



Legislative Fiscal Bureau

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October 31, 2019

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Revenue: Section 16.515/16.505(2) Request to Convert 8.0 Project Positions to Permanent Positions and to Provide 15.0 Permanent Positions and Additional Expenditure Authority for Statewide Debt Collection -- Agenda Item V

REQUEST

On September 24, 2019, the Department of Administration (DOA) submitted a request under s. 16.515/16.505(2) for the creation of 15.0 PR permanent positions and the conversion of 8.0 PR project positions to permanent positions at the Department of Revenue (DOR). The request would provide additional expenditure authority in DOR's debt collection appropriation of \$1,301,900 PR in 2019-20 and \$1,585,900 PR in 2020-21. Expenditure authority in 2019-20 would consist of \$805,600 for salary and fringe costs and \$496,300 for supplies and services costs (including \$300,000 for postage costs). The requested funding in 2020-21 consists of \$1,074,100 for salary and fringe costs, and \$511,800 for supplies and services costs (including \$315,000 for postage costs).

On October 14, 2019, the Co-Chairs of the Joint Committee on Finance notified DOA of the Committee's intent to meet to consider the matter. As a result, the request is now before the Committee under s. 13.10.

BACKGROUND

The Statewide Debt Collection (SDC) program was created as a pilot project in the 2007-09 biennial budget bill. Prior to that time, DOR contracted with private collection agencies to pursue delinquent tax accounts. DOR believed it could generate a greater return on investment if the state were to use its own compliance and audit staff to aggressively pursue delinquent accounts that would otherwise be referred to private collection businesses. The Department has the authority under the SDC program to take certain enforcement actions which are not available to private collection agencies, such as to garnish wages, levy nonwage assets, and seize monies and personal property.

DOR administers the SDC program for the purpose of collecting debts owed state agencies,

the courts, the Legislature, state authorities, and local units of government. DOR may enter into agreements with such entities and charge a fee for the collection of unpaid fines, forfeitures, costs, fees, surcharges, or restitution payments on behalf of those entities. DOR has set this fee equal to the greater of \$35 or 15% of the debt amounts certified to be collected.

The Department also administers a statewide tax refund intercept 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. DOR charges each debtor for the administrative expenses associated with TRIP. For purposes of this paper, "debt collection" will refer to activities under both the TRIP and SDC programs.

The amounts collected from debt collection charges are deposited in the Department's debt collection appropriation. Expenditure authority in this appropriation is currently set at \$2,946,700 PR in 2019-20 and \$2,984,800 PR in 2020-21. This appropriation currently funds 31.0 FTE (24.0 debt collector agents, 2.0 supervisors, 2.0 business analysts, and 3.0 support staff) and 10.0 LTE positions. Of the 31.0 FTE positions, 23.0 are permanent positions and 8.0 are project positions. At the close of each fiscal year, any unencumbered amounts from this appropriation transfer to the general fund. Under current law, these amounts are estimated at \$9.0 million in 2019-20 and 2020-21.

The 2017-19 biennial budget act (2017 Act 59) provided 8.0 project positions (6.0 debt collector agents, 1.0 support staff position, and 1.0 supervisor) to the SDC program. At the time of their authorization, it was estimated that the positions would increase the amounts transferred from DOR's debt collection appropriation to the general fund by \$750,000 on an annual basis. These positions are scheduled to expire on September 30, 2021. The request would make these positions permanent.

ANALYSIS

The total balance of debts referred to DOR under the SDC program has grown considerably in recent years. Between 2015-16 and 2018-19, DOR data show that the year-end debt balance increased by over 400% from \$71.3 million to \$372.0 million. Over that same time period, the total amount of debts recovered increased by 200% from \$17.3 million to \$51.9 million. Moreover, DOR data demonstrate that annual collections per agent have increased from approximately \$1.1 million in 2015-16 to approximately \$2.6 million in 2018-19. This annual increase in debts collected on a per-agent basis has persisted despite an increase in the number of debt collector agents from 18 to 24 during that period.

As the amount of debt referred to DOR has increased, the number of debt collection bills referred to the Department has also grown. Data in DOA's request indicate that the monthly average number of new debt collection bills per FTE has increased from 160 in 2015-16 to 898 in 2018-19, or an increase of approximately 461% on a per-agent basis. 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.

In DOR's original request in August, it was assumed that the additional positions, if approved, would start in October, 2019. According to DOR and DOA, this planned start date has since been revised to February 2, 2020. Therefore, Alternative 1 includes a reduction in the associated salary and fringe costs in 2019-20 relative to DOA's request to reflect the later start date for the positions.

The request would provide 15.0 permanent positions, and would convert the 8.0 project positions described above to permanent positions. The 15.0 permanent positions would consist of 10.0 debt collection revenue agents, one lead worker, one supervisor, one revenue agent support position, and two system development services positions. DOR estimates that the 10.0 debt collection revenue agents would increase debt amounts recovered for participating agencies and municipalities by \$13.0 million on an annual basis, beginning in 2020-21. The Department also projects that these agents would generate an additional \$1.6 million PR-REV annually, beginning in 2020-21.

The requested 1.0 support position would be tasked with handling several transactions related to the debt collection programs. For example, the position would process wage garnishment payments against outstanding debt balances and vouchers for agencies that have received and sent debtor payments to DOR. In addition, the support position would manage questions related to refund setoffs against obligations owed by a debtor.

