Revenue

Tax Administration

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May 25, 2023 Joint Committee on Finance Paper #670

Revenue Agent Positions
(Revenue -- Tax Administration)

[LFB 2023-25 Budget Summary: Page 542, #4 and #1 and Page 543, #2]

BACKGROUND

The Department of Revenue (DOR) is statutorily authorized to supervise, administer, and enforce state tax laws. Under this authority, DOR administers a number of auditing programs within its Division of Income, Sales, and Excise Tax (IS&E). In 2021-22, DOR's Audit Bureau issued audit assessments of $419.9 million, of which $305.0 million was collected by the Audit Bureau. An audit assessment is considered unpaid by the taxpayer after 72 days, after which the assessment is transferred to DOR's Compliance Bureau as a delinquent tax bill. In 2021-22, DOR's Compliance Bureau collected delinquent tax revenues of $290.3 million. The Audit Bureau's average front-line audit staffing level was 375 positions. The average front-line staffing level of delinquent tax collection agents in the Compliance Bureau was 161 positions in 2021-22.

Under 2013 Act 20, 33 GPR project positions were provided to DOR's Audit and Compliance Bureaus from October 1, 2013, through September 30, 2017, to increase enforcement of state tax laws based on a backlog of federal audit reports. Of these positions, 18 were provided to the Audit Bureau and 15 were provided to the Compliance Bureau. The day after expiration of the 33 project positions, 2017 Act 59 provided 38 new GPR project positions to DOR from October 1, 2017, through September 30, 2021, to increase auditing activity and improve tax collections. The 2019-21 biennial budget act (2019 Act 9) extended the expiration of these positions another four years, from September 30, 2021, to June 30, 2025.

DISCUSSION POINTS

1. The state and federal tax systems generally rely on voluntary compliance by individuals and businesses to timely and accurately report and remit taxes owed. Tax audits help establish and maintain tax compliance. Audits directly raise revenue through the assessment of additional taxes,

interest, and penalties on audited persons. In addition, the presence of effective audits in the state can positively affect an audited taxpayer's likelihood of complying in the future and the likelihood that non-audited taxpayers will voluntarily comply with tax law.

2. The 38 project positions authorized under 2017 Act 59 consist of: (a) 17 audit revenue agent positions and one supervisor position in the Division's Audit Bureau; and (b) 19 delinquent tax collection revenue agent positions and one supervisor position in the Division's Compliance Bureau. Compared to the 33 project positions that expired under 2013 Act 20 on September 30, 2017, Act 59 effectively extended this project position authorization and added an additional five positions within the Compliance Bureau. Expiration of these positions is estimated to reduce state tax revenues by $39.3 million annually, beginning in the 2025-27 biennium.

3. Under AB 43/SB 70, the Governor recommends converting the 38.0 Act 59 project positions to permanent positions. Current funding of $2,017,500 GPR for position salaries and $842,100 GPR for fringe benefits, annually, would be maintained. The Governor also recommends providing $677,300 GPR in 2023-24 and $827,500 GPR in 2024-25 and 11.0 delinquent tax collection agents annually to enhance delinquent tax collection efforts. Enhanced tax enforcement activities that are performed by these 11.0 positions are estimated to increase general fund tax collections by $4.0 million in 2023-24 and $16.1 million in 2024-25.

4. This paper provides an overview of DOR's Audit Bureau and Compliance Bureau and a subsequent analysis of the provisions of AB 43/SB 70 that would affect staffing levels of auditors and revenue agents at these bureaus.

Audit Bureau

5. DOR's Audit Bureau staffing is configured so that each revenue auditor and agent position focuses on a specific tax type. As of July, 2022, the Audit Bureau had 424 staff. Front-line audit staffing consisted of: (a) 98 individual income tax auditors and agents; (b) 106 sales and use tax auditors and agents; (c) 79 corporate income/franchise tax auditors; (d) 78 pass-through entity auditors and agents; and (e) 12 audit selection specialists and interns. The Audit Bureau also had 51 non-revenue generating positions in July, 2022, consisting of 40 supervisors and managers, eight automation specialists, and three support staff. Of the 18 Audit Bureau project positions provided to DOR under Act 59, one is a sales and use tax revenue agent and the remaining 17 are revenue agents located within the individual income tax section.

6. DOR indicates that revenue agents within the Audit Bureau address less complex tax compliance issues than auditors, and the positions are generally assigned to a specific tax. Revenue agents focus on underreporting and non-filing, primarily for the individual income tax, but also work on corporate income/franchise and sales and use taxes. These individuals adjust individual income tax returns for tax due based on audit reports from the Internal Revenue Service or information from other agencies or states. The agents also conduct simple audit projects selected through DOR's data warehouse. These staff assist in processing tax returns and provide customer service during tax filing periods. Audit revenue agents require four months of training, including two months of classroom training and two months of on-the-job training with supervisors and reviewers. DOR states that it usually takes six to nine months for revenue agents to be fully productive. The financial and audit skills of an auditor are not required to perform these activities.

7. Table 1 shows the average front-line audit staffing level and the annual amount of audit assessments and collections over the past six fiscal years. Between 2016-17 and 2019-20, audit assessments increased 83% and audit collections increased 75%. Although audit assessments and collections have been declining since 2019-20, DOR indicates that this decline is temporary, due to reduced audit activity during the COVID-19 pandemic, higher than usual turnover for auditor positions, and two large corporate income/franchise tax audits that significantly enhanced collections in 2019-20 and 2020-21. Despite recent declines, assessments and collections in 2021-22 were 10% and 23%, respectively, above 2016-17 levels. DOR indicates that the average front-line audit staff includes vacant positions, and attributes the decline in the number of front-line staff since 2018-19 to: (a) three positions that were moved to the Customer Service Bureau; (b) two positions that were moved to non-revenue generating positions in the Compliance Bureau; (c) two revenue tax specialists that were given new titles of staff development program specialists and are no longer included in the count of revenue-generating positions; (d) two positions that have been on loan to IS&E Administration since 2019-20; and (e) one position that was deleted as a vacant position in the 2021-23 biennial budget.

TABLE 1

Audit Assessments and Collections: 2016-17 through 2021-22 ($ in Millions)

Fiscal Year	Average Front-Line Audit Staff	Audit Assessments	Average Assessment per Auditor	Audit Collections	Average Collections per Auditor
2016-17	374	$382.3	$1.02	$247.2	$0.66
2017-18	374	520.3	1.39	236.3	0.63
2018-19	385	587.1	1.52	288.1	0.75
2019-20	378	698.4	1.85	431.8	1.14
2020-21	375	683.6	1.82	385.9	1.03
2021-22	375	419.9	1.12	305.0	0.81

Source: Department of Revenue

8. Table 1 demonstrates that audit assessments exceeded audit collections in each fiscal year. One reason for this is that approximately 10% of assessments are appealed and can potentially be reduced upon appeal. Another reason is that some of these assessments are not paid on time and thus become delinquent taxes owed. The payment of delinquent assessments is credited to the Compliance Bureau upon collection.

9. Tables 2 and 3 provide additional detail regarding DOR audit activity by tax type. Both tables show that corporate audits have historically generated the largest share of audit assessments and collections, followed by sales and use tax audits, individual income tax audits, excise tax audits, and other audits. The "other" category represents estate, fiduciary, and withholding tax. As mentioned previously, DOR's reduced auditing activity during the COVID-19 pandemic mainly impacted individual income and sales and use tax audits, and can be observed in the decline in audits and collections from those categories since 2018-19.

TABLE 2

Audit Assessments by Tax Type: 2016-17 through 2021-22 (Millions)

Fiscal Year	Individual Income	Sales and Use*	Corporate*	Excise	Other	Total
2016-17	$52.6	$112.0	$213.2	$3.5	$1.0	$382.3
2017-18	56.5	115.0	344.2	4.4	0.2	520.3
2018-19	59.5	247.5	274.2	5.7	0.2	587.1
2019-20	48.6	178.5	463.2	7.4	0.7	698.4
2020-21	42.2	144.8	493.4	3.2	-	683.6
2021-22	45.6	125.4	245.4	3.5	-	419.9

*Nexus audit assessments are included in "Corporate" and "Sales and Use" assessment data.

