

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: Senate Bill 353 (Fourth Edition)

SHORT TITLE: DOR Debt Collection Changes - AB

SPONSOR(S): Senator Kerr

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
	<u>FY 2001-02</u>	<u>FY 2002-03</u>	<u>FY 2003-04</u>	<u>FY 2004-05</u>	<u>FY 2005-06</u>
REVENUES					
General Fund					
Collection Agencies	\$18,000,000	\$18,000,000			
DOR Collections	No estimate available				
DOR Special Account					
Collection Agencies	\$3,600,000	\$3,600,000			
Long Term Debt	No estimate available				
Short Term Debt	<u>\$5,600,000</u>	<u>\$5,600,000</u>	<u>\$5,600,000</u>	<u>\$5,600,000</u>	<u>\$5,600,000</u>
Total	\$9,200,000	\$9,200,000	\$5,600,000	\$5,600,000	\$5,600,000
EXPENDITURES					
DOR Special Account					
Collection Agencies	\$3,600,000	\$3,600,000			
DOR Expenditures	<u>\$5,600,000</u>	<u>\$5,600,000</u>	<u>\$5,600,000</u>	<u>\$5,600,000</u>	<u>\$5,600,000</u>
Total Expenditures	\$9,200,000	\$9,200,000	\$5,600,000	\$5,600,000	\$5,600,000
POSITIONS:	No estimate available				
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Department of Revenue					
EFFECTIVE DATE: Section 5 of this bill (reversions) becomes effective June 30, 2001. The remainder of this act becomes effective July 1, 2001, and applies to tax debts that remain unpaid on or after that date.					

BILL SUMMARY: Section one of this bill allows the Department of Revenue to contract with vendors for the collection of delinquent tax debts. Beginning July 1, 2001, the Department will impose a 20% collection assistance fee on debtors in order to pay contractor charges and departmental collection expenses. Delinquent taxpayers will be given

a written notice and a chance to pay past due accounts before the fee is imposed. Fee receipts will be deposited into a special account that must be appropriated by the General Assembly. The Department of Revenue will report regularly to the Joint Legislative Commission on Governmental Operations and to the Revenue Laws Study Committee on delinquent tax debt and debt collection. Section two eliminates the federal debt setoff fee because payments to the United States Department of Treasury will be made from collection assistance fee receipts upon the passage of this bill. Sections three and four make technical changes. Section five permits the Department of Revenue to use reversions from the FY 2000-01 budget to modify the agency's database to conform to requirements of private collection contractors and to obtain assistance in developing a Request for Proposal (RFP) for a performance based contract to implement debt collection recommendations.

BACKGROUND: The 1999 General Assembly mandated the Department of Revenue "to identify and evaluate proposals for more efficient collection of taxes including using electronic commerce and other technology to increase efficiency" (S.L. 1999, chapter 341, section 6). The Department hired PricewaterhouseCoopers (PwC) to conduct a Delinquent Tax Collection Best Practices Report. Assistant Secretary of Revenue Sabra Faïres presented the results of the PwC study to the Revenue Laws Study Committee on April 27, 2000.

ASSUMPTIONS AND METHODOLOGY:

Collecting Delinquent Debt

Section 1 of the bill states that the Secretary of Revenue may contract for the collection of delinquent tax debt. Based on Governor Easley's 2001-03 NC State Budget Summary of Recommendations, the Department must collect \$18 million each year from enhanced collection efforts. The Department should be able to fulfill the Governor's revenue goals according to the "Delinquent Tax Collections – Best Practices Study" conducted by PricewaterhouseCoopers (PwC). The PwC study found that by contracting with collection agencies for out of state debt and long term delinquent accounts, the Department could collect \$31 million from existing delinquencies and \$3 million per year on new out of state delinquencies. The Department would also be able to increase debt collection up to \$20 million a year for long term delinquencies. A pilot project with one collection agency is already underway using existing authority to collect out of state debt.

