



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

GRETCHEN WHITMER
GOVERNOR

RACHAEL EUBANKS
STATE TREASURER

March 29, 2019

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

Dear Mr. Kolb:

Section 937 of Public Act 207 of 2018 requires that the Department of Treasury report by March 31, 2019 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 207 of 2018 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 are stipulated in contract #071B0200101 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 was paid 8.13% on actual collections of certain Driver Responsibility Fees.

Effectiveness of Collections

As provided in Chart A (attached), the Department has collected over \$1.9 billion in delinquent tax and state agency debts between FY 2014 and FY 2018. As indicated in Chart B (attached), over \$842 million of this amount can be contributed to the private collection contractor. The decrease in state agency collections between FY 2017 and FY 2018 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 increased by approximately 7.1% between FY 2017 and FY 2018.

Chart C (attached) shows the account resolution rates for GC for FY 2014 through FY 2018. 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 2014, Treasury and GC have achieved a 61.05% resolution rate on state agency debts and an 79.67% resolution rate for tax debts. For debts received in FY 2018, the resolution rate is 28.57% and 43.64% 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, 2018. Of the total \$4.2 billion tax accounts receivable, approximately 33% (\$1.4 billion) has been assigned to GC. Of the total \$821.5 million state agency accounts receivable, 94.7% (\$777.7 million) has been assigned to GC. Combined, total referred amounts to GC represented approximately 43% of total tax and state agency account receivables of \$5 billion as of September 30, 2018. Again, please note that the DRF debts shown on Chart E as of September 30, 2018 were waived on October 1, 2018, therefore materially reducing the outstanding state agency debts as of that date.

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/collectionseservice .
- 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.

The current private collection contract with GC runs through November 15, 2019. 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 is currently engaged in implementation of the new contracts, which officially went into effect on September 26, 2018.