Source: Department of Revenue

TABLE 3

Audit Collections by Tax Type: 2016-17 through 2021-22 (Millions)

Fiscal Year	Individual Income	Sales and Use	Corporate	Excise	Nexus	Other	Total
2016-17	$16.6	$66.4	$132.2	$3.3	$28.0	$0.7	$247.2
2017-18	21.0	83.0	87.0	0.7	44.4	0.2	236.3
2018-19	22.2	110.1	94.0	1.1	60.5	0.2	288.1
2019-20	15.5	76.1	285.0	2.6	52.2	0.4	431.8
2020-21	13.7	103.5	224.9	3.3	40.5	-	385.9
2021-22	14.7	72.0	167.8	2.1	48.3	0.1	305.0

Source: Department of Revenue

10. The large corporate income/franchise audit collections mentioned previously can also be seen in Tables 2 and 3, with large increases in corporate assessments and collections observed in 2019-20 and 2020-21, then declines seen in 2021-22. DOR indicates that it does not expect audit assessments and collections of this magnitude going forward. In the near term, DOR anticipates similar individual income and sales and use tax assessments and collections as was seen in 2021-22, but expects that assessments will increase once vacancies are filled and new auditors are fully trained.

Compliance Bureau

11. DOR's Compliance Bureau is responsible for collecting all delinquent taxes and providing taxpayer assistance and information. According to DOR, as of July, 2022, the Compliance Bureau's delinquent tax collection staff totaled 197 positions, comprised of: (a) 19 field revenue

agents; (b) 112 office revenue agents; (c) 12 special procedures office revenue agents; (d) eight support staff positions; (e) 17 supervisor positions; (f) seven analysts, network coordinators, auditors, and trainers; and (g) 22 vacant positions. The Compliance Bureau also provides collection services for state agencies, counties, and municipalities through the statewide debt collection (SDC) program and the tax refund interception program (TRIP), which are described in greater detail under LFB Paper 671. The staffing levels above do not include positions attributed to the SDC program and TRIP.

12. Table 4 shows average delinquent tax revenue agent staffing levels, including vacancies, in the Compliance Bureau since 2016-17, as well as delinquent taxes collected by those positions. SDC revenue agents and collections are excluded from this table. Table 4 shows that delinquent tax collections and collections per agent have increased every year since 2016-17. DOR indicates that the reduction of seven revenue agents from 2017-18 to 2021-22 is explained as follows: (a) a revenue agent was converted to a non-revenue generating trainer position in the Compliance Bureau; (b) a revenue agent position was converted to a supervisor position in the Compliance Bureau; (c) four revenue agents were transferred to the IS&E Customer Service Bureau; and (d) a revenue agent position was transferred to DOR's Enterprise Services division to support departmentwide training initiatives.

TABLE 4

Compliance Bureau Delinquent Tax Collections and Staffing Levels: 2016-17 through 2021-22 ($ in Millions)

Fiscal Year	Number of Delinquent Tax Revenue Agents	Delinquent Tax Collections	Collections per Agent
2016-17	164	$251.7	$1.53
2017-18	168	254.3	1.51
2018-19	166	259.9	1.57
2019-20	163	263.1	1.61
2020-21	162	288.1	1.78
2021-22	161	290.3	1.80

Source: Department of Revenue

13. DOR has provided the following descriptions of each type of revenue agent included in Table 4 within the Compliance Bureau:

Field Revenue Agents. Field revenue agents spend most of their time out of the office to resolve cases involving all delinquent tax types, often on the most challenging cases. Advanced level field work is often required to locate and/or educate taxpayers, search for assets, and take enforced collection actions. Enforced collection activities include seizure of personal property, cash executions, and business closures. Field agents focus on debt resolution and customer education to obtain ongoing compliance. Field revenue agents require six months of classroom combined with intensive on-the-job training, followed by an additional six months of intensive field training. These agents are usually fully productive after a year of training.

Office Revenue Agents. Office revenue agents collect all types of delinquent tax liabilities as well as SDC balances for debtors both in and outside of Wisconsin. Entry-level staff concentrate primarily on responding to customer inquiries regarding balances due, collection actions, and negotiating payment plans while educating customers about their responsibilities to become compliant in the future. The complexity of collection work and enforcement actions progressively increases as the agent develops experience and expertise. Advanced office agents perform in-depth investigation of highest risk individual and business debtors to obtain past due filings, locate collection sources, and seize assets, often in partnership with field revenue agents. Office agents in the Special Procedures Unit provide specialized collections activities and support to other revenue agents. Agents receive six months of classroom combined with intensive on-the-job training. An additional three months of supported development in DOR's training units follows the formal training. These staff are typically fully productive in nine months of training. DOR indicates that all of the 19 revenue agent project positions within the Compliance Bureau and the nine additional requested revenue agents are/would be office revenue agents.

14. Table 5 shows the average outstanding delinquent tax balance, the amount of new bills referred to the Compliance Bureau, the amount of delinquent taxes collected, and the amount written off as uncollectible. The balance of other agency debt and total outstanding debt is also shown because DOR states that it cannot delineate the amount of delinquent tax bills written off from the amount of other agency debt written off. The delinquent tax balance has remained relatively stable over the past six years. However, the number of new delinquent bills added each year has increased 91% since 2016-17, representing an increase in the overall case load for revenue agents.

TABLE 5

Compliance Bureau Balance of Delinquent Debts: 2016-17 through 2021-22 (Millions)

Fiscal Year	Delinquent Tax Balance	Other Agency Debts*	Total Balance*	New Delinquent Bills Added	Delinquent Taxes Collected	Uncollectible Amounts Written off*
2016-17	$1,020.0	$126.0	$1,146.0	$652.0	$251.7	$109.9
2017-18	1,037.6	219.6	1,257.2	573.9	254.3	96.9
2018-19	1,080.6	379.1	1,459.7	935.3	259.9	131.3
2019-20	1,137.3	472.1	1,609.4	892.1	263.1	166.1
2020-21	1,057.4	509.6	1,567.0	870.7	288.1	205.8
2021-22	1,052.2	470.0	1,522.2	1,242.2	290.3	137.1

*Includes delinquent tax amounts and amounts owed other agencies under the SDC program.

Source: Department of Revenue

15. Table 6 shows the estimated collectible amounts out of the total delinquent tax balance and the percentage of taxes collected out of the collectible amounts. Each year, DOR estimates the

amounts collectible using a method that is based on accounts in bankruptcy, deceased taxpayers, defunct corporations, and other amounts under consideration for write-off. On average, amounts collectible represent approximately 40% of the total delinquent tax balance over the last nine fiscal years. Although the percentage of the collectible balance that is actually collected has varied from year to year, the actual amount of delinquent taxes collected has increased each year shown in Table 6. Despite increased collections, the collectible balance of delinquent taxes has grown 40% since 2016-17.

TABLE 6

Compliance Bureau Estimated Delinquent Tax Amounts Collectible and Percent Collected: 2016-17 through 2021-22 ($ in Millions)

Fiscal Year	Tax Balance	Collectible Balance	Percent Collectible	Taxes Collected	Percent Collected
2016-17	$1,020.0	$304.2	29.8%	$251.7	82.7%
2017-18	1,037.6	370.5	35.7	254.3	68.6
2018-19	1,080.6	494.1	45.7	259.9	52.6
2019-20	1,137.3	497.0	43.7	263.1	52.9
2020-21	1,057.4	482.8	45.7	288.1	59.7
2021-22	1,052.2	425.4	40.4	290.3	68.2

Source: Department of Revenue

Proposed Position Changes and Additions

16. As noted, AB 43/SB 70 would make the 38 project positions within DOR's Audit and Compliance Bureaus permanent. These positions are scheduled to expire on June 30, 2025. DOR estimates that these positions generate $39.3 million in delinquent tax collections annually. Therefore, the expiration of these positions would result in a reduction in general fund tax revenue, beginning in 2025-26, that is partly offset by a reduction in position funding of $2,859,600 GPR. If the Committee wants to maintain DOR's current level of tax collections in future biennia, it could make these 38 project positions permanent [Alternative A1].

