



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

NICK A. KHOURI
STATE TREASURER

April 18, 2017

Mr. Al Pscholka
Director, State Budget Office
111 S. Capitol Avenue
Lansing, MI 48933

Dear Mr. Pscholka:

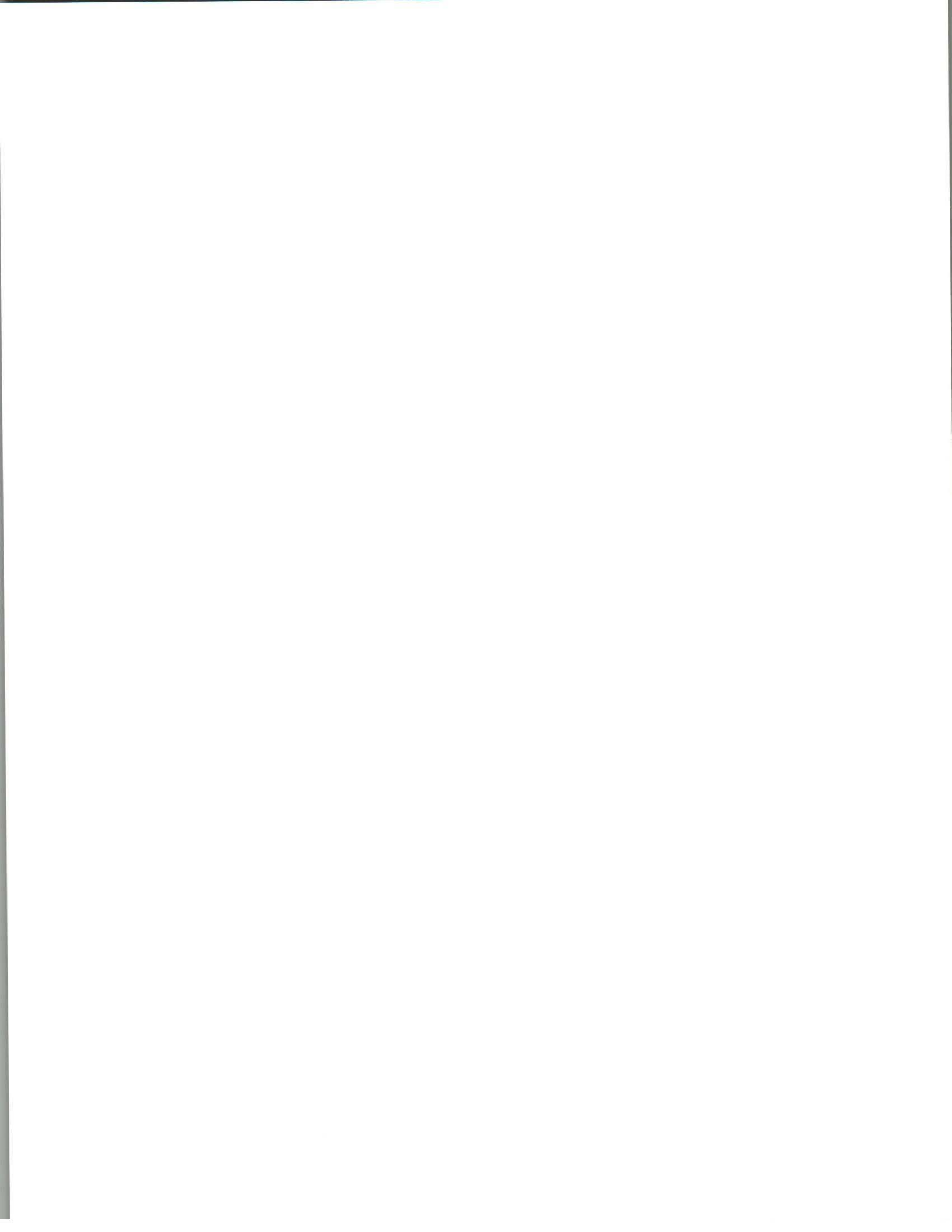
Section 937 of Public Act 268 of 2016 requires that the Department of Treasury report by March 31, 2017 on the performance of the Michigan Accounts Receivable Collections system. As required, this report addresses the following:

- 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 268 of 2016 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.

Effectiveness of Collections

As provided in Chart A (attached), the Department has collected over \$2.088 billion in delinquent tax and state agency debts between FY 2012 and FY 2016. Over \$861 million of this amount can be contributed to the private collection contractor. The decrease in state agency collections between FY 2012 and FY 2014 can be attributed to the change in the Driver Responsibility Fee Law which eliminated certain driver responsibility fees as of October 1, 2012. The decrease in tax collections in FY 2016 can be attributed to the late assessment of business tax delinquencies due to implementation of a new tax system.