According to a March 2001 chart of Accounts Receivables, the Department is owed \$369,810,151. Since 69% of the accounts receivable are over 365 days old, the Department believes that only \$150 million is collectible. To meet the Governor's FY 2001-03 enhanced revenue collection goals, the Department proposes to use the authority granted in Section 1 to collect \$36 million of these accounts receivable through outsourcing. The Department plans to outsource the collection of small to moderate size out of state accounts receivables and in-state accounts with a value of \$25 to \$500. The Department is authorized to pay the collection agencies from the 20% collection assistance fee receipts without an appropriation from the General Assembly.

The Department will use its staff to collect the remaining \$114 million in "collectible" Accounts Receivables. It is uncertain at this time if the Department can collect this long-term debt without the filling of vacant positions, the addition of personnel, or the use of

additional contract collection agents. This fiscal note does not assume any additional General Fund revenue from the collection of long-term delinquent debt nor the receipt of collection assistance fees from this long-term debt.

The Department will assess the 20% collection assistance fee on its short-term accounts. From July 1999 to June 2000, the Department assessed 139,359 taxpayers for \$111.7 million in taxes that were 90 days delinquent. Under this bill, the Department estimates that 75% of the delinquent taxpayers will pay their debt after they receive written notification and before the collection assistance fee is assessed. The remaining 25% will pay an estimated \$5.6 million in collection assistance fees. The Department thinks these FY 1999-00 figures are applicable to the next five fiscal years.

Departmental Expenditures

As stated earlier, the contractor will receive the revenue from the 20% collection assistance fee it collects. This is estimated to be \$7.2 million over the next two fiscal years. The remainder of the collection assistance fee receipts will be appropriated by the General Assembly. Some of the funds may be used to fund additional positions in the Department. A performance audit published by the Office of the State Auditor in October 2000 recommended 74 new positions in a number of critical functions throughout the agency. A portion of these positions would go to Field Examinations (12), Interstate Auditing (2), Taxpayer Assistance (14), and Office Exams/Amended Returns (19).

Section 2 repeals the \$15 collection assistance fee for the US Department of Treasury Offset Program. The Department is allowed to use the new 20% collection assistance fee to fund this program. The US Department of Treasury Offset Program charges the state \$9.65 for each case submitted by the NC Department of Revenue. This rate is adjusted annually and will rise to \$16.45 per case in 2001. In FY 2000-01, the Department identified 9,000 cases that could be forwarded to the US Treasury Offset Program. Certified letters were sent to the taxpayers to apprise them of what the Department was going to do with their case and to give them an opportunity to pay their tax. If the tax is not paid, the US Treasury will withhold their federal tax refunds for payment of state delinquent tax debt.

Reversions

Section five allows the Department to use budget reversions to fund the \$300,000 needed to update its computer systems in order to work efficiently with collection agencies. The Department plans to use the funds to fund the following actions:

- Modify existing system to extract data based on collection agencies' requirements and to process the data received back from the collection agencies;
- Provide an electronic mechanism for transmitting data to and from the collection agencies; and
- Provide a mechanism to process funds received from collection agencies into the Department's existing systems for accounting purposes.

Reversions will also fund the debt collection efforts recommended by PricewaterhouseCoopers (PwC). PwC recommended the Department: 1) implement an automated case management system to track debt activity, automate wage garnishment and payment agreements, and prioritize cases; and 2) centralize the collection processes for

individual income taxes, installment agreements, low dollar debts, and wage garnishments. PwC estimates the automated system will increase delinquent tax collections by \$11 million to \$30 million per year. The Department estimates that it will cost from \$200,000 to \$500,000 to obtain assistance in developing a request for proposal (RFP) for a performance-based contract to do the work recommended by PwC. The Department was given the authority to withhold from tax collections for the RFP assistance by the 2000 General Assembly (S.L. 2000, chapter 120, section 17), but the Office of State Budget, Planning and Management blocked action on this item due to budget concerns.

TECHNICAL CONSIDERATIONS:

FISCAL RESEARCH DIVISION 733-4910

PREPARED BY: Richard Bostic

APPROVED BY: James D. Johnson

DATE: May 1, 2001



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