



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

NICK A. KHOURI
STATE TREASURER

March 29, 2018

Mr. John J. Walsh
Director, State Budget Office
111 S. Capitol Avenue
Lansing, MI 48933

Dear Mr. Walsh:

Section 937 of Public Act 107 of 2017 requires that the Department of Treasury report by March 31, 2018 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 107 of 2017 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, including Driver Responsibility Fees. The costs associated with the GC contract are stipulated in contract #071B02001.01 and includes both collection incentive fees and reimbursement of certain operating expenses. GC is paid a collection incentive fee of 11.61% on actual tax and state agency debt collections and 8.13% on actual collections of certain Driver Responsibility Fees.

Effectiveness of Collections

As provided in Chart A (attached), the Department has collected over \$2 billion in delinquent tax and state agency debts between FY 2013 and FY 2017. As indicated in Chart B (attached), over \$871 million of this amount can be contributed to the private collection contractor. The decrease in state agency collections between FY 2013 and FY 2017 can be attributed to the

change in the Driver Responsibility Fee Law which eliminated certain driver responsibility fees as of October 1, 2012. Due to the passage of recent legislation, the Driver Responsibility Fee (DRF) Law will no longer be in effect as of October 1, 2018 and any DRF debts owed to the State as of that date will be waived. Tax collections increased by approximately 3.8% between FY 2016 and FY 2017.

Chart C (attached) shows the account resolution rates for GC for FY 2013 through FY 2017. The amount of time that Treasury is able to collect on an account varies based on statute. In general, Treasury is able to collect on a delinquent account for six years at a minimum. Various actions, such as making a voluntary payment, will extend the timeframe to collect on an account. For debts received in FY 2013, Treasury and GC has achieved a 60.3% resolution rate on state agency debts and a 76.1% resolution rate for tax debts. For debts received in FY 2017, the resolution rate is 22.2% and 42.2% respectively, since those debts have been worked for less time. Account resolution includes accounts paid in full or otherwise resolved, such as bankruptcy discharge, settlement, or the debtor is deceased.

Accounts Receivable Profile

The attached Chart D and Chart E include a breakdown of the accounts receivable by tax and state agency debt as of September 30, 2017. Of the total \$3.4 billion tax accounts receivable, 35.3% (\$1.2 billion) has been assigned to GC. Of the total \$904.8 million state agency accounts receivable, 93.7% (\$847.5 million) has been assigned to GC. Combined, total referred amounts to GC represented approximately 47.3% of total tax and state agency account receivables of \$4.3 billion as of September 30, 2017.

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.

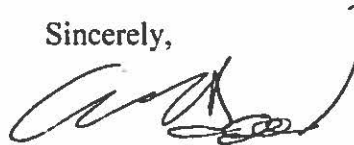
Treasury continually monitors the quality of the private collection contractor to ensure that collection methods are within the policies and procedures outlined by the department and that

quality customer service is being provided. From month to month, GC typically maintains between a 92% - 97% quality service rating.

The current private collection contract with GC goes through November 15, 2019. In late November 2017, Treasury posted a Request for Proposal (RFP) for collection services. It is the Department's intent that the new contract will be awarded in May 2018 to allow sufficient time to transition to the selected contractor or contractors. 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, Treasury's RFP allowed for the consideration of a multiple contractor approach to collections.

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

Sincerely,



Ann E. Good
Deputy State Treasurer

Enclosures

cc: Nick Khouri, State Treasurer
Lynn Boyes, Director, Office of Collections
Cindy Peruchietti, Director, Bureau of Budget and IT Management