Further information regarding the collections and related costs of the private collection contractor can be found in the attached report to the Director of the State Budget Office dated November 22, 2016.

Chart B (attached) shows the account resolution rate between FY 2012 and FY 2016. 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 2012, Treasury has achieved a 61.1% resolution rate on state agency debts and a 74.6% resolution rate for tax debts. For debts received in FY 2016, the resolution rate is 21.5% and 40.0% 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 C and Chart D include a breakdown of the accounts receivable by tax and state agency debt as of September 30, 2016. Of the total \$2.86 billion tax accounts receivable, 41.5% (\$1.19 billion) has been assigned to GC. Of the total \$911.3 million state agency accounts receivable, 94.2% (\$858.1 million) has been assigned to GC. Combined, total referred amounts to GC represented approximately 54.2% of total tax and state agency account receivables of \$3.78 billion as of September 30, 2016.

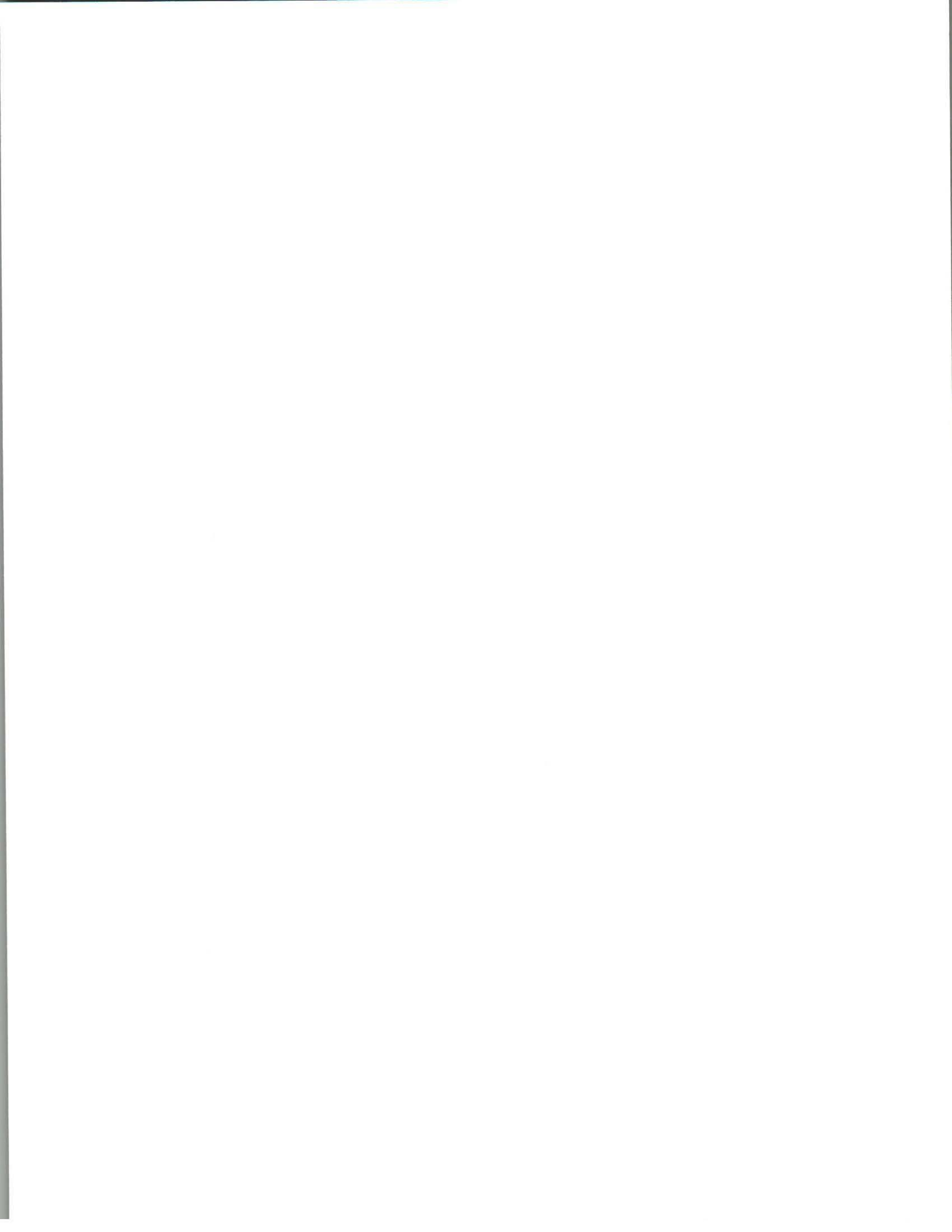
Collections Strategies and Tools

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 . Later this year, customers will also be able to set up simple installment agreements online.
- 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 93% - 96% quality service rating.