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

Sincerely,



Ann E. Good
Deputy State Treasurer

Enclosures

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

Chart A

**Payments Received- Collection Services Bureau
FY 14-18**

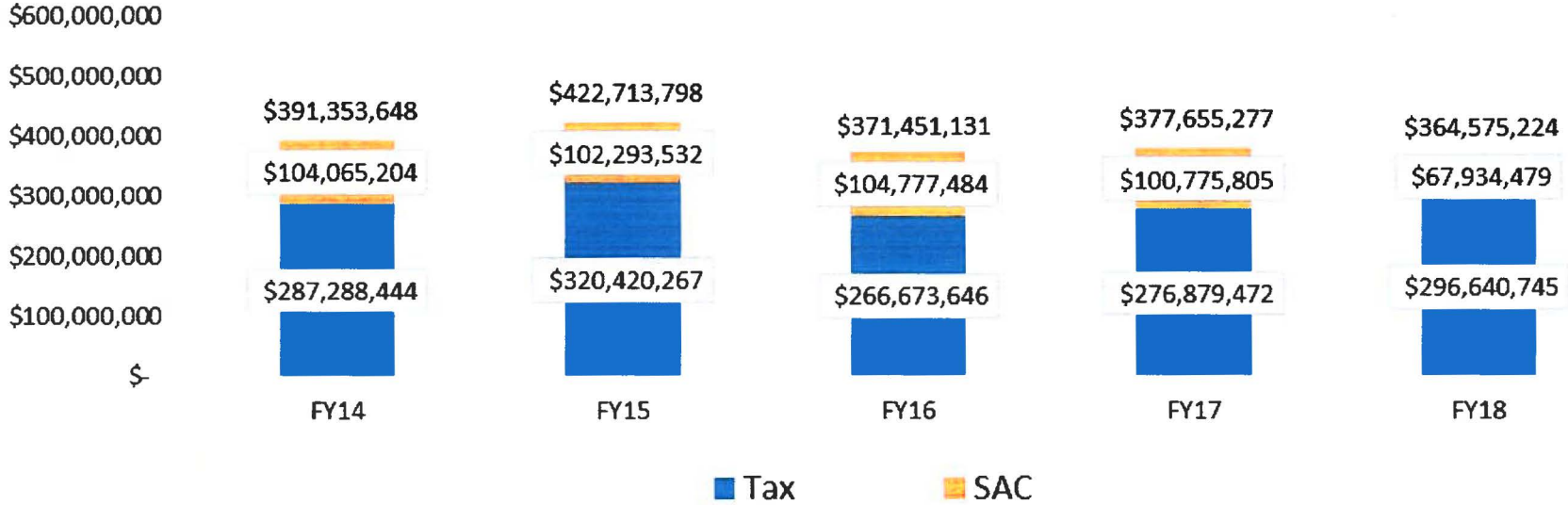