Chart A

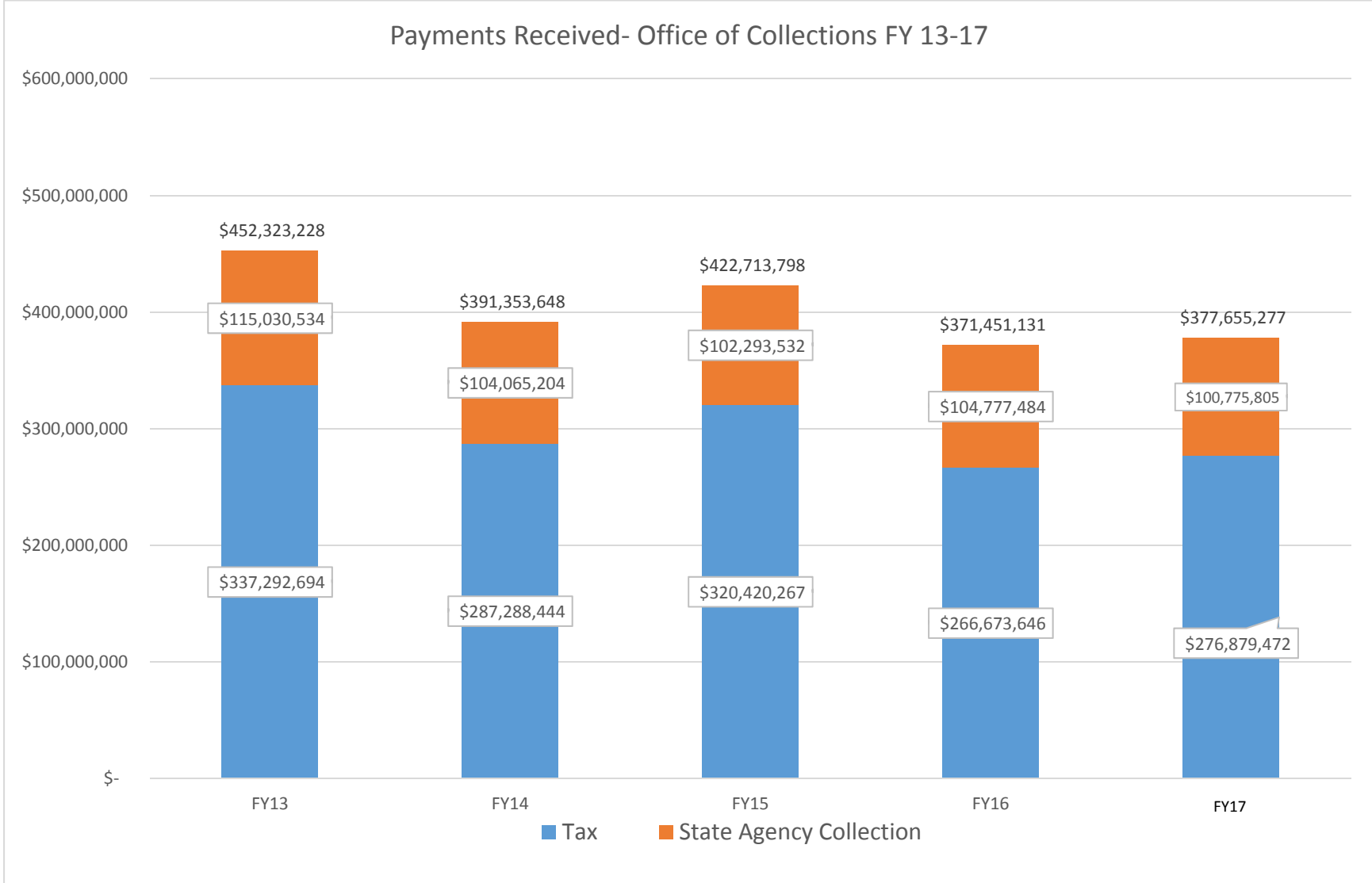