The current private collection contract, including a 2 year extension, goes through November 15, 2019. Treasury is in the process of drafting a Request for Proposal (RFP) to be bid out later this year. It is the Department's intent that the new contract will be awarded in May 2018 to allow sufficient transition time for the chosen contractor. The approximate timeline for issuance of the RFP is late fall 2017. In preparation, 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 collections 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 will be issuing an RFP that allows for the consideration of a multiple contractor approach to collections.

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

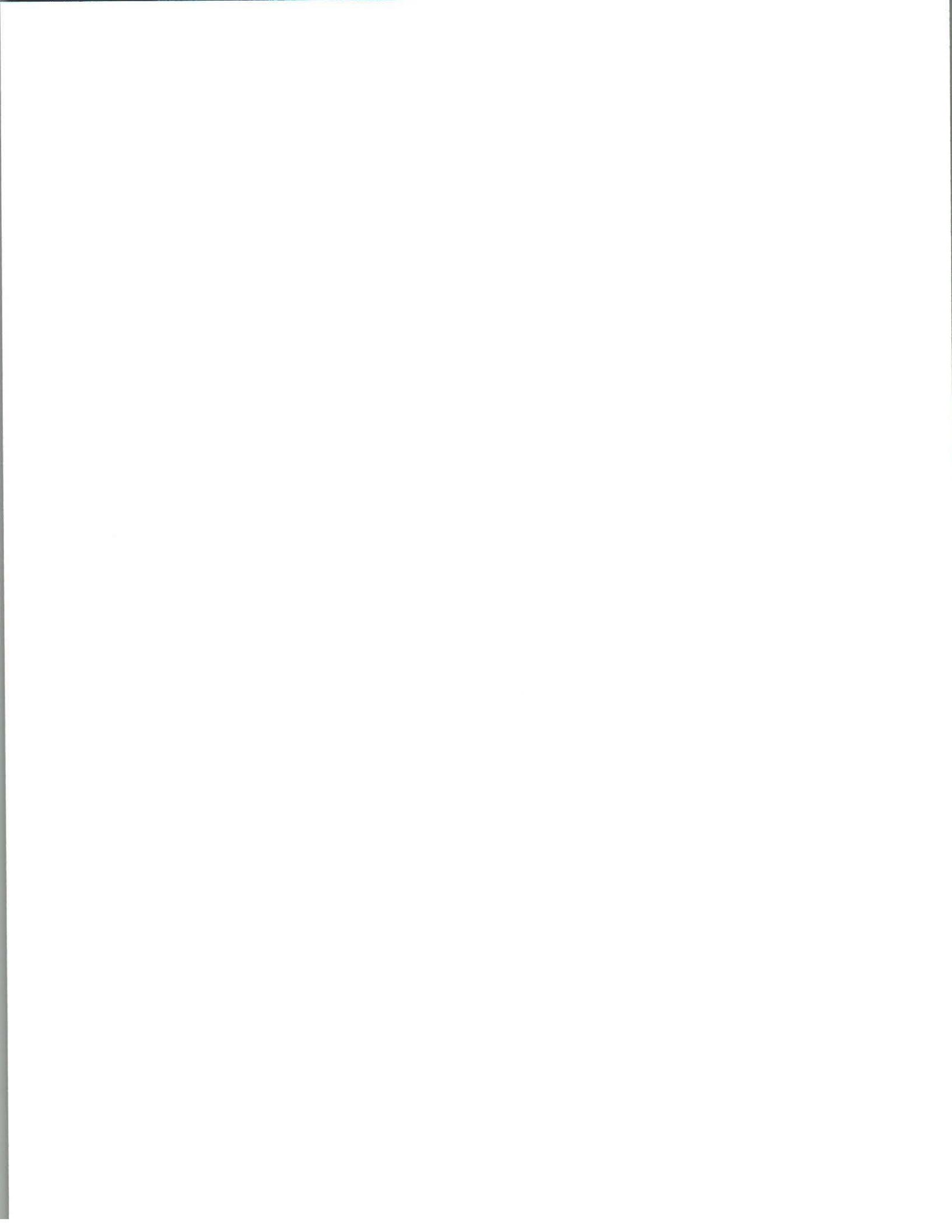
Sincerely,

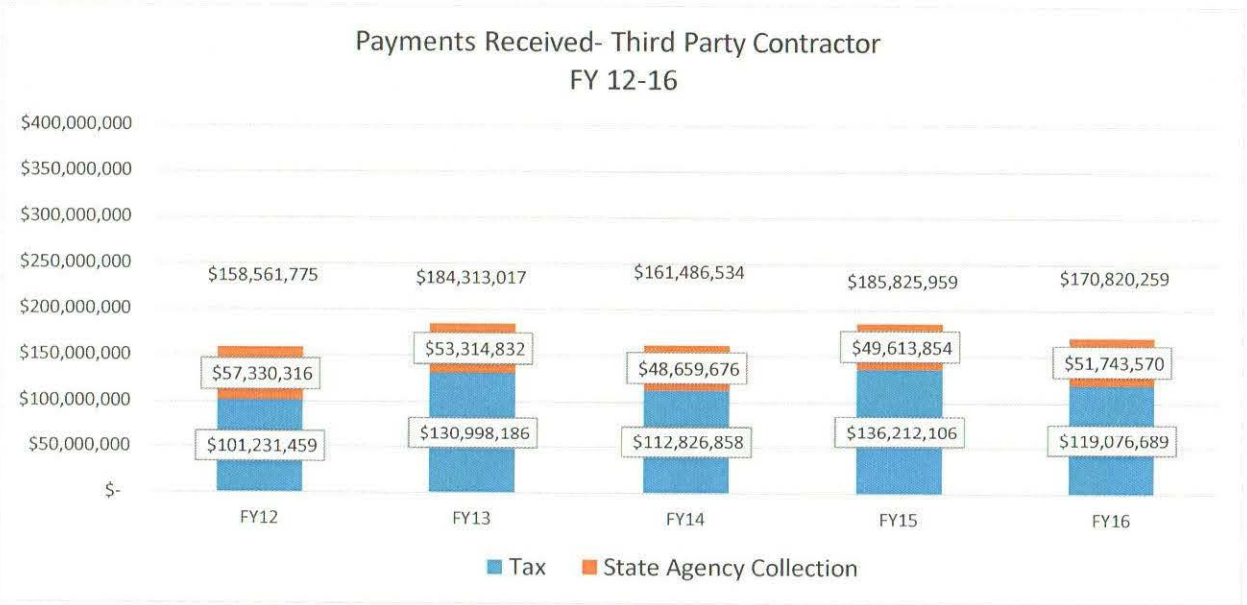
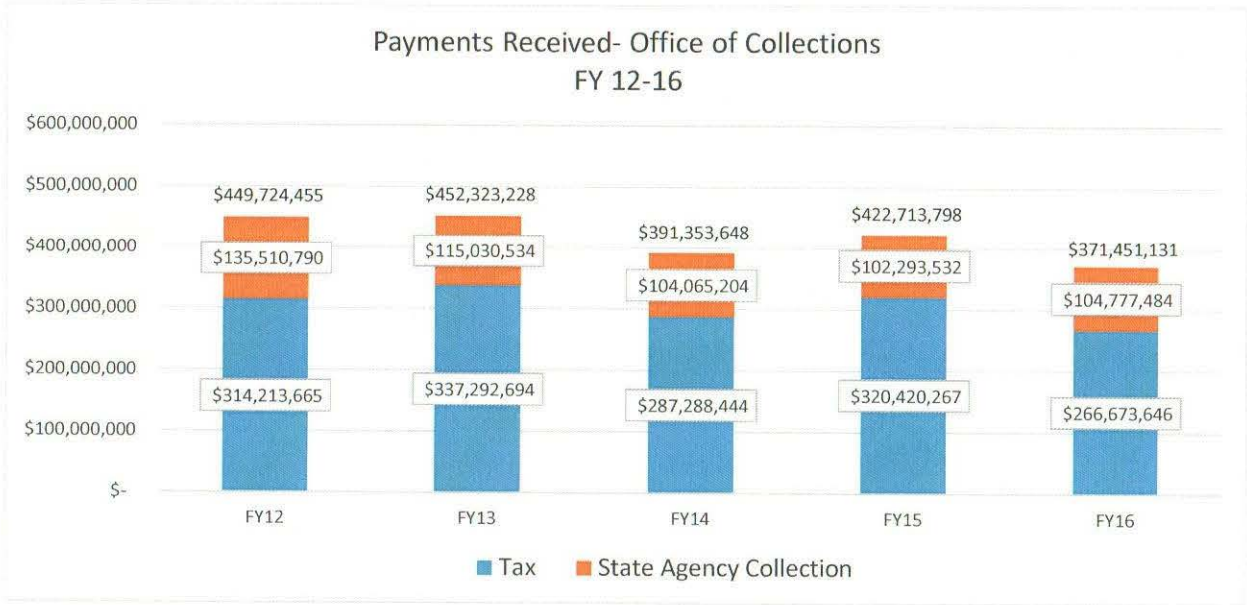