17. DOR estimates that the 18 revenue agent project positions (including one supervisor) within the Audit Bureau generate $3.5 million of tax collections (average collections of $190,000 per position), while the 20 office revenue agent project positions (including one supervisor) within the Compliance Bureau generate $35.8 million in tax revenue (average collections of $1.8 million per position). Much of the work of Audit Bureau revenue agents is to conduct office audits that help generate unpaid taxes to be collected, provide customer service, and process tax returns. However, often these amounts identified and assessed by the Audit Bureau are credited to the Compliance Bureau if collection occurs after the 60 day appeal period, which explains why more revenues are generated by Compliance Bureau revenue agents. Together, these 38 positions generate $39.3 million of tax collections, or $1.03 million per position.

18. Under state law, a project position is defined as a position which is normally funded for six or more consecutive months and which requires employment for 600 hours or more per 26 consecutive biweekly pay periods, either for a temporary workload increase or for a planned undertaking which is not a regular function of the employing agency and which has an established probable date of termination. State law specifies that project positions cannot exist for more than four years. Although the 38 project positions were created as new positions in 2017 Act 59, they effectively extended the expiration of the 33 project positions set to expire on September 30, 2017, and added an additional five positions within the Compliance Bureau. Further, when DOR requested the 38 project positions during the 2017-19 biennial budget, it indicated that authorizing project positions, rather than permanent positions, would provide the Department flexibility to review its staffing needs at the expiration of these positions to see if a future request is warranted and to what degree. These positions were extended for an additional four years (12 years total) during the 2019-21 biennial budget and are now being requested as permanent positions, which suggests that there is an ongoing need for the positions.

19. However, the Committee may not want to make these project positions permanent in this biennium and, instead, decide whether to provide positions as permanent positions in the next biennium. If the Committee chooses to delay the decision regarding the status of these positions, it could extend the expiration date of the positions from June 30, 2025, to September 30, 2025 [Alternative A2]. This option would avoid the potential that such positions would expire for a period of time and result in a revenue reduction if the 2025-27 biennial budget were not enacted by July 1, 2025.

20. The proposed 11 delinquent tax collection positions for the Compliance Bureau would consist of nine revenue agents, one revenue agent lead, and one revenue agent supervisor. According to DOR, additional staff are needed to distribute the current workload and attain its full collection potential of taxes owed. DOR estimates that providing these additional positions would increase general fund tax collections by $4.0 million in 2023-24 and $16.1 million in 2024-25 [Alternative B1]. DOR's estimate of additional tax collections is based on an estimate that each new revenue agent position would generate $1.79 million in collections. This estimate is consistent with the average collection amounts per agent presented in Table 4.

21. As of January, 2023, 46 front-line auditor positions and five revenue agent positions within the Audit Bureau were vacant. Likewise, the Compliance Bureau had 29 vacant positions, including 27 revenue agents. All of the non-supervisory project positions that would be made permanent and the additional positions that DOR has requested would be revenue agent positions. According to DOR, revenue agent recruitment in the Madison location has been challenging. To address this issue, it has begun to recruit statewide, with newly-hired agents being headquartered in the nearest regional DOR office (Milwaukee, Green Bay, Appleton, Wausau, or Eau Claire). DOR indicates that it has hired, or is in the process of hiring, 34 new revenue agent positions for IS&E, sufficient to fill the current vacant revenue agent positions, and states that it has had success in hiring revenue agent positions since it began to recruit statewide.

22. Conversely, DOR indicates that it is currently struggling with employee recruitment and retention within its auditor classification, which explains the 46 vacant auditor positions. The

Department cites two issues contributing to its recruitment challenges: (a) a declining enrollment of university students into accounting programs; and (b) that wages DOR is able to offer for auditor positions are below the market rate for similar positions offered by other state agencies and in the private sector. However, AB 43/SB 70 would provide a general wage adjustment for state employees of 5% on July 1, 2023, and 3% on July 1, 2024. Such an adjustment could help bring DOR auditor salaries closer to the market rate, and therefore allow DOR to be more competitive in its recruitment efforts. Fully staffed auditor positions are needed to enhance audit assessments, which can later be referred to the Compliance Bureau for collection by revenue agents.

23. Due to high levels of auditor vacancies within the Audit Bureau, the Committee may decide to take no action on the proposal to provide 11.0 delinquent tax collection positions [Alternative B2]. Instead, DOR could choose to reallocate vacant auditor positions from the Audit Bureau to revenue agent positions within the Compliance Bureau. However, a revenue agent's ability to collect delinquent taxes is partly reliant on an auditor's ability to identify taxes to be collected. Without sufficient auditors, a revenue agent's impact could be limited.

24. Finally, under AB 43/SB 70, the Governor recommends transferring $640,400 GPR and 6.0 positions from DOR's collection of taxes -- general program operations appropriation to its administrative services and space rental -- general program operations appropriation. The general operations appropriation under collection of taxes provides funding for the administration of income, franchise, sales, and excise taxes, primarily to support the operations of IS&E. The general operations appropriation under administrative services and space rental appropriates monies to generally support the operations of the Secretary's Office, legal staff, the Division of Research and Policy, and the Enterprise Services Division (ESD).

Of these transfers, three positions would be transferred from IS&E's Compliance Bureau to create the Office of Communications in the Secretary's Office. According to DOR, the purpose of the Office of Communications would be to align the Department's internal and external communications under one manager. The Department indicates that two of the positions are communications positions and the third position is a vacant revenue tax representative. DOR states that the transfer of these positions would support communications departmentwide, rather than only within IS&E, and would not impact tax enforcement activities within the Compliance Bureau, if approved by the Committee. However, the transfer would reduce total staffing within IS&E.

Three positions, two auditor positions within the Audit Bureau and one revenue agent position within the Compliance Bureau, would be transferred to create the Engagement & Strategy Section (ESS) in ESD. According to DOR, the focus of ESS would be on learning, engagement and retention, and promoting and supporting effectiveness, efficiency, and strategic success across the Department. Although the positions that would be transferred are revenue generating positions, DOR states that the vacant auditor and revenue agent positions would provide a placeholder for ESS recruitment of existing trainers and staff development specialist employees within IS&E, after which the newly vacant program trainer and staff development specialist positions could be reallocated as auditor and revenue agent positions. DOR states that this transfer would not reduce the level of front-line auditor positions in the Audit Bureau or revenue agents in the Compliance Bureau and is not expected to have an effect on state tax collections. However, the transfer would reduce total staffing within IS&E.

25. The Committee could approve the transfer of $640,400 GPR and 6.0 positions from DOR's collection of taxes -- general program operations appropriation to its administrative services and space rental -- general program operations appropriation [Alternative C1]. Alternatively, the Committee could take no action on these transfers, in which case the funding and position authority would be retained within DOR's appropriation for IS&E [Alternative C2].

ALTERNATIVES

A. Existing Project Positions

1. Convert 38.0 GPR project positions to permanent positions and maintain current funding of $2,017,500 GPR for position salaries and $842,100 GPR for fringe benefits, annually.

2. Extend the expiration of the 38.0 GPR project positions provided to DOR under 2017 Act 59 from June 30, 2025, to September 30, 2025.

3. Take no action.

B. Increase Delinquent Tax Collection Agents

1. Provide $677,300 in 2023-24 and $827,500 in 2024-25 and 11.0 positions annually to enhance delinquent tax collection efforts. Estimate an increase in general fund tax collections of $4.0 million in 2023-24 and $16.1 million in 2024-25.

ALT B1	Revenue	Change to Base Funding	Positions
GPR		$1,504,800	11.00
GPR-Tax	$20,100,000		

2. Take no action.

C. Minor Transfers Between Appropriations

1. Transfer $640,400 GPR and 6.0 positions from DOR's collection of taxes -- general program operations appropriation to its administrative services and space rental -- general program operations appropriation

2. Take no action.

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May 25, 2023 Joint Committee on Finance Paper #671

Statewide Debt Collection Positions (Revenue -- Tax Administration)

[LFB 2023-25 Budget Summary: Page 544, #4]

CURRENT LAW

The Department of Revenue (DOR) administers the statewide debt collection (SDC) program for the purpose of collecting debts owed to state agencies, the courts, the Legislature, state authorities, and local units of government. The program requires DOR to enter into a written agreement to have the Department collect any amount owed to a state agency that is more than 90 days past due, unless: (a) negotiations between the agency and debtor are actively ongoing; (b) the debt is the subject of legal action or administrative proceedings; or (c) the debtor is adhering to an acceptable payment arrangement. Additionally, DOR is authorized (but not required) to enter into similar agreements with the courts, the Legislature, state authorities, and local units of government.