Chart B

Payments Received- Third Party Contractor FY 14-18

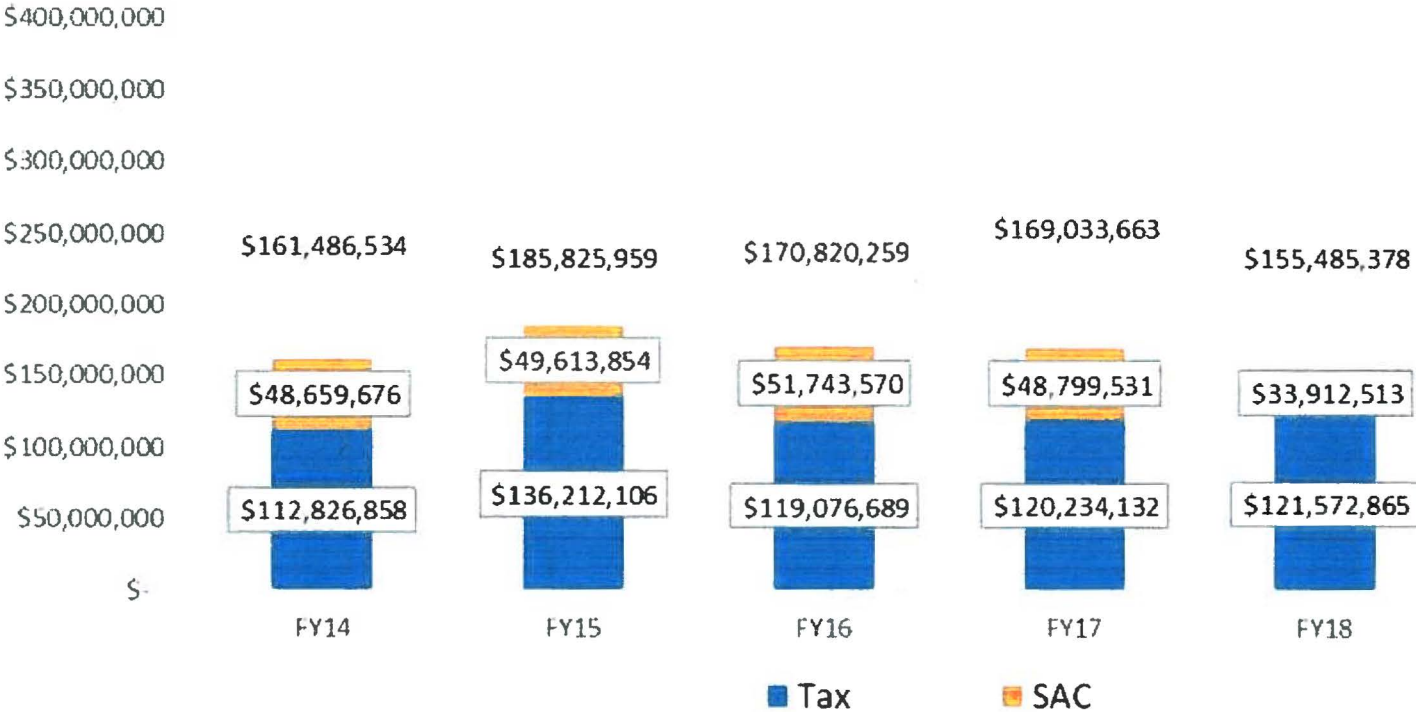
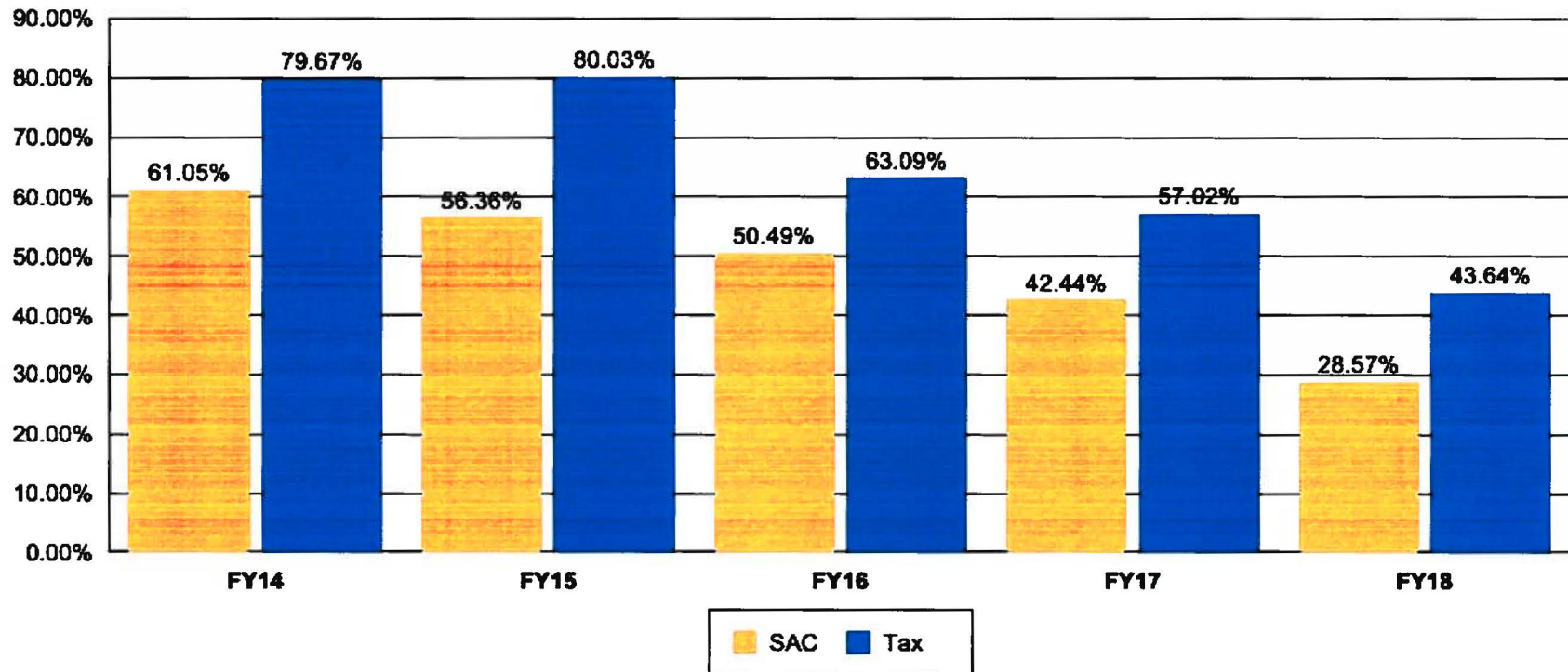


Chart C

Assessment Resolution Report: Third Party Contractor Resolution - Previous Fiscal Years



