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Debt Collection (DOR -- Tax Administration)

[LFB 2005-07 Budget Summary: Page 430, #3]

CURRENT LAW

Under current law, the Department of Revenue (DOR) is authorized to offset against state tax refunds amounts owed for state taxes, debts to state agencies, delinquent child and spousal support and maintenance payments, and municipal fines, fees, and forfeitures. The Department is also allowed to enter into an agreement with the federal Internal Revenue Service (IRS) to offset state tax refunds against federal tax obligations, if the IRS offsets federal tax refunds against state tax obligations. The administrative costs of collecting debts owed to state agencies and local units of government through offsets against tax refunds are funded through the debt collection appropriation. The source of revenue for the appropriation is an administrative charge imposed on state agencies and local government units. Currently, DOR retains 2% of the amount of debt for administrative costs. The year-end unencumbered balance in the appropriation lapses to the general fund.

GOVERNOR

Reduce annual expenditure authority by $31,100 PR in the debt collection appropriation, and require the Secretary of Administration to lapse that amount each year from the appropriation to the general fund. In addition, delete $56,400 GPR and 1.0 GPR position annually from DOR's general program operations appropriation and provide annual expenditure authority of $39,200 PR and 1.0 PR position under the debt collection appropriation, to convert a revenue tax specialist position to a financial specialist position. Estimate the total lapse to the general fund from the debt collection appropriation to be $281,000 in 2005-06 and $309,500 in 2006-07.

DISCUSSION POINTS

1. Under the debt collection program, state agencies and county and municipal governments certify debts owed them by taxpayers to DOR. The Department then intercepts any tax refunds determined for debtor taxpayers, and remits them to the agency or local government to apply to the debt. Base level expenditure and position authority for the debt collection appropriation is $461,300 PR and 5.5 PR positions.

2. The table below shows program statistics for the debt collection program from state fiscal years 2000 through 2004. The table shows the number of debt files, total amount of debts, the number refunds intercepted, and the amount of refunds intercepted.

Fiscal Year	Debts on File	Percent Change	Amount of Debt	Percent Change	Refunds Intercepted	Percent Change	Amount Intercepted	Percent Change
1999-00	340,280		$1,850,818,472		54,167		$13,447,496	
2000-01	362,178	6.4%	2,362,162,102	27.6%	54,357	0.4%	17,647,152	31.2%
2001-02	343,094	-5.3	2,741,379,278	16.1	70,811	30.3	23,090,126	30.8
2002-03	458,071	33.5	3,379,038,602	23.3	92,086	30.0	28,447,368	23.2
2003-04	741,496	61.9	2,880,595,471	-14.8	137,139	48.9	32,419,026	14.0

3. There are 4.5 permanent positions allocated to administer the debt collection program through refund offsets for other agencies, local governments, and the IRS. Their activities include reviewing tax returns, corresponding with taxpayers and governmental units, providing taxpayer assistance, and preparing debt invoices. There is also 1.0 position in the Office of Technology that is responsible for executing business process and application design, development, testing, implementation, and maintenance of data processing tax systems.

4. DOR has submitted a request to DOA, under s. 16.515 for: (a) one-time expenditure authority of $120,500 PR in 2004-05 for information technology system and software redesign; and (b) annual expenditure authority of $27,500 beginning in 2004-05 for limited-term employee (LTE) salaries and fringe benefits to address an increased workload. To date, the request has not been submitted to the Joint Committee on Finance.

5. One-time funding would be used to upgrade the debt collection program information processing system. The current system was initially developed twenty years ago and has been upgraded through incremental improvements. A number of processes require intervention by DOR or client agencies to operate. In addition, the web-based application component requires maintenance and renovation to comply with development standards. The Department would use the additional funding for contract services and would also reallocate resources to conduct a project to overhaul the debt collection information system. The entire cost of the contract ($93,000) would be paid in 2004-05. This portion of the request would not interact directly with provisions included in AB 100, and is not included in following analysis.

6. The second part of DOR's request is an annual increase in expenditure authority of $27,500 PR for LTE salaries and fringe benefits, to address an increasing workload. The table below shows the annual workload, in terms of hours allocated to certain activities, for fiscal years 2000 through 2004, for the 4.5 positions authorized for these activities. The table shows that there has been a significant increase in hours worked since the 1999-00 fiscal year. Workload changes in individual years have been somewhat erratic.

