



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

GRETCHEN WHITMER
GOVERNOR

RACHAEL EUBANKS
STATE TREASURER

March 31, 2020

Mr. Chris Kolb
Director, State Budget Office
111 S. Capitol Avenue
Lansing, MI 48933

Dear Mr. Kolb:

Section 937 of Public Act 56 of 2019 requires that the Department of Treasury report by March 31, 2020 on the performance of the Michigan Accounts Receivable Collections System. As required, this report addresses the following:

- Information regarding the effectiveness of the department's current collection strategies, including use of vendors or contractors.
- The amount of delinquent accounts and collection referrals to vendors and contractors.
- The liquidation rates for declining delinquent accounts.
- The profile of uncollected delinquent accounts, including specific uncollected amounts by category.
- The department's strategy to manage delinquent accounts once those accounts exceed the vendor's or contractor's contracted collectible period.
- A summary of the strategies used in other states, including, but not limited to, secondary placement services, and assessing the benefits of those strategies.

Section 903 of Public Act 56 of 2019 authorizes the Department of Treasury to contract with private collection agencies to collect unpaid taxes and other accounts due the State of Michigan. The main contractor to the Michigan Department of Treasury for collection services is GC Services L.P. (GC). GC collects tax assessments and state agency debts on behalf of the state. The costs associated with the GC contract in FY19 were stipulated in contract #071B0200101 and included both collection incentive fees and reimbursement of certain operating expenses. GC was paid a collection incentive fee of 11.61% on actual tax and state agency debt collections.

Effectiveness of Collections

As provided in Chart A, the Department has collected over \$1.8 billion in delinquent tax and state agency debts between FY 2015 and FY 2019. As indicated in Chart B, \$799 million of this amount can be contributed to the private collection contractor. The decrease in state agency collections between FY 2018 and FY 2019 can be attributed to the change in the Driver Responsibility Fee (DRF) Law in FY 2018 which eliminated certain driver responsibility fees and outstanding balances under certain conditions as of March 31, 2018. This legislation also

eliminated the DRF Law as of October 1, 2018 and any remaining DRF debts owed to the State as of that date were waived. Tax collections decreased by approximately 7.6% between FY 2018 and FY 2019.

Accounts Receivable Profile

Chart C shows the breakdown of the tax accounts receivable by tax type as of September 30, 2019. Please note that this chart does not include tax accounts receivable that are in a pending or approved write-off status. Of the total \$2.6 billion tax accounts receivable, approximately 49% (\$1.27 billion) has been assigned to GC. Chart D shows the breakdown of the state agency accounts receivable as of September 30, 2019. Of the total \$218.8 million state agency accounts receivable, approximately 94% (\$205.1 million) has been assigned to GC. Combined, total referred amounts to GC represented approximately 52% of total tax and state agency accounts receivable of \$2.84 billion as of September 30, 2019.

Collections Strategies and Tools

Treasury utilizes various tools in the collection process, including the following:

- Telephone and written contacts. For active businesses, face to face contacts may also be made by state personnel.
- Installment agreements that fit a debtors' unique situation.
- An online portal for customers to view account information and make payments at www.michigan.gov/collectionservice .
- The use of a private collection contractor.
- Various tools to research debtor contact information and assets.
- Statutory authority to use a variety of enforcement tools including the placement of tax liens on property, administrative levies of assets such as bank accounts and wages, interception of tax refund monies owed to the debtor by the State of Michigan or any other monies owed from the State of Michigan, interception of tax refund monies owed to the debtor by the Internal Revenue Service, the assessment of corporate officers and successor businesses for business tax liabilities, and the seizure of property via the issuance of tax warrants and associated judicial orders.

These tools are used throughout the statutory collection period as necessary.

Treasury continually monitors the quality of the private collection contractor to ensure that collection methods are within the policies and procedures outlined by the department and that quality customer service is being provided. From month to month, GC typically maintains around a 90% quality service rating.

In late November 2017, Treasury posted a Request for Proposal (RFP) for collection services which allowed for the consideration of a multiple contractor approach to collections. Prior to the issuance of the RFP, Treasury conducted a review of strategies used in other states. Overall, the review showed that the current strategies and tools used by Treasury are in line with tools used in

other states. Treasury also reviewed the use of collection contracts and found that states vary in their use of private contracts based on each state's unique business needs, including secondary placement contracts.

