incentives that are only available to teams that do. We explore some possible incentives later in this report.

Making debt information useful

Processing reams of debt information is not just mind-numbing, it's also not clear what the best distillation of the information would be. We believe a piece of software would be ideal for easily calculating relevant data such as: average time to pay back a debt, percentage of total debt ever paid back, percentage of debts paid back late, etc.[4]

But we still believe it's important to have a single single credit score that would allow tournaments to make distinctions in a predictable and league-approved way, rather than arbitrarily discriminating against teams they didn't like under the excuse of "we kind of thought your debt history was bad." One method of calculating a unified credit score is provided in the appendix; other methods are also possible.

Permissible uses of debt information

Supposing it is possible to have a system that accurately records debts, we believe tournaments should be allowed to do the following with this information:

1. Implement a *partial* pay-to-play system, announced well in advance, that would require teams with credit scores below a certain level to pay in advance if they wanted to compete.

2. Prioritize teams with good credit scores on the waitlist for a tournament with a team cap.

3. Give discounts to teams with good credit scores.

Encouraging debt payment via an online system

If all debts were recorded online, credit scores would be an incentive in themselves; schools would want to pay debts because of the adverse effects listed above. Most of us believe, however, that APDA should not require tournaments to participate in this system.

A voluntary solution

The appropriate solution, we believe, is for teams to have the choice to use a free online system for tracking debts. The system would work something like this:

- A laptop at a tournament's registration table would permit teams to agree, in person, to the debt they were taking on at the tournament. All relevant details would be included: due date, late fees, etc.

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[4] We furthermore believe this data should not be available to the public, but only to members of APDA teams.

- Teams could pay their debts online (via credit card or PayPal) or by check or reg swap (at the tournament or later). If a team opted for check or reg swap, the creditor would be expected to indicate the debt had been paid within, say, a week, on the website. If the team paid electronically, the debt would be instantly recorded as paid.

- Tournaments would only be allowed to use the information as described above if they used the online system.

Preventing score inflation
Any system that doesn't require teams to pay online will require human intervention when recording payment of debts. This opens up a major avenue for abuse, where teams "pump up" the credit scores of their friends by recording nonexistent reg swaps as having been paid, or recording debts as having been paid before they actually have. We believe these abuses can be curtailed in several ways:

- Allow, say, three schools to petition for an audit of any transaction. The investigation would be carried out by the VP Finance or another member of the board.

- Failure to comply with an investigation, or failure to provide evidence documenting a transaction, would result in a major penalty to the fraudulent school's credit score.

- A self-executing rule could also be enacted, such that the VP Finance finding a school to have failed to accurately document its transactions would automatically trigger a fine for that school to be paid to the APDA general fund.

- Punishments could be overturned by 2/3 vote of the APDA body.

Increasing debt collection via other means
So far we have discussed various ways to reduce the burden of debts on schools, and ways to ensure that the debt framework that exists is one that encourages teams to pay. We now turn our attention to what happens when teams don't pay.

Multi-way debt swaps
The most uncontroversial proposal we advocate is this: given a system that tracks debts online, it should be possible to organize multi-way debt swaps. A piece of software could easily determine which schools should mutually cancel debts through an invisible debt swap that might entail three, four, or more teams.

We believe that such a system will help in the collection of smaller debts, which teams often find not worth the trouble of following up on. It will also mean debts don't have to be processed through slow administrations.

A board mandate
One solution would be to vest power in the board, or a committee appointed by the board, to hear debt complaints and require payment of debts. These complaints might carry fines or other penalties (such as the inability to compete at Nationals), and would be subject to appeal to the body.

Many of us believe this system would be undesirable. Political conflicts would likely dominate proceedings, with the result that small schools would rarely be able to collect against established ones. Moreover, it is not clear to us that any group of people without subpoena power would be able to determine how desperate a team's circumstance was when deciding cases, meaning decisions either would have to be based on how desperate a team's circumstances *seem* (something possible to fake) or would have to disregard teams' circumstances in assigning penalties (a heartless position that would almost certainly result in "nullification" by people on the panel chosen to hear complaints).

Voluntary cartels

A previous debt proposal has revolved around the idea of teams entering into cartels, such that if a team was in debt to one member of the cartel, it would not be allowed to compete at tournaments run by other members of the cartel. We believe there is nothing in principle wrong with this idea, but believe that practical problems (such as teams defecting from agreements, and major disputes about whether a debt had been paid or not) might keep such a system from working effectively. We did not reach a consensus as to whether such a system would be preferable to the status quo.

Binding one-time agreements

The solution we arrived at is a voluntary, enforceable agreement system:

- The board or APDA body would agree upon a set of reasonable potential punishments that teams could agree to. These might include fines to be paid to the APDA body, an inability to vote at Elections, or a credit score reduced more than usual. A bylaw would be required to make such agreements supersede existing regulations.

- At the time a team arrives at a tournament, it would be allowed—but never forced—to accept a bill that included an APDA-enforceable promise to pay and enumerated a specific punishment for failing to do so.

- In the event that the team did not pay by the agreed-upon date, the creditor could bring a complaint to a panel[5]. The panel would accept documentary evidence from both sides. A finding of "failure to pay" would automatically carry the punishment the team accepted when it agreed to the bill.

- In exchange for a a much higher certainty of being paid under such a system, host tournaments would offer discounts to encourage teams to choose APDA-enforceable debts.