Chart B

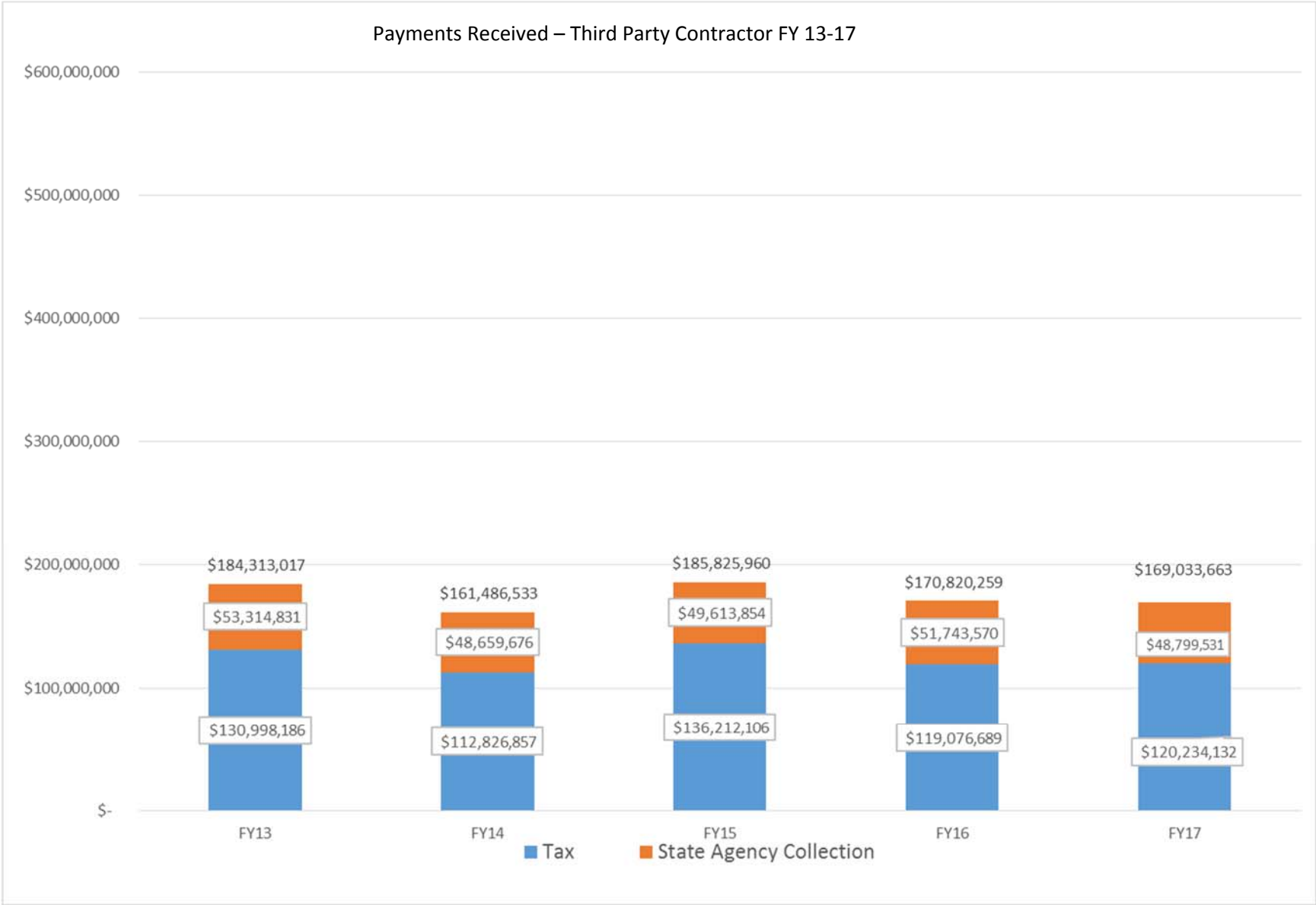