The Department also administers the tax refund interception program (TRIP) for the purpose of offsetting refunds owed a debtor against debts owed by the debtor to state agencies, the courts, the Legislature, state authorities, local units of government, the federal government, federally-recognized tribes, and certain ambulance service providers.

Together, TRIP and SDC are provided 31 full-time equivalent (FTE) positions in 2022-23, comprised of 24 revenue agents (including two lead workers), two supervisors, two business analysts, and three support staff. In addition, approximately 10 limited-term employees are typically hired during the months of January through June.

State law authorizes DOR to charge a transaction fee for each debt it collects, under both SDC and TRIP. DOR has set its SDC fee equal to the greater of $35 or 15% of the debt certified to be collected. The fee is charged to the debtor. Under TRIP, the Department charges the debtor the following amounts per debt it offsets: (a) $5 for state and municipal debts; (b) $15 for debts owed the State of Minnesota and its localities; and (c) $25 for debts owed the Internal Revenue Service and federally-recognized tribes. These fees are deposited in DOR's debt collection, program revenue appropriation, and are used to offset its expenses for administering both programs. At the end of each fiscal year, any remaining balance resulting from fee revenues in excess of program expenses is deposited in the general fund.

DISCUSSION POINTS

1. The SDC program was created under 2009 Act 28. Prior to the SDC program, agencies utilized the services of private debt collection companies or internal collection staff to collect debts. The Department believed that centralizing state agency debt collection activities in a uniform process administered by DOR would improve the efficiency of state debt collection, and therefore increase resources available to state agencies. The Department has the authority under the SDC program to take certain enforcement actions not available to private collection agencies, such as to administratively attach wages, levy nonwage assets, and seize monies and personal property. Additionally, state law gives DOR the ability to charge collection fees above the amount of debt owed to offset the administrative expenses of collection. In contrast, private debt collection companies are prohibited under state law from collecting any amount in excess of what is owed by a debtor. As a result, state agencies and local units of government utilizing the SDC program can receive the entire outstanding debt, rather than having to remit a portion of the debt to compensate a private collection company.

2. The 24 revenue agent positions are responsible for collecting debt referred to SDC. DOR has the authority under the SDC program to collect debt through offsets of a tax refund or unclaimed property. Beyond these authorities, the Department has several additional tools available to aid in the collection of SDC debt. DOR's preferred option for collecting debt referred to the SDC program is by setting up a voluntary payment arrangement with the debtor to collect payments. This can be done through a payment plan, or by providing an agreed-upon time frame to submit full payment. However, in the event that debt cannot be collected voluntarily, revenue agents will, most commonly, attach wages through wage certifications or levy a debtor's bank account.

3. The Legislature has expanded the SDC program multiple times since it was created. Under 2015 Act 55, an additional 11.0 positions were authorized for the program to address the growing balance of outstanding debts at that time. Debts referred to the program were expanded under: (a) 2015 Act 355, which authorized restitution payments certified as owed by the Department of Corrections or the Clerk of Circuit Court to be included in SDC agreements; and (b) 2015 Act 59, which authorized debts owed to certain ambulance service providers operating under a contract with a municipality or county to be referred to DOR under an SDC agreement. In response to the increase in debts referred, the program was again expanded under the 2017-19 biennial budget act (2017 Act 59), which provided 8.0 project positions to the SDC program. These project positions were made permanent by 2021 Act 58 (the 2021-23 biennial budget act).

4. Under AB 43/SB 70, the Governor recommends providing $423,500 PR in 2023-24 and $516,600 PR in 2024-25 and 7.0 FTE positions annually to DOR's debt collection appropriation to increase efforts to collect debts owed to state agencies and local governments under the SDC program.

5. The fiscal year ending balance, new debts referred, and debts recovered since 2013-14

for the SDC program can be seen in Table 1. The amount of debts recovered excludes agency fees collected by DOR from debtors to offset the expenses of the program. The table shows the number of revenue agents authorized for the SDC program each year, as well as per-agent collections. Between 2016-17 (one year prior to the authorization of eight new revenue agents) and 2021-22, DOR data show that the year-end balance increased 275%, from $123.6 million to $463.7 million. Over that same period, the annual amount of debts recovered increased 154%, from $23.4 million to $59.6 million. Despite the general increase in debts collected per agent since 2013-14, the average amount of debts recovered has been less than 30% of new debts referred over the past five years, resulting in a growing balance of debts. Overall, the SDC closing balance has increased to nearly 10 times the amount it was in 2013-14. It should be noted that a portion of debts can be returned to agencies if deemed uncollectible, which reduces the SDC closing balance and partly explains the decline from 2020-21 to 2021-22. DOR also indicates that it identified an error in its system in which some debts were not being written off as uncollectible correctly. Correcting this issue resulted in a large balance being returned to agencies as uncollectible in 2021-22.

TABLE 1

SDC Balance, Debts Referred, Collections, and Revenue Agents ($ in Millions): 2013-14 through 2021-22

Fiscal Year	SDC Closing Balance	New Debts Referred	SDC Debts Recovered	Revenue Agents	Debts Recovered Per Agent
2013-14	$46.87	$22.13	$9.91	7	$1.42
2014-15	54.17	28.12	12.49	7	1.78
2015-16	71.29	41.99	17.27	18	0.96
2016-17	123.57	83.16	23.44	18	1.30
2017-18	213.49	141.38	35.76	24	1.49
2018-19	372.08	235.89	51.93	24	2.16
2019-20	462.83	172.33	55.35	24	2.31
2020-21	500.94	137.17	57.72	24	2.41
2021-22	463.68	236.63	59.61	24	2.48

Source: Department of Revenue

6. Although DOR was provided an additional 11 revenue agents for the SDC program beginning in 2015-16 and eight agents beginning in 2017-18, these positions did not contribute a full year of collection activity to the program until 2016-17 and 2018-19, respectively. As shown in Table 1, between 2014-15 and 2018-19, SDC debts recovered grew 316%, and collections per agent grew 21% (from $1.8 million to $2.2 million). The decline in debts recovered per agent between 2014-15 and 2018-19 partly reflects time spent hiring and training the increased number of revenue agents. Since 2018-19, collections have continued to grow due to the increased proficiency of revenue agents as they become more experienced. However, the rate of growth has slowed. DOR indicates that this is because its current staff are working at capacity, and additional staff are needed to further increase its collection efforts.

7. As the amount of debt referred to DOR has increased, the number of debt collection bills (bills for individual debtors) referred to the Department has also grown, partly in response to new debt types authorized for referral under 2015 Acts 59 and 355. Data from DOR indicate that the average monthly number of new debt collection bills referred per FTE increased from 160 in 2015-16 to 642 in 2021-22, or an increase of over 300% on a per-FTE basis. As such, DOR reports that its current SDC staffing level is insufficient to meet the growing number of participating agencies and the corresponding growth in overall debt volumes.

8. To the extent that DOR's debt collection program enhances revenues that would otherwise not be returned to state agencies and local units of government, the program limits the need to provide these entities with additional expenditure authority. Table 2 shows SDC debt collections by agency type for 2021-22. Active debts represent the number of unresolved debts held with DOR by agency type as of June 30 of each fiscal year. As presented in the table, the highest collection totals for 2021-22 came from the courts, municipal courts, and universities within the University of Wisconsin (UW) System, making up a combined 80.1% of total SDC collections. DOR indicates that there is still the possibility for additional debts to be referred, as Milwaukee County Circuit Court has yet to join the SDC program. It is estimated that this entity alone would increase the current SDC debt balance by more than $100 million.