MICHIGAN DEPARTMENT OF TREASURY
 COLLECTION SERVICES BUREAU
 ACCOUNTS RECEIVABLE FOR TAX ACCOUNTS AS OF 9/30/18

Chart D

Businesses		Receivables		% of Total
Sales Tax		\$ 1,303,476,671		31.27%
Withholding Tax		\$ 874,238,529		20.97%
Corporate Income Tax		\$ 727,901,861		17.46%
Michigan Business Tax		\$ 323,704,470		7.76%
Use tax		\$ 228,765,807		5.49%
Single Business Tax		\$ 64,880,483		1.56%
Cigarette/Tobacco Tax		\$ 51,011,916		1.22%
IFTA Fuel Tax		\$ 46,111,090		1.11%
Gasoline/Aviation		\$ 6,079,881		0.15%
Flow-Thru Withholding		\$ 5,558,672		0.13%
Diesel Fuel		\$ 4,244,933		0.10%
Motor Fuel		\$ 2,686,066		0.06%
Other		\$ 5,806,002		0.14%
Business Subtotal			\$ 3,644,466,381	87.42%
Individuals				
Income Tax		\$ 481,562,791		11.55%
Detroit Income Tax		\$ 33,214,155		0.80%
Principal Residence Exemption		\$ 4,261,068		0.10%
Real Estate Transfer Tax		\$ 944,863		0.02%
Intangibles Tax		\$ 134,772		0.00%
Estate Tax		\$ 24,396		0.00%
Individual Subtotal			\$ 520,142,045	12.48%
Levy/Warrant Costs			\$ 4,440,728	0.11%
TOTAL:			\$ 4,169,049,154	100.00%

**MICHIGAN DEPARTMENT OF TREASURY
COLLECTION SERVICES BUREAU
ACCOUNTS RECEIVABLE FOR ALL STATE AGENCIES AS OF 9/30/18**

Chart E

Agency:	Receivables	% of Total	
Agriculture	\$ 205,274	0.02%	
Attorney General	\$ 2,619,578	0.32%	
Corrections	\$ 38,691,661	4.71%	
DHS Mi State Disb	\$ 524,429	0.06%	
DIFS	\$ 46,051	0.01%	
Education	\$ 586,002	0.07%	
Environmental Quality	\$ 8,713,781	1.06%	
Health & Human Services	\$ 72,594,868	8.84%	
Licensing and Regulatory Affairs	\$ 15,425,102	1.88%	
Lottery	\$ 1,237,897	0.15%	
MI Strategic Fund	\$ 6,174,424	0.75%	
MEDC	\$ 2,393,264	0.29%	
Natural Resources	\$ 96,058	0.01%	
Office of State Employer	\$ 4,936,973	0.60%	
State	\$ 1,757,568	0.21%	
State- Driver Responsibility Fees	\$ 576,061,257	70.12%	
Technology, Management & Budget	\$ 1,804,880	0.22%	
Transportation	\$ 964,853	0.12%	
Treasury	\$ 27,554,320	3.35%	
State Agency Subtotal:		\$ 762,388,240	92.80%
District Court:			
5th District Court	\$ 502,938	0.06%	
37C District Court	\$ 836,363	0.08%	
37W District Court	\$ 5,637,338	0.69%	
43A District Court	\$ 653,091	0.08%	
50th District Court	\$ 246,673	0.03%	
54A District Court	\$ 202,075	0.02%	
422 District Court	\$ 133,861	0.02%	
421 Disctict Court	\$ 64,448	0.01%	
District Court Subtotal:		\$ 8,276,787	1.01%
University:			
Central Michigan University	\$ 10,580,830	1.29%	
Eastern Michigan University	\$ 13,689,164	1.67%	

Ferris State University	\$ 7,552,913		0.92%	
Grand Valley University	\$ 2,783,522		0.34%	
Lake Superior University	\$ 817,449		0.10%	
Michigan Tech University	\$ 435,550		0.05%	
Northern Michigan University	\$ 4,506,774		0.55%	
Oakland University	\$ 10,282,798		1.25%	
Saginaw Valley University	\$ 211,263		0.03%	
University Subtotal:		\$ 50,860,263		6.19%
TOTAL:		\$ 821,525,290		100%