The two system development services positions would focus on outstanding information technology (IT) enhancements that DOR has determined are high-priority projects. For example, DOR is leading an initiative to standardize the process for placing a levy on wage income electronically, in part to reduce the volume of paper notices the Department issues. The Department is also engaging in projects designed to improve the usability of the My Tax Account system, which is an online portal that enables users to file and pay various taxes. DOR notes that as participation in the SDC program continues to increase, the number of related IT projects has also grown. In its request, the Department states that its current IT resources cannot accommodate the growth of the SDC program.

At present, the SDC program employs one independent contractor to work on associated IT projects like those described above. The requested system development services positions would work on similar projects as the independent contractor, but on a permanent basis. According to DOA, DOR allocated \$150,000 in 2017-18 and 2018-19 to fund this contractor position. Therefore, DOA indicated in its request that the \$150,000 associated with the contractor position would be transferred to unallotted reserve in each year and could become available for other program priorities if the two system development services positions are approved. However, subsequent to DOA's request, DOR has indicated that the contractor would need to be retained at least over the 2019-21 biennium in order to handle the existing backlog of IT projects, as well as the additional workload resulting from potential continuing growth of the SDC program. The Committee could adopt DOA's request, but could direct that \$150,000 annually be retained in supplies and services in each year of the 2019-21 biennium to continue to fund the IT contractor position (Alternative 2).

DOR plans to replace its telephone system in the fall of 2019, and a portion of the requested supplies and services funding associated with the SDC positions would be allocated for this purpose.

DOA modified DOR's original request to specify that \$9,700 of the requested annual funding be transferred from supplies and services to unallotted reserve to correct an initial cost estimate for the new phone system that DOA reports was overestimated. DOA notes that the additional \$9,700 in unallotted reserve could be used to cover additional costs that may result from continual growth of the SDC program, such as additional postage costs or LTE staffing needs. The Committee could consider whether to reduce the requested funding in each fiscal year by this amount (Alternative 3).

As described above, 2017 Act 59 authorized 8.0 PR project positions at DOR for the SDC program. These positions are set to expire on September 30, 2021. If allowed to expire, it is estimated that the amounts transferred to the general fund relative to current law would decrease by \$562,500 in 2021-22 and \$750,000 in 2022-23 and annually thereafter. If the Committee does not approve the additional 15.0 requested positions, it could separately consider whether to approve the request to convert these project positions into permanent positions (Alternative 4).

A portion of the requested supplies and services funding would be used for increased postage costs. As the SDC program has expanded, the volume of mail sent to customers has increased. DOR sends notices to inform persons of their debts owed and of associated collection actions taken, and to provide receipt of payment. According to DOR data, between 2015-16 and 2018-19, the number of high-volume letters (such as statements and notices of wage attachment) sent by the Department to debtors increased by approximately 33%. In addition, data in DOA's request show that postage expenses in the SDC program increased by over 300% from approximately \$187,000 in 2015-16 to nearly \$800,000 in 2018-19. According to DOR, postage funding has not kept pace with the overall growth of the SDC program. If the Committee did not approve the additional SDC positions, the Committee could separately consider whether to approve the request to provide additional funding for postage costs (Alternative 5).

ALTERNATIVES

1. Approve DOA's request for 15.0 permanent PR positions and the conversion of 8.0 PR project positions to permanent positions, but reduce the expenditure authority requested by DOA by \$398,500 in 2019-20 to reflect the later start date for the positions. Estimate a decrease in the amounts transferred to the general fund relative to current law of \$903,400 in 2019-20.

2. Approve DOA's request for 15.0 permanent PR positions and the conversion of 8.0 PR project positions to permanent positions, but reduce the expenditure authority requested by DOA by \$398,500 in 2019-20 to reflect the later start date for the positions. Specify that \$150,000 annually associated with the IT contractor position be retained in supplies and services rather than transferred to unallotted reserve. Estimate a decrease in the amounts transferred to the general fund relative to current law of \$903,400 in 2019-20.

3. Approve Alternative 1 or 2, but reduce the expenditure authority requested by DOA by \$9,700 in 2019-20 and 2020-21 to account for overestimated phone costs in the request. Estimate a decrease in the amounts transferred to the general fund relative to current law of \$893,700 in 2019-20, and an increase in these amounts by \$9,700 in 2020-21.

4. Deny DOA's request for 15.0 permanent PR positions and associated expenditure authority, but specify that the 8.0 PR project positions authorized in 2017 Act 59 be provided as permanent positions. This alternative would not affect the estimated amounts transferred to the general fund in the 2019-21 biennium. Estimate an increase in the amounts transferred to the general fund relative to current law of \$562,500 in 2021-22 and \$750,000 in 2022-23 and annually thereafter. This alternative could be adopted in addition to Alternative 5.

5. Deny DOA's request, but provide \$300,000 in 2019-20 and \$315,000 in 2020-21 to fund additional postage costs for the SDC program. Estimate a decrease in the amounts transferred to the general fund relative to current law of \$300,000 in 2019-20 and \$315,000 in 2020-21. This alternative could be adopted in addition to Alternative 4.

6. Deny the request.

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