	Hours Worked			
Fiscal Year	Reviewing Returns and Correspondence	Taxpayer Assistance and Other Activities	Total	Percent Change
1999-00	5,075	2,512	7,587	
2000-01	5,506	3,787	9,293	22.5%
2001-02	5,396	3,796	9,192	-1.1
2002-03	7,910	4,482	12,392	34.8
2003-04	6,830	5,809	12,639	2.0

7. The Department estimates that total workload for the debt collection program will increase 9% in 2004-05, and continue at least at that level during the 2005-07 biennium. Allocating the total 2004-05 projected workload to existing permanent positions and LTEs results in an excess of approximately 2,600 hours over available staffing. If the additional hours are multiplied by the average LTE hourly rate and associated fringe benefits, the calculation generates a need for an additional $27,500 in expenditure authority. If this increased expenditure authority is approved it would reduce the lapse to the general fund by $27,500 in 2005-06 and 2006-07. The workload table shows that in two out of the last four years the annual change in workload has either been negative or substantially less than the projected 9% increase for 2005-06. As an alternative, the additional expenditure authority could be deleted and the workload could be absorbed by existing staff.

8. Under AB 100, annual base level expenditure authority would be reduced by $31,100 PR, and that amount would be lapsed from the debt collection appropriation to the general fund. The annual expenditure authority reduction includes $2,700 for LTE and related fringe benefits, $20,300 for supplies and services, and $8,100 for permanent property.

9. The bill would also delete $56,400 GPR annually and 1.0 GPR position and provide $39,200 PR and 1.0 PR position annually to convert a revenue tax specialist position to a financial specialist position funded by the debt collection appropriation. The position would be provided to meet additional workload that would be generated by provisions that are included in AB 100 that would expand and modify the debt collection program. The proposed changes to the debt collection program included in the bill are as follows:

a. *Disbursement Offset Program.* The Department of Administration would be authorized to reduce a state agency disbursement (other than entitlements or student aid payments) by the amount owed to a state agency, or municipal or county government that would qualify for offset under the tax refund offset program. DOA would reduce a disbursement by the amount of debt, and remit that amount to DOR. DOR would settle with each state agency, municipality or county in the same manner as it settles for tax refund offsets. The additional workload associated with administering this program would include verifying debt balances between state agencies, disbursing agencies and taxpayers, establishing a billing process, and developing an accounting system.

b. *Disclosure of Information.* Local governments would be authorized to submit debts for refund offset using the debtor's driver's license number, in addition to the current use of social security numbers. DOR would develop a system for matching driver's licenses, social security numbers, and debtors.

c. *Modify the Judgment Requirement for Setoffs.* State agencies would be authorized to refer amounts owed to DOR for offset, if the agency afforded the debtors a due process opportunity to contest the debt, in addition to the current requirement that the debt must be reduced to judgment before it can be referred to DOR for offset. The number of debt referrals would increase, but the Department would absorb most of this additional workload.

10. The position conversion is to address additional workload caused by changes to the debt offset program that have not yet been enacted. The primary purpose for providing the additional position is not to address existing workload. The Department has submitted a separate request under s.16.515 to address current workload increases. Since the position is provided for anticipated workload increases, the annual expenditure and position authority of $39,200 PR and 1.0 PR position could be deleted. If the program changes are enacted, DOR could submit a s. 16.515 request for additional resources. At that time, the Department would have better information about potential workload increases.

11. As noted, the unencumbered year-end balance in the debt collection appropriation lapses to the general fund. The bill includes an estimated total lapse that does not reflect the additional expenditure and position authority in the debt collections appropriation. Consequently, if the Governor's recommendation is approved, annual amounts to the general fund would decrease by $39,200. If the expenditure and position authority is deleted, no adjustment to estimates of amounts to the general fund would be necessary.

ALTERNATIVES

1. Adopt the Governor's recommendation to: (a) reduce annual expenditure authority by $31,100 in the debt collection appropriation and require the Secretary of Administration to lapse that amount each year from the appropriation to the general fund; and (b) delete $56,400 GPR and 1.0 GPR position annually and provide annual expenditure authority of $39,200 PR and 1.0 PR position under debt collection, to convert a revenue tax specialist position to a financial specialist position. Reestimate GPR-Earned to be $241,800 in 2005-06 and $270,300 in 2006-07.

Alternative 1	GPR-REV
2005-07 REVENUE (Change to Bill)	- $78,400

2. Modify the Governor's recommendation to delete annual expenditure authority of $39,200 PR and 1.0 PR position under debt collection.

Alternative 2	PR
2005-07 FUNDING (Change to Bill)	- $78,400
2006-07 POSITIONS (Change to Bill)	- 1.00

3. Delete annual expenditure authority of $27,500 PR from the debt collection appropriation.

Alternative 3	GPR-REV	PR
2005-07 REVENUE (Change to Bill)	$55,000	
2005-07 FUNDING (Change to Bill)		- $55,000

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