TABLE 2

SDC Collection Activity by Agency Type (2021-22)

SDC Participant	Number of Agreements	Active Debts	Fiscal Year Ending Balance	Debts Recovered	Collection Fees	Total SDC Collections
Local Agency	230	30,921	$36,868,747	$4,265,576	$741,485	$5,007,061
Local Agency (Utility)	31	2,347	1,325,545	377,352	65,595	442,947
Court	63	251,947	192,136,967	23,394,374	4,066,645	27,461,019
Municipal Court	190	202,113	89,257,615	15,196,959	2,641,688	17,838,647
State Agency	27	3,148	55,672,327	1,628,902	283,152	1,912,054
Technical College	14	8,934	9,572,351	3,181,842	553,100	3,734,942
UW System	36	7,498	25,550,347	9,135,956	1,588,103	10,724,059
Restitution	61	9,510	51,955,620	2,302,332	400,214	2,702,546
Housing Authority	21	353	1,342,598	127,786	22,213	149,999
Total	673	516,771	$463,682,117	$59,611,079	$10,362,195	$69,973,274

Source: Department of Revenue

9. As shown in Table 3, the number of agreements with SDC partnering agencies, active debts, and the amount of debts recovered have steadily increased since 2013-14. Restitution payments were added to the list of authorized debts to refer in 2016-17, following enactment of Act 355. The table shows that the largest year-over-year increase in active debts occurred in 2018-19, following a large increase in court and municipal debts referred to the SDC program (which corresponds to the spike in 2018-19 new debts referred in Table 1). DOR indicates that the decline in the number of

active debts in 2021-22 is partly due to debts being returned to agencies as uncollectible, as discussed previously.

TABLE 3

SDC Program Activity: 2013-14 through 2021-22

Fiscal Year	Number of Agreements	Active Debts	Debts Recovered
2013-14	91	17,618	$9,905,589
2014-15	143	26,674	12,486,079
2015-16	227	49,075	17,273,018
2016-17	346	127,238	23,442,833
2017-18	454	258,962	35,804,626
2018-19	564	459,772	51,881,072
2019-20	637	579,205	54,812,788
2020-21	653	636,557	57,719,912
2021-22	673	516,771	59,611,079

Source: Department of Revenue

10. As noted, DOR charges a collection fee in excess of debts owed to offset the administrative expenses of the SDC program. At the end of each fiscal year, any fees collected in excess of expenses are transferred to the general fund. Table 4 shows SDC fees collected, expenses incurred, and the amount transferred to the general fund since 2013-14. Between 2014-15 and 2016-17, fees collected increased by nearly $2.1 million, reflecting increased collection activity from the additional 11 revenue agents provided to the SDC program. Fees collected increased further between 2016-17 and 2018-19, from $4.6 million to $10.5 million, as another eight positions were added to the program. As seen with SDC debt collections, fee collections appear to have leveled off since 2018-19, and have even declined slightly. DOR attributes the slight decline, in part, to the reduced ability for individuals to pay, and DOR reducing involuntary collection activity, during the COVID-19 pandemic. In addition, many agencies stopped referring new debts during the pandemic, but have started referring debts again during the last two fiscal years.

TABLE 4

SDC Fees Collected, Expenses Incurred, and Amount Transferred to the General Fund (Millions): 2013-14 through 2021-22

Fiscal Year	Fees Collected	DOR Expenses	General Fund Transfer
2013-14	$2.14	$0.51	$1.63
2014-15	2.52	0.55	1.97
2015-16	3.40	1.32	2.08
2016-17	4.57	1.57	3.00
2017-18	7.24	1.97	5.27
2018-19	10.54	2.14	8.40
2019-20	9.97	2.27	7.70
2020-21	9.96	2.32	7.64
2021-22	10.36	2.37	7.99

Source: Department of Revenue

11. DOR sends letters to debtors to notify, update, and encourage voluntary resolution of debt, as well as to notify debtors of involuntary collection actions, and indicates that $130,000 is currently allocated for postage expenses. However, despite efforts to increase electronic notice delivery for customers who opt-in, DOR states that postage costs over the last three fiscal years have averaged $472,000 from the increased volume of debts referred. The Department now estimates that each revenue agent position for the SDC program generates approximately $18,000 in postage costs per year. As such, DOR states that additional supplies and services for postage costs for the requested revenue agent positions are needed. Including funding for postage costs would increase the Governor's recommendation by $81,000 in 2023-24 and $108,000 in 2024-25.

12. The SDC program is currently organized into two collection units, each with 11 revenue agents, one lead (who is included in the count of revenue agents in Table 1), and one supervisor. Providing an additional seven positions to the program would allow DOR to create an additional unit, in which each of the three units would consist of nine revenue agents, one lead, and one supervisor (for a total of 27 revenue agents, three lead workers, and three supervisors).

13. As seen in Table 1, debt collections have plateaued under the SDC program, despite a rising closing balance of debts referred for collection. Data suggests that new positions would provide an increase in state agency and local government debts collected. If the Committee wishes to address the rising SDC debt balance, it could provide 7.0 positions to create a new SDC unit within DOR and provide the additional supplies and services estimated for postage costs [Alternative 1].

14. DOR now estimates that each new revenue agent (not including lead or supervisor positions) would generate just under $2.4 million in additional debts collected. Therefore, providing an additional seven positions (including five revenue agents) to the SDC program and additional funding for postage associated with the positions would increase annual debts collected and remitted to agency partners by $4,000,000 in 2023-24 and $11,875,000 annually thereafter. The Department

also estimates that the positions would: (a) increase fees collected by DOR by $600,000 in 2023-24 and $2,125,000 in 2024-25; (b) increase expenses incurred by $504,500 PR in 2023-24 and $624,600 PR in 2024-25; and (c) increase the year-end transfer to the general fund by an estimated $95,500 in 2023-24 and $1,500,400 in 2024-25.

15. The Committee may want to provide the additional 7.0 positions for the SDC program without providing additional supplies and services funding for postage costs [Alternative 2]. The Governor did not include the additional supplies and services funding in AB 43/SB 70 for the seven additional SDC positions, and the Administration has not submitted an errata to request additional funding for postage associated with the positions. DOR would have to reallocate existing resources from other tax enforcement activities to offset the additional postage costs associated with the new positions. Providing the 7.0 positions without additional funding for postage would reduce PR expenditures compared to Alternative 1, by $81,000 in 2023-24 and $108,000 in 2024-25, and would increase the estimated year-end transfer to the general fund by a similar amount.

16. On September 24, 2019, a request was submitted to the Joint Committee on Finance under s. 16.515/16.505 (2) to create an additional 15.0 permanent positions for collection of SDC debt. An objection was raised and the request was not approved. DOR stated that it had reached its capacity for collecting debts with the resources available at the time. Since 2016-17, the balance of outstanding debts referred to the SDC program has grown from $123.6 million to $463.7 million at the current staffing level, despite the amount of debt collected per agent increasing each year. The Committee could consider providing 15.0 PR positions, rather than 7.0 PR positions, to further reduce the outstanding balance of SDC debts owed to state agencies, municipalities, and other SDC partners [Alternative 3].

17. DOR indicates that over 91,000 SDC debt cases have not been reviewed by the established annual work date. Due to the large balance of debts to be collected and the current level of resources available to the SDC program, DOR prioritizes collecting the easiest to reach debts. Debts that require more time and work to collect that are not acted upon within five years are returned to agencies and local governments uncollected. Providing additional positions to administer the SDC program could allow the Department to address some of the debts that are not currently receiving attention, increasing revenues available to state agencies and local units of government.

18. According to DOR, if the Committee provided an additional 15.0 FTE positions, it could create a third unit in the SDC program and increase staffing by 13.0 revenue agents, one lead worker, and one supervisor. The Department estimates that increased expenditure authority of $1,160,000 in 2023-24 and $1,360,000 in 2024-25 would support the additional 15 positions, assuming that the positions would begin on October 1, 2023. It is estimated that these additional 15.0 positions would increase fees collected by DOR by $1,365,000 in 2023-24 and $4,600,000 in 2024-25 and increase the year-end transfer to the general fund by an estimated $205,000 in 2023-24 and $3,240,000 in 2024-25. DOR also estimates that the additional revenue agents would increase debt amounts recovered for participating agencies and municipalities by $7,735,000 in 2023-24 and $30,940,000 annually thereafter ($19 million more than Alternatives 1 and 2).

19. Finally, the Committee could determine that the current level of debt collection DOR returns to state agencies and local units of government is sufficient and take no action [Alternatives

4].