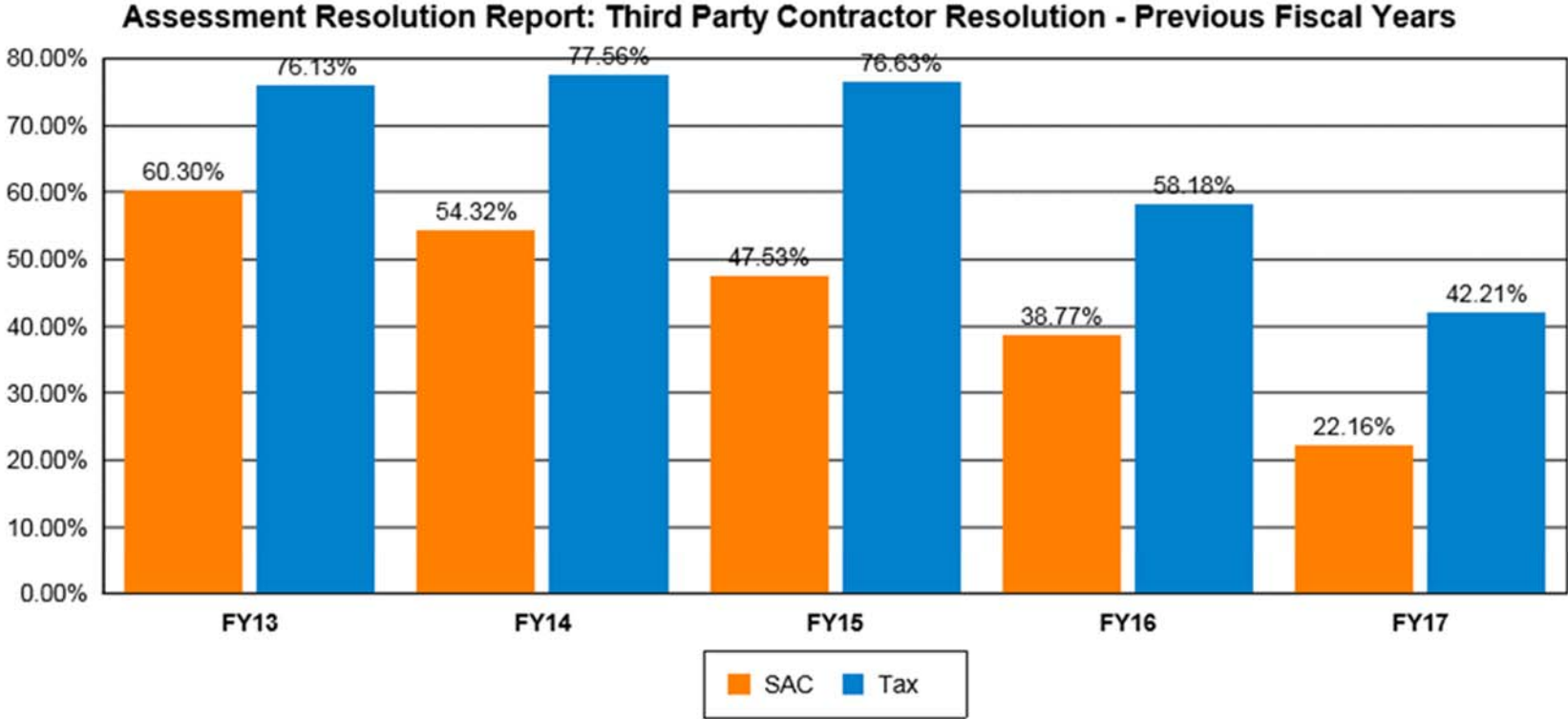