As part of a fair and thorough RFP process in 2018, Treasury selected two collection contractors: GC Services and Harris & Harris. Both collection contractors will conduct primary collection services as well as secondary collection services. Treasury implemented the two new contracts on November 15, 2019.

If you or your staff desire additional information, please contact Lynn Boyes, Director of the Collection Services Bureau at (517) 636-5300.

Sincerely,

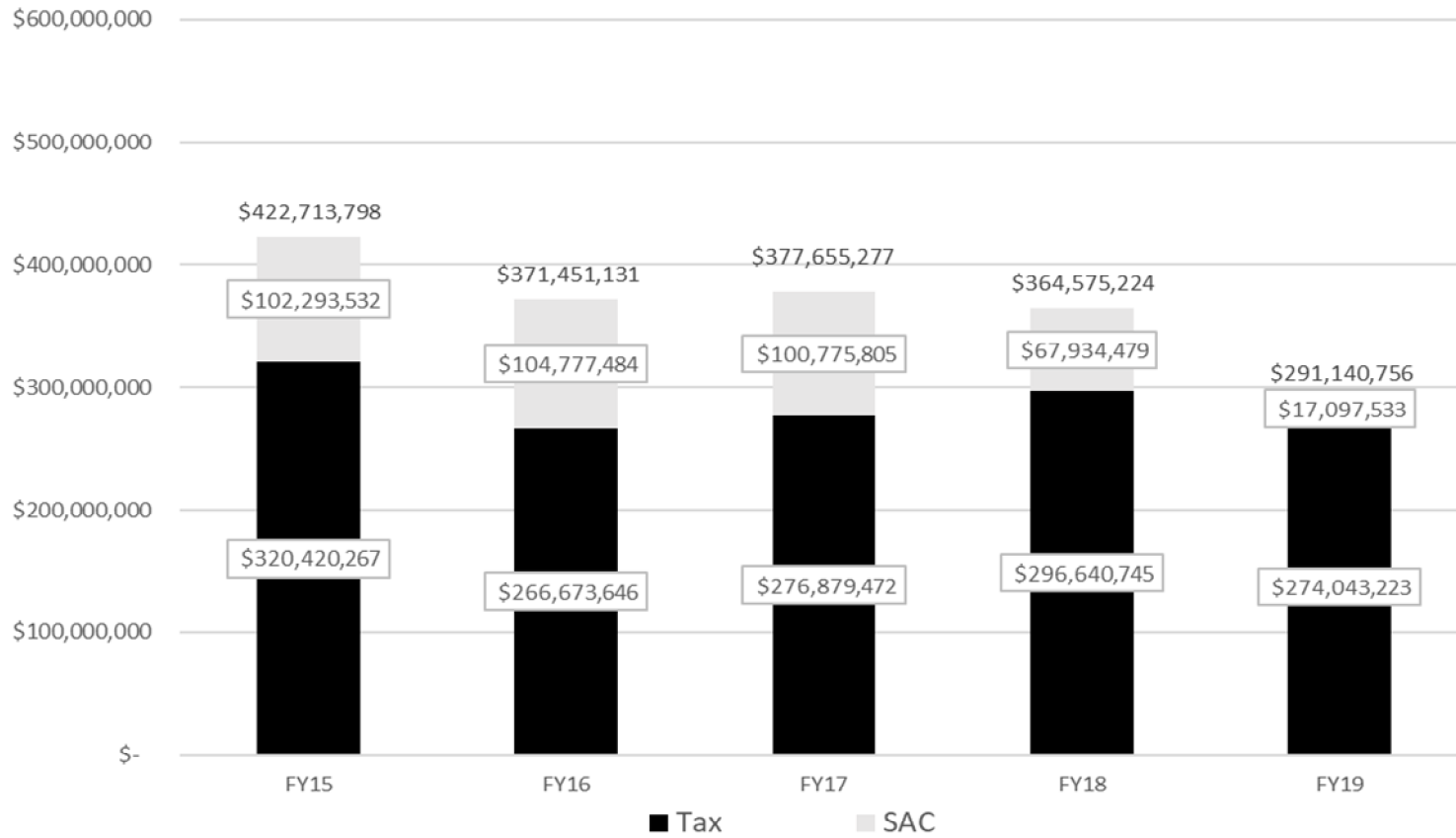
A handwritten signature in black ink, appearing to read "Ann E. Good". The signature is fluid and cursive, with the first name "Ann" being the most prominent.