- Such agreements could be made either electronically, through a system like the one described above, or on paper[6].

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[5] One way of choosing such panels might go as follows: the VP Finance, as well as four other people approved by 5/6 of the board, would be initially empaneled. Each side to the dispute would be allowed to strike one of the panelists. If either or both sides chose not to use their strikes, three of the remaining panelists would be randomly selected to comprise the final panel that heard the dispute.

[6] Paper agreements would be required to follow one of several standard templates approved by the board.

We believe this system would benefit both parties: the creditor because he has a greater certainty of being paid, and the debtor because he receives a lower registration fee[7]. Moreover, such a system would, in these particular cases, remove the question of the body's legitimacy in arbitrating debt disputes.

Conclusions

We strongly believe a multi-pronged approach to debt will be the best way to reduce it.

Registration fees are too high because there is no competitive pressure; introducing competitive pressure through binding MRFs will help. Teams in the status quo are too stingy with registration breaks for needy schools; a comment period prior to scheduling will allow the board to use this information to influence scheduling.

Tournaments are too loose or tight with credit because they don't know the creditworthiness of the teams they deal with; a public debt system will solve such concerns. Noncoercive means can provide a sufficient incentive for teams to join such a system.

Finally, teams in the status quo have no incentive to pay debts other than for a sense of duty or to preserve their reputation; offering discounts for teams that have shown they are good for their debts, or who back up their promises with the possibility of punishment, will encourage teams to pay debts and will mean they have to pay less when they do so.

We recommend the body indicate its approval for some or all of these solutions so that interested volunteers can begin developing those systems that enjoy popular support.

—The APDA Debt Committee

April 16, 2008

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[7] Such a system would not hurt teams that did not agree to it; tournaments would still be bound by their MRFs, which would be the maximum registration fee charged to teams that did *not* agree to APDA-enforceable debts.

Appendix: Assessing Trustworthiness

Calculating a credit score

This appendix enumerates the goals of a fair credit score and proposes one mechanism for calculating one.

Goals

We believe a team's credit score should be weighted using the following criteria:

1. Scores should always improve when a debt is paid.

2. Scores should be hurt more for older debts than newer debts.

3. Scores should be hurt more for bigger debts than smaller ones.

4. Debts should not be included in scores after some "statutory limit."

A possible formula

One way of incorporating these values into a single score is shown below:

$$CS = 425 \cdot \frac{\sum_{i=1}^{N} \left[x_{i,\,total} \left(1 + \frac{x_{i,\,paid}}{x_{i,\,total}} - \sum_{j=1}^{M} \left(\frac{x_{ij,\,unpaid}}{x_{i,\,total}} \cdot \frac{t_{ij,\,late}}{T_{sl}} \right) \right) \right]}{\sum_{i=1}^{N} x_{i,\,total}}$$

Here, a team has N debts. Each debt has a paid portion ($x_{i,\ paid}$) and M unpaid portions ($x_{ij,\ unpaid}$). The sum of the paid portions and all unpaid portions equal the total for that particular debt ($x_{i,\ total}$). Each unpaid portion of debt is some number of weeks late ($t_{ij,\ late}$). Finally, the statutory limit (in weeks) is T_{sl}. Debts are only included in the score once they have exceeded their due date.

The formula produces a number between 0 (a team that has never paid any debts for years) and 850 (a team that has paid all debts in full).

Examples

Here are some examples of credit scores for teams in various circumstances, assuming a statutory limit of 2 years:

- School has paid all its debts in full. **Score:** 850

- School has only ever taken on one debt (total amount: $500). It has paid $350, and the remaining $150 is 1 week late. **Score:** 721

- School has only ever taken on one debt (total amount: $500). It has paid $250, and the remaining $250 is 10 weeks late. **Score:** 617

- School has only ever taken on one debt (total amount: $500). It hasn't paid any, and it's 26 weeks late. **Score:** 319

- School has taken on two debts. The first (total amount: $1000) it has paid back in full. For the second (total amount: $500), it has paid $350, and the remaining $150 is one week late. **Score:** 807

- School has taken on two debts. The first (total amount: $1000) it has paid back in full. For the second (total amount: $500), it has paid $250, and the remaining $250 is 10 weeks late. **Score:** 772.

- School has taken on two debts. The first (total amount: $1000) it has paid back in full. For the second (total amount: $500), it hasn't paid any, and it's 26 weeks late. **Score:** 672

- School has taken on three debts. For the first (total amount: $2000), it has paid back all but $500, which is 20 weeks late. For the second (total amount: $1200) it has paid $1000; of the remaining $200, $100 is 2 weeks late and $100 is 10 weeks late. **Score:** 726

Concerns
One concern is that this scoring system makes small debts owed to small tournaments relatively minor, and therefore doesn't provide a sufficient incentive to pay them. This has some truth to it, but the relevant reason is that the debt is small, not that it's owed to a small school. More importantly, it's easier to pay off small debts than large ones, so a team that's concerned about it's credit score would have proportionally less incentive *and* less trouble paying a small debt, making the chance of it being paid back essentially the same as a large debt.

Another concern is that the statutory limit encourages teams to "run out the clock" on their debt if they're very far behind, since it will no longer hurt their score if they can manage to hold off the creditor for a few weeks longer. This is true. The effect can be mitigated by making the statutory limit longer so that the debtor suffers the adverse effects of a low credit score for longer. It could also be an argument for getting rid of a statutory limit.