ALTERNATIVES

1. Provide $504,500 PR in 2023-24 and $624,600 PR in 2024-25 and 7.0 PR positions annually to DOR's debt collection appropriation to increase efforts to collect debts owed to state agencies and local governments under the SDC program. Estimate increased fees collected of $600,000 in 2023-24 and $2,125,000 in 2024-25. Estimate an increased year-end transfer to the general fund of $95,500 in 2023-24 and $1,500,400 in 2024-25. [This alternative includes funding for postage associated with the additional positions.]

ALT 1	Revenue	Change to Base Funding	Positions
PR		$1,129,100	7.00
GPR-REV	$1,595,900		
PR-REV	$2,725,000		

2. Provide $423,500 PR in 2023-24 and $516,600 PR in 2024-25 and 7.0 PR positions annually to DOR's debt collection appropriation to increase efforts to collect debts owed to state agencies and local governments under the SDC program. Estimate increased fees collected of $600,000 in 2023-24 and $2,125,000 in 2024-25. Estimate an increased year-end transfer to the general fund of $176,500 in 2023-24 and $1,608,400 in 2024-25.

ALT 2	Revenue	Change to Base Funding	Positions
PR		$940,100	7.00
GPR-REV	$1,784,900		
PR-REV	$2,725,000		

3. Provide $1,160,000 PR in 2023-24 and $1,360,000 PR in 2024-25 and 15.0 PR positions annually to DOR's debt collection appropriation to increase efforts to collect debts owed to state agencies and local governments under the SDC program. Estimate increased fees collected of $1,365,000 in 2023-24 and $4,600,000 in 2024-25. Estimate an increased year-end transfer to the general fund of $205,000 in 2023-24 and $3,240,000 in 2024-25.

ALT 3	Revenue	Change to Base Funding	Positions
PR		$2,520,000	15.00
GPR-REV	$3,445,000		
PR-REV	$5,965,000		

4. Take no action.

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May 25, 2023 Joint Committee on Finance Paper #672

Advanced Technology System Project (Revenue -- Tax Administration)

[LFB 2023-25 Budget Summary: Page 543, #3]

CURRENT LAW

The Department of Revenue's (DOR) Compliance Bureau is responsible for collecting all delinquent taxes and providing taxpayer assistance and information. The Bureau also provides collection services for state agencies, counties, and municipalities through the statewide debt collection (SDC) program.

DOR currently utilizes an integrated tax system (Gentax) offered by Fast Enterprises which, beginning in 2005, integrated and replaced more than 35 separate computer systems that supported the work of the Income, Sales, and Excise Tax Division within DOR. The system was implemented through the course of 11 different rollouts and was completed in 2011. The system currently has 7.4 million active accounts and averages over one million transactions per day during the tax season. Since 2011, DOR has continued to automate processes in order to enhance operational efficiency, defeat fraud, and improve the customer experience.

DISCUSSION POINTS

1. DOR's current collection case system is set up with the goal that each delinquent tax and SDC case would be reviewed annually by a revenue agent. As such, each case is assigned a work date. However, in addition to the annual reviews, the system sends an alert to agents if it identifies that additional action needs to be taken on a specific case. Collection actions begin with letters requesting voluntary payment or the establishment of a payment plan before progressing to involuntary actions, such as ordering a wage attachment or bank levy. DOR indicates that revenue agents prioritize alerts received by the system, which has resulted in many annual case reviews sitting in the past due stage.

2. Under AB 43/SB 70, the Governor recommends providing $1,350,000 GPR and

$1,350,000 PR in 2023-24 and $600,000 GPR and $600,000 PR in 2024-25 to implement an advanced technology system in DOR's Compliance Bureau. The GPR funding would be provided to DOR's collection of taxes -- general program operations appropriation, and the PR funding would be provided to the collections of taxes -- debt collection appropriation. Any fee revenues generated by the SDC program in excess of program expenses are deposited in the general fund. It is estimated that increased PR expenditures authorized under this provision would reduce the year-end transfer to the general fund by an estimated $1,350,000 in 2023-24 and $120,000 in 2024-25.

3. The advanced technology system is a cloud-based service (Fast Collection Services) offered by Fast Enterprises. DOR indicates that the vendor would create a model that utilizes data analytics beyond that available to the Department to sort collection cases by type of action needed, and DOR employees would work with the vendor to refine the model. The Department states that $1.5 million (all funds) of the requested funding in 2023-24 would be one-time costs for initial setup and implementation of the model. The remaining $1.2 million in 2023-24 and annually thereafter would cover the ongoing license costs of Fast Collection Services, as well as the cost of having Fast Enterprises' professionals update and maintain the model. According to the Department, the model can be developed to sort collections in a way that will significantly improve efficiency. DOR has provided several examples of how this model would use data analytics to sort collection cases.

<u>Address Update.</u> The model would search external databases and alert DOR employees when a debtor address may no longer be active. In response, DOR employees would send a letter prompting debtors to review and update their address using DOR's secure online system, My Tax Account. DOR indicates that this solution would allow DOR to notify persons of their liability in a timely manner, resulting in quicker resolutions.

<u>Payment Plan Options</u>. The model would identify persons who are best suited for a certain payment plan based on external income and expense data, rather than having such persons provide income and expense details and pick a payment amount. This solution would identify persons that are likely to pay over time and send a letter to those persons with three payment options and a QR code that allows them to electronically accept an option.

<u>Involuntary Collections.</u> The model would identify a potential course of action, either attaching wages or levying a bank account, for collection cases where debtors do not make voluntary arrangements to pay.

<u>Offset Likely.</u> The model would review both state and federal tax returns to identify collection cases that are likely to be resolved through tax refund offset during the income tax filing season. This solution would delay collection letters and actions for such cases and allow DOR agents to focus their time on cases that are unlikely to be resolved on their own.

<u>Responsible Person.</u> The model would utilize data from tax returns and external sources to help agents make associations between business accounts and account owners (responsible persons). DOR indicates that this would result in increased collections from individuals responsible for business operations.

4. The system could identify collection cases that are likely to be resolved without revenue

agent assistance, as well as cases that are likely uncollectible, and automatically provide self-serve options for debtors to resolve their cases in a timely manner. As such, it would allow DOR revenue agents to prioritize collection cases that would benefit from revenue agent attention. In addition, the system's ability to identify and notify persons of inactive addresses would not only result in more timely collections for DOR but also reduce interest owed by debtors on delinquent tax amounts.

5. DOR indicates that more than 42,000 delinquent tax cases have not been reviewed by their annual work date. Delinquent tax amounts accrue interest at a rate of 18% per year. This means that such cases may be accruing more interest than they otherwise would have if DOR had the time and resources to address and take action on the debt sooner. A taxpayer notified more quickly under the proposed system that a tax case were in a delinquent status could resolve the delinquency in a more timely manner and avoid accruing additional interest of 18%.

6. Prior to implementing the system, DOR would have to sign all of the required contracts with Fast Enterprises and establish a work schedule for beginning the implementation process. Fast Enterprises' representatives would then begin working with DOR employees to establish and test the models. This process is estimated to take between six months and one year. If the system were approved, it is estimated that it would begin enhancing DOR tax and debt collections one year after approval. DOR indicates that this system would utilize data analytics to enhance collections of both delinquent taxes and debts owed to local governments and state agencies by $10.8 million in 2024-25.

7. The Department estimates that 70% ($7.6 million in 2024-25) of enhanced collections would come from delinquent general fund taxes. The remaining 30% ($3.2 million in 2024-25) of enhanced collections would come from debts owed to state agencies and local governments under the SDC program. It is anticipated that, as the system improves and DOR employees become more familiar with its operation, the system will enhance collections by $15 million in 2025-26 and $21 million in 2026-27 and annually thereafter.

8. Of the $3.2 million of estimated enhanced collections for the SDC program in 2024-25, DOR estimates that 15% ($480,000) of this amount would be from increased SDC collection fees. As such, the advanced technology system project is estimated to: (a) increase fees collected by DOR by $480,000 in 2024-25; (b) increase expenses incurred by $1,350,000 PR in 2023-24 and $600,000 PR in 2024-25; and (c) decrease the year-end transfer to the general fund by an estimated $1,350,000 in 2023-24 and $120,000 in 2024-25. Assuming enhanced collections from the advanced technology system through 2026-27, it is likely that enhanced SDC collection fees would offset (and possibly exceed) the ongoing PR expenses associated with the system upgrade. It should be noted that the Administration did not include an estimate for increased SDC fee revenues under AB 43/SB 70.