Ann E. Good
Deputy State Treasurer

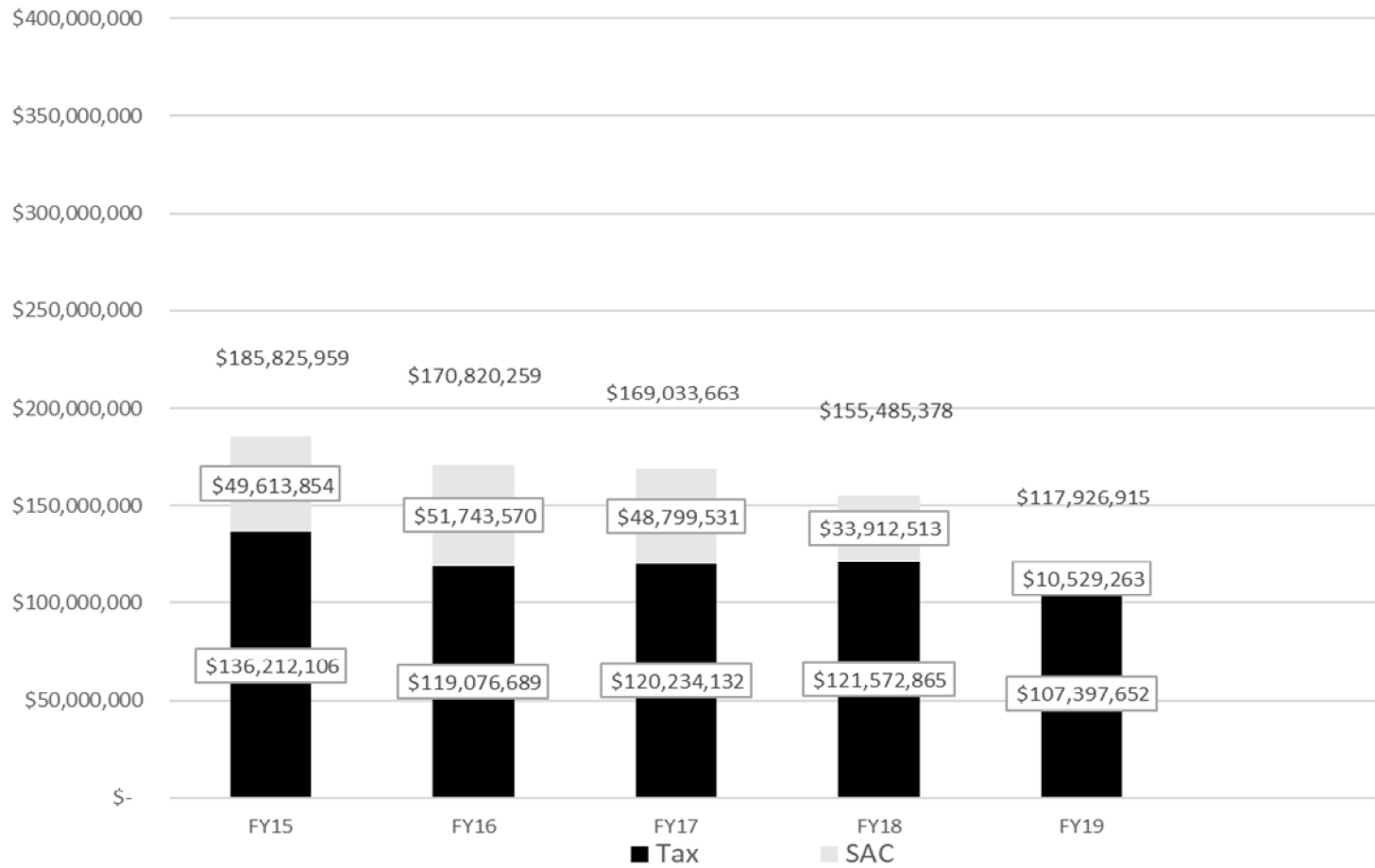
Enclosures

cc: Rachael Eubanks, State Treasurer
Lynn Boyes, Director, Collection Services Bureau
Ken Osborne, Treasury Budget Director