Chart C



**MICHIGAN DEPARTMENT OF TREASURY
OFFICE OF COLLECTIONS
ACCOUNTS RECEIVABLE FOR TAX ACCOUNTS AS OF 9/30/17**

Chart D

<u>Businesses</u>	<u>Receivables</u>	<u>% of Total</u>
Sales Tax	\$ 1,177,380,510	34.61%
Withholding Tax	\$ 751,257,460	22.08%
Michigan Business Tax	\$ 357,750,919	10.52%
Single Business Tax	\$ 72,785,856	2.14%
Use tax	\$ 274,685,083	8.07%
Flow Thru Withholding	\$ 3,340,215	0.10%
Corporate Income Tax	\$ 94,704,896	2.78%
Cigarette/Tobacco Tax	\$ 55,643,373	1.64%
IFTA Fuel Tax	\$ 46,167,011	1.36%
Motor Fuel	\$ 3,821,471	0.11%
Motor Carrier Tax	\$ 470,653	0.01%
Diesel Fuel	\$ 6,155,819	0.18%
Gasoline/Aviation	\$ 7,660,442	0.23%
Retaliatory Tax	\$ 619,420	0.02%
Other	\$ 4,772,451	0.14%
Business Subtotal	\$ 2,857,215,579	83.99%
<u>Individuals</u>		
Income Tax	\$ 508,196,359	14.94%
Detroit Income Tax	\$ 26,579,982	0.78%
Real Estate Transfer Tax	\$ 1,591,795	0.05%
Principal Residence Exemption	\$ 4,022,460	0.12%
Intangibles Tax	\$ 132,650	0.00%
Estate Tax	\$ 23,654	0.00%
Inheritance Tax	\$ -	0
Individual Subtotal	\$ 540,546,900	15.89%
Levy/Warrant Costs	\$ 3,944,709	0.12%
TOTAL:	\$ 3,401,707,188	100.00%

**MICHIGAN DEPARTMENT OF TREASURY
OFFICE OF COLLECTIONS
ACCOUNTS RECEIVABLE FOR ALL STATE AGENCIES AS OF 9/30/17**

Chart E

<u>Agency:</u>	<u>Receivables</u>	<u>% of Total</u>	
Agriculture	\$ 253,918	0.03%	
Attorney General	\$ 4,550,462	0.50%	
Community Health	\$ 75,829,869	8.38%	
Corrections	\$ 44,140,120	4.88%	
Education	\$ 630,243	0.07%	
Environmental Quality	\$ 12,657,926	1.40%	
Gaming Control	\$ 7,763	0.00%	
Human Services	\$ 8,732,626	0.97%	
Insurance & Financial Services	\$ 29,479	0.00%	
Licensing and Regulatory Affairs	\$ 18,200,215	2.01%	
Lottery	\$ 1,107,679	0.12%	
Michigan Economic Development Corp	\$ 1,824,705	0.20%	
Michigan Strategic Fund	\$ 5,793,733	0.64%	
Military Affairs	\$ -	0.00%	
Natural Resources	\$ 117,104	0.01%	
Office of State Employer	\$ 5,507,375	0.61%	
State	\$ 6,218,567	0.69%	
State - Driver Responsibility Fees	\$ 630,255,686	69.66%	
Technology, Management & Budget	\$ 1,768,041	0.20%	
Transportation	\$ 909,018	0.10%	
Treasury	\$ 28,542,048	3.15%	
State Agency Subtotal:	\$ 847,076,577		93.62%
<u>District Court:</u>			
5th District Court	\$ 563,875	0.06%	
37C District Court	\$ 800,173	0.08%	
37W District Court	\$ 5,998,368	0.66%	
43A District Court	\$ 691,828	0.08%	
43B District Court	\$ -	0.00%	
50th District Court	\$ 266,752	0.03%	
54A District Court	\$ 222,255	0.02%	
422 District Court	\$ 134,115	0.01%	
421 District Court	\$ 63,550	0.01%	
District Court Subtotal:	\$ 8,740,916		0.97%

<u>University:</u>			
Central Michigan University	\$	10,391,711	1.15%
Eastern Michigan University	\$	13,956,866	1.54%
Ferris State University	\$	8,070,011	0.89%
Grand Valley University	\$	2,611,751	0.29%
Lake Superior University	\$	823,396	0.09%
Michigan Tech University	\$	385,202	0.04%
Northern Michigan University	\$	3,950,423	0.44%
Oakland University	\$	8,555,008	0.95%
Saginaw Valley University	\$	244,569	0.03%
University Subtotal:	\$	48,988,937	5.41%
Technical Adjustment	\$	3	0%
TOTAL:	\$	904,806,433	100%