9. The Compliance Bureau had a delinquent tax balance of $1,052.2 million and an SDC closing balance of $463.7 million as of June 30, 2022, while actual collections for each program were $290.3 million and $59.6 million, respectively, in 2021-22. It is currently estimated that each new delinquent tax revenue agent and SDC revenue agent would generate approximately $1.8 million and $2.4 million in new collections, respectively. Therefore, it is estimated that the advanced technology system would generate the same amount of delinquent tax and debt collections as providing an additional 4.2 delinquent tax revenue agents and 1.1 SDC revenue agent (after fees are subtracted from total SDC collections). However, the system is expected to increase the efficiency of existing

revenue agents, rather than to replace such agents.

10. DOR indicates that other states, such as South Carolina and Illinois, are in the process of implementing the Fast Collection Services solution. However, the results of such implementations are not yet known.

11. According to DOR, its current integrated tax system through Fast Enterprises has been successful since its implementation. Benefits of the current system include: (a) advanced audit selection capabilities using software tools; (b) integrated audit and collection case managers; (c) robust fraud and error detection in return processing systems; and (d) a secure e-service portal offering customer self-service features and free tax return filing options. The advanced technology system would further DOR's progress in creating a fully integrated system within its Compliance Bureau, and would provide more self-service options for taxpayers.

12. The Department has implemented other information technology upgrades to enhance state revenues in prior budgets. For example, DOR implemented a financial record matching program in 2010. Similar to the advanced technology system, the financial record matching program provides DOR with access to external data that enhances the Department's ability to collect taxes and debts owed. The 2009-11 biennial budget (Act 28) provided $208,900 in 2009-10 and $402,900 PR in 2010-11 and 3.0 PR positions annually to implement and administer the financial record matching program for the collection of delinquent state taxes. At the time the funding was provided, it was estimated that the program would generate an additional $13 million in delinquent tax collections annually. DOR reports that the program was successful in generating the full $13 million in additional revenue and anticipates similar results from the advanced technology system, if approved.

ALTERNATIVES

1. Provide $1,350,000 GPR and $1,350,000 PR in 2023-24 and $600,000 GPR and $600,000 PR in 2024-25 for supplies and services to implement an advanced technology system in DOR's Compliance Bureau. Estimate enhanced delinquent general fund tax collections of $7,600,000 in 2024-25, $10,500,000 in 2025-26, and $14,000,000 in 2026-27. Estimate increased fees collected of $480,000 PR-REV in 2024-25. Estimate a reduction in the year-end transfer to the general fund of $1,350,000 GPR-REV in 2023-24 and $120,000 GPR-REV in 2024-25.

ALT 1	**Change to Base**
GPR	$1,950,000
PR	1,950,000
Total	$3,900,000
GPR-Tax	$7,600,000
PR-REV	$480,000
GPR-REV	-$1,470,000

2. Take no action.

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May 25, 2023 Joint Committee on Finance Paper #673

Manufacturing Property Assessment Specialists and Local Government Services Position (Revenue -- Tax Administration)

[LFB 2023-25 Budget Summary: Page 545, #10 and #11]

CURRENT LAW

The Division of State and Local Finance (SLF) in the Department of Revenue (DOR) is responsible for: (a) establishing the state's equalized values; (b) assessing all manufacturing and telecommunication company property for property tax purposes; (c) assessing and collecting taxes on utilities, railroads, airlines, mining operations, and other special properties; and (d) providing financial management and technical assistance to municipal and county governments. The Division also administers the state shared revenue program, property tax relief programs, payments for municipal services, the lottery credit program, and the tax incremental financing (TIF) program. Finally, the Division oversees local property assessments and certifies assessment personnel. DOR allocates base level funding of $13,608,100 ($11,223,500 GPR, $1,780,900 PR, and $603,700 SEG) and position authority of 111.50 FTE positions (92.75 GPR, 14.50 PR, and 4.25 SEG) to SLF.

SLF is comprised of the Office of Technical and Assessment Services and three Bureaus; Equalization, Local Government Services, and Manufacturing & Utility.

Office of Technical and Assessment Services. The Office of Technical and Assessment Services provides support to the other three bureaus in SLF to achieve statutory processes performed by each bureau. The Office provides various technical services, such as processing tax incremental district (TID) creations, boundary modifications, project plan changes, and terminations, and collecting and posting TID annual reports. DOR allocates base level funding and position authority of $3,976,900 GPR and $209,700 PR and 16.0 GPR and 2.0 PR positions to the Office.

Equalization Bureau. The Equalization Bureau annually determines the full market value of all taxable real estate and personal property for all taxation districts and TIF districts in the state. The Bureau also measures assessment compliance with state laws, reviews chargebacks and omitted requests submitted to DOR, and administers assessment appeals. DOR allocates base level funding and position authority of $3,625,400 GPR and $273,500 PR and 39.5 GPR positions to the Equalization Bureau.

Local Government Services Bureau (LGS). LGS calculates and distributes shared revenue and state aids to local governments and administers various property tax credit programs. These aids and credits include: (a) county and municipal aid; (b) utility aid; (c) expenditure restraint program aid; (d) exempt computer aid; (e) personal property aid; (f) video service provider aid; (g) lottery and gaming credits; (h) the first dollar credit; and (i) the school levy tax credit. The Bureau also determines and certifies equalized values for each municipality, count, school district, technical college, and special district and administers the real estate transfer fee and county and municipal levy limit programs. DOR allocates base level funding and position authority of $1,102,100 GPR, $32,800 PR, and $325,300 SEG and 9.75 GPR and 2.25 SEG positions to LGS.

Manufacturing and Utility Bureau. The Manufacturing and Utility Bureau assesses all taxable manufacturing and telecommunication company property in the state, and administers the property tax exemptions for manufacturing machinery and equipment and industrial waste facilities. The Bureau also values and assesses the property of railroad, airline, telephone, and pipeline companies that are subject to state assessment, and administers the gross revenue license fees on light, heat, and power utilities, electric cooperatives, and carline companies. Finally, the Bureau reviews manufacturing assessment appeals submitted to the Board of Assessors. DOR allocates base level funding and position authority of $2,519,100 GPR, $1,264,900 PR, and $278,400 SEG and 27.5 GPR, 12.5 PR, and 2.0 SEG positions to the Manufacturing and Utility Bureau.

DISCUSSION POINTS

1. Under AB 43/SB 70, the Governor recommends providing an additional 5.0 FTE to SLF to assist with administering the Division's statutory duties under current law. Specifically, AB 43/SB 70 would provide $140,100 GPR and $140,100 PR in 2023-24 and $171,100 GPR and $171,100 PR in 2024-25 and 2.0 GPR and 2.0 PR positions annually to DOR's Manufacturing and Utility Bureau to ensure more timely and accurate manufacturing property assessments under current law [Alternative 1]. In addition, the Governor recommends providing $67,400 GPR in 2023-24 and $81,800 GPR in 2024-25 and 1.0 GPR position annually to DOR's Local Government Services Bureau to help LGS meet its statutory deadlines for programs it administers [Alternative 2]. The Committee could adopt Alternatives 1 and 2 together to enhance staffing at both bureaus.

2. The Administration states that recent increases in workloads and decreases in available resources prevent DOR from meeting its statutory five-year review period for state-assessed manufacturing properties. DOR indicates that the Manufacturing and Utility Bureau had 59 positions in 2000-01. In contrast, current base level position authority for the Bureau is 42 positions (a decrease of 29%). During that same period, the number of personal property accounts managed by DOR

similarly decreased from 10,926 to 8,584 (-21%) and real property parcels decreased from 12,474 to 10,251 (-18%). However, annual Board of Assessors (BOA) appeals increased 138%, from 97 in 2000-01 to 231 in 2021-22.