Payments Received- Collection Services Bureau
FY 15-19
Chart A



Payments Received- Third Party Contractor
 FY 15-19
 Chart B



**MICHIGAN DEPARTMENT OF TREASURY
COLLECTION SERVICES BUREAU
ACCOUNTS RECEIVABLE FOR TAX ACCOUNTS AS OF 9/30/19**

Chart C

<u>Businesses</u>	<u>Receivables</u>	<u>% of Total</u>
Sales Tax	\$ 855,795,805	32.65%
Withholding Tax	\$ 649,754,840	24.79%
Use Tax	\$ 248,713,714	9.49%
Corporate Income Tax	\$ 188,747,875	7.20%
Michigan Business Tax	\$ 62,649,819	2.39%
Cigarette/Tobacco Tax	\$ 31,154,301	1.19%
Single Business tax	\$ 30,322,508	1.16%
IFTA Fuel Tax	\$ 20,541,866	0.78%
HICA	\$ 16,192,480	0.62%
Detroit Corp & Withholding Tax	\$ 9,728,791	0.37%
Gasoline/Aviation	\$ 5,166,544	0.20%
Diesel Fuel	\$ 2,655,147	0.10%
Motor Fuel	\$ 2,595,648	0.10%
Flow-Thru Withholding	\$ 2,343,217	0.09%
Other	\$ 5,293,677	0.20%
Business Subtotal	\$ 2,131,656,232	81.31%
<u>Individuals</u>		
Income Tax	\$ 423,621,177	16.16%
Detroit Income Tax	\$ 58,985,718	2.25%
Principal Residence Exemption	\$ 2,205,051	0.08%
Real Estate Transfer Tax	\$ 320,094	0.01%
Individual Subtotal	\$ 485,132,040	18.51%
Levy/Warrant Costs	\$ 4,707,240	0.18%
TOTAL:	\$ 2,621,495,512	100.00%

**MICHIGAN DEPARTMENT OF TREASURY
COLLECTION SERVICES BUREAU
ACCOUNTS RECEIVABLE FOR ALL STATE AGENCIES AS OF 9/30/19**

Chart D

<u>Agency:</u>	<u>Receivables</u>	<u>% of Total</u>
Agriculture	\$ 187,507	0.09%
Attorney General	\$ 2,586,666	1.18%
Civil Service	\$ 4,125,074	1.89%
Corrections	\$ 29,051,547	13.28%
DHS Mi State Disb	\$ 439,165	0.20%
DIFS	\$ 35,827	0.02%
Education	\$ 514,715	0.24%
Environmental Quality	\$ 8,694,686	3.97%
Health & Human Services	\$ 71,845,177	32.84%
Licensing and Regulatory Affairs	\$ 16,533,410	7.56%
Lottery	\$ 1,529,498	0.70%
MI Strategic Fund	\$ 5,024,209	2.30%
MEDC	\$ 2,483,933	1.14%
Natural Resources	\$ 66,312	0.03%
State	\$ 1,684,065	0.77%
Technology, Management & Budget	\$ 1,417,132	0.65%
Transportation	\$ 1,068,791	0.49%
Treasury	\$ 17,199,885	7.86%
State Agency Subtotal:	\$ 164,487,599	75.19%
<u>District Court:</u>		
5th District Court	\$ 394,621	0.18%
37C District Court	\$ 1,198,268	0.08%
37W District Court	\$ 5,059,759	2.31%
43A District Court	\$ 548,408	0.25%
50th District Court	\$ 218,487	0.10%
54A District Court	\$ 166,355	0.08%
422 District Court	\$ 128,934	0.06%
421 District Court	\$ 65,955	0.03%
District Court Subtotal:	\$ 7,780,787	3.56%
<u>University:</u>		
Central Michigan University	\$ 9,277,677	4.24%
Eastern Michigan University	\$ 11,896,932	5.44%
Ferris State University	\$ 6,707,337	3.07%

Grand Valley University	\$ 2,584,880	1.18%	
Lake Superior University	\$ 649,864	0.30%	
Michigan Tech University	\$ 380,715	0.17%	
Northern Michigan University	\$ 4,351,185	1.99%	
Oakland University	\$ 10,571,598	4.83%	
Saginaw Valley University	\$ 79,272	0.04%	
University Subtotal:	\$ 46,499,460		21.26%
TOTAL:	\$ 218,767,846		100%