3. The Manufacturing and Utility Bureau's 42 positions currently consist of: (a) 32 property assessment specialists; (b) one Bureau director, who also serves as the BOA chairperson; (c) four supervisors, who are also BOA members and are allocated to each of the four district offices (located in Madison, Milwaukee, Green Bay, and Eau Claire); (d) three revenue auditors, who administer state utility taxes; and (e) two property assessment technicians, who support the property assessment specialists with administrative work.

4. According to DOR, the average property assessment specialist completes 50-60 field audits per year. Therefore, it is estimated that these 32 individuals are able to complete between 1,600 and 1,920 field audits per year. DOR indicates that one field audit is needed to review both the real estate and personal property of a company. However, 1,392 of the personal property accounts managed by DOR do not have a corresponding real property parcel, resulting in a total of 11,643 field audits required for the accounts managed by DOR. Given that DOR is statutorily required to review every state-assessed manufacturing property every five years, that equates to roughly 2,330 reviews per year. The number of reviews actually conducted by property assessment specialists is lower than the amount necessary to achieve the current law statutory deadlines by 400 to 750 field audits per year.

5. Additionally, property assessment specialists are also responsible for reviewing BOA appeals and preparing reports based on their findings. DOR indicates that the time commitment for DOR staff varies by type of appeal, with penalty appeals requiring around four hours, classification appeals requiring around eight hours, real estate valuation appeals requiring 20 to 40 or more hours, and personal property valuation appeals requiring around 20 hours each. In 2022, DOR received one penalty appeal, 10 classification appeals, 117 real estate valuation appeals, and 103 personal property valuation appeals. It is possible that the review of an appeal will result in a new field audit (in addition to the statutorily-required audits) to verify the original assessment.

6. Although the number of personal property accounts and real estate parcels managed by Manufacturing and Utility Bureau staff has decreased since 2000-01, DOR indicates that office closures (in Fond du Lac and Southeast Wisconsin) have increased the average time and cost required to visit each property for field review. DOR has also seen an increase in BOA appeals, which has increased the amount of time property assessment specialists must spend reviewing appeals rather than conducting field audits.

7. Further, appellants can object to BOA determinations and forward the appeal to another entity. DOR indicates that there are currently 618 cases pending at the Tax Appeals Commission, 29 at the Appeals Court, two in Circuit Court, and one at the Wisconsin Supreme Court. According to DOR, responding to these cases requires a significant time commitment from SLF staff.

8. DOR indicates that meeting or exceeding the five-year field review schedule would result in more timely, accurate assessments and fewer omitted property assessments. The four property assessment specialists included in AB 43/SB 70 are estimated to increase the Manufacturing

and Utility Bureau's field audit count by 200 to 240 audits per year. While the additional four positions would result in more timely assessments, DOR states that this increase would not be enough to fully address the current shortfall in annual field audits conducted to meet the statutory deadlines.

9. The 2023-25 Legislature has introduced legislation that would eliminate the personal property tax (AB 2/SB 2). However, SLF does not anticipate that this would reduce its need to review personal property tax accounts due to the calculation of the manufacturing and agriculture income tax credit (MAC). Under current law, the MAC is provided to offset state income tax liability of income derived by manufacturers based on the share of a manufacturer's real and/or personal property located in Wisconsin (relative to all property). In order to administer the MAC, it is anticipated that SLF would continue to conduct field audits of manufacturing personal property to ensure Wisconsin manufacturers that own or lease personal property in the state remain eligible for the credit.

10. DOR shared its 2023 process outline for LGS, which included its deadlines for more than 200 processes that the Bureau is responsible for completing during the year. According to DOR, the current workload assigned to LGS is beyond its capacity and the Bureau is in need of additional auditors to meet its statutory deadlines related to the administration of shared revenue, property tax credits, county and municipal levy limits, equalized values, and other programs. The Administration indicates that providing a new revenue auditor position would improve customer service to local governments and assist in the administration of shared revenue, property tax credits, and other LGS-assigned programs.

11. LGS currently is provided 10 revenue auditors, which is one fewer than was authorized for DOR in 2000-01. Further, during the last three biennia, several new programs, responsibilities, and procedural changes were implemented within LGS, including: (a) creation of personal property aid; (b) creation of, and subsequent changes to, video service provider aid; (c) creation of fallen officer insurance premium adjustments to shared revenue; (d) various new levy limit annual adjustments; and (e) modifications and adjustments to the expenditure restraint program. The Legislature is considering significant modifications to the state shared revenue and local government aid programs under 2023 AB 245. To the extent AB 245 would increase workload for LGS, the additional auditor position could help offset this effect.

12. Finally, the Committee could determine that the current level of staffing for SLF is sufficient and take no action [Alternative 3].

ALTERNATIVES

1. Provide $140,100 GPR and $140,100 PR in 2023-24 and $171,100 GPR and $171,100 PR in 2024-25 and 2.0 GPR and 2.0 PR positions annually to DOR's Manufacturing and Utility Bureau. [This alternative can be adopted in conjunction with Alternative 2.]

ALT 1	**Change to Base**	
	Funding	**Positions**
GPR	$311,200	2.00
PR	311,200	2.00
Total	$622,400	4.00

2. Provide $67,400 in 2023-24 and $81,800 in 2024-25 and 1.0 position annually to DOR's Local Government Services Bureau. [This alternative can be adopted in conjunction with Alternative 1.]

ALT 2	**Change to Base**	
	Funding	**Positions**
GPR	$149,200	1.00

3. Take no action.

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May 25, 2023 Joint Committee on Finance Paper #674

Repeal Obsolete Baseball and Football District Appropriations (Revenue -- Tax Administration)

[LFB 2023-25 Budget Summary: Page 545, #8]

BACKGROUND

Under 1995 Act 56, a PR appropriation was created for the Department of Revenue (DOR) to administer special district taxes imposed by a local professional baseball park district (baseball district tax appropriation). This appropriation is provided 4.40 positions and funding of $427,500 PR annually, after standard budget adjustments adopted by the Committee.

Under 1999 Act 167, the administration of local professional football stadium district taxes PR appropriation (football district tax appropriation) was created under DOR for the administration of special district taxes imposed by a local professional football stadium district. After standard budget adjustments adopted by the Committee, $52,500 PR annually is provided to this appropriation.

DISCUSSION POINTS

1. The 2021-23 biennial budget (2021 Act 58) deleted 1.0 position (the only position provided to the appropriation) from DOR's football district tax appropriation, but made no adjustment to position funding. The permanent position salary funding provided for this position ($52,600 PR annually) was removed under standard budget adjustments adopted by the Committee. The remaining funding for this appropriation totals $52,500 PR annually.

2. The Green Bay-Brown County Professional Football Stadium District imposed a 0.5% sales and use tax on purchases related to football stadium facilities beginning on November 1, 2000. On March 31, 2015, the Football Stadium District notified DOR that special district sales and use tax could be ended, and the sales tax was terminated effective October 1, 2015. DOR indicates that this

appropriation is no longer needed. Repealing this appropriation and deleting its associated funding of $52,500 PR annually on the effective date of the bill would have no impact on state or local finances.

3. The Southwest Wisconsin Professional Baseball Park District, which includes Milwaukee, Ozaukee, Racine, Washington, and Waukesha counties, imposed a 0.1% sales and use tax in the five-county area from January, 1996, to March 31, 2020. Under AB 43/SB 70, the Governor recommends deleting $427,500 and 4.40 positions annually to eliminate the funding and vacant positions associated with DOR's baseball district tax appropriation. AB 43/SB 70 would repeal the appropriation on April 30, 2024. The Administration indicates that the delayed effective date for the repeal of this appropriation would be necessary to allow taxpayers to timely file amended returns. The Committee could delete the funding and positions for this appropriation and repeal this obsolete appropriation on April 30, 2024, without impacting state or local finances.

ALTERNATIVES

1. Delete $427,500 and 4.40 positions annually to eliminate the funding and vacant positions associated with DOR's baseball district tax appropriation, and repeal the appropriation on April 30, 2024. Delete $52,500 annually to eliminate funding associated with DOR's football district tax appropriation, and repeal the appropriation on the effective date of the bill.

ALT 1	Change to Base	
	Funding	Positions
PR	- $960,000	- 4.40

2. Take no action.

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