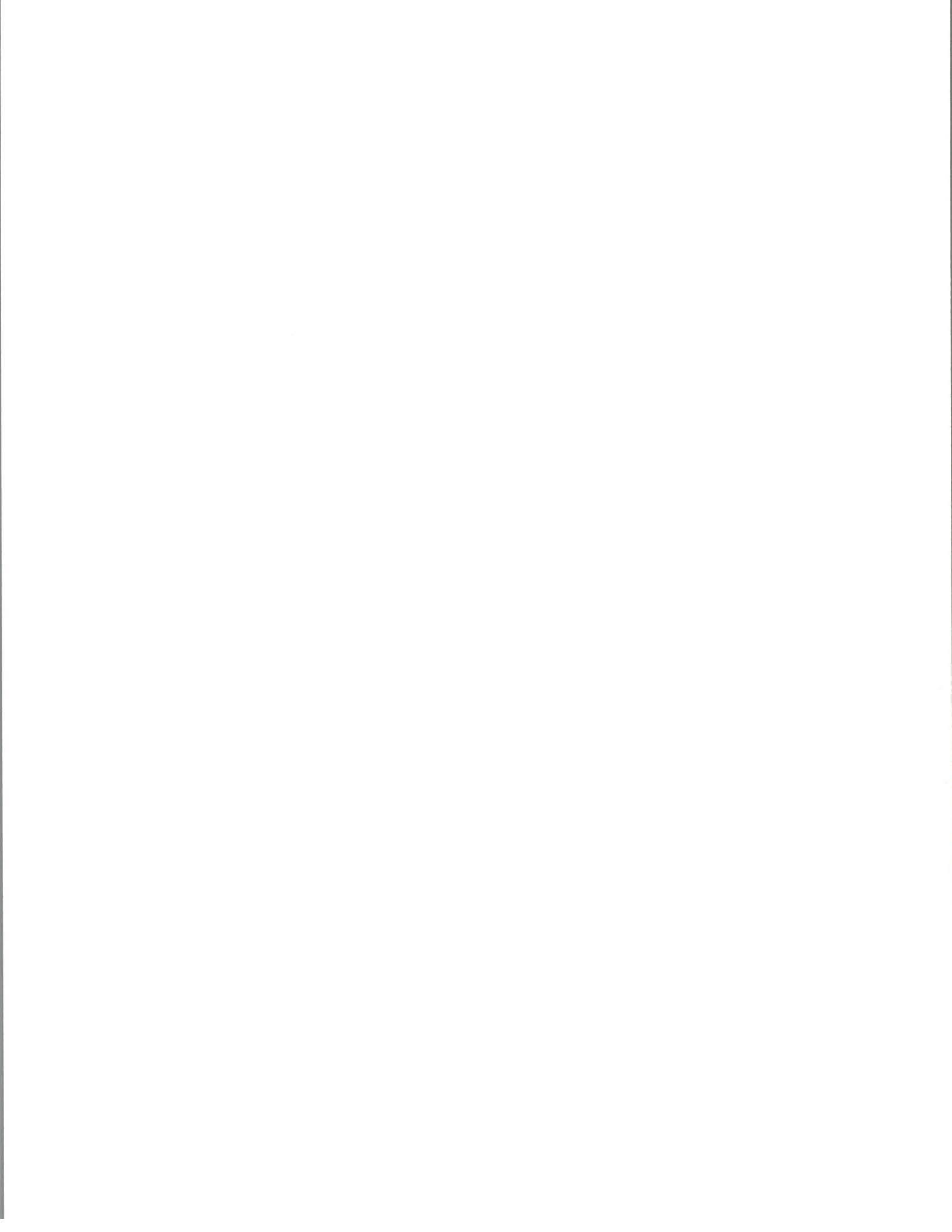
Joseph L. Fielek
Chief Deputy State Treasurer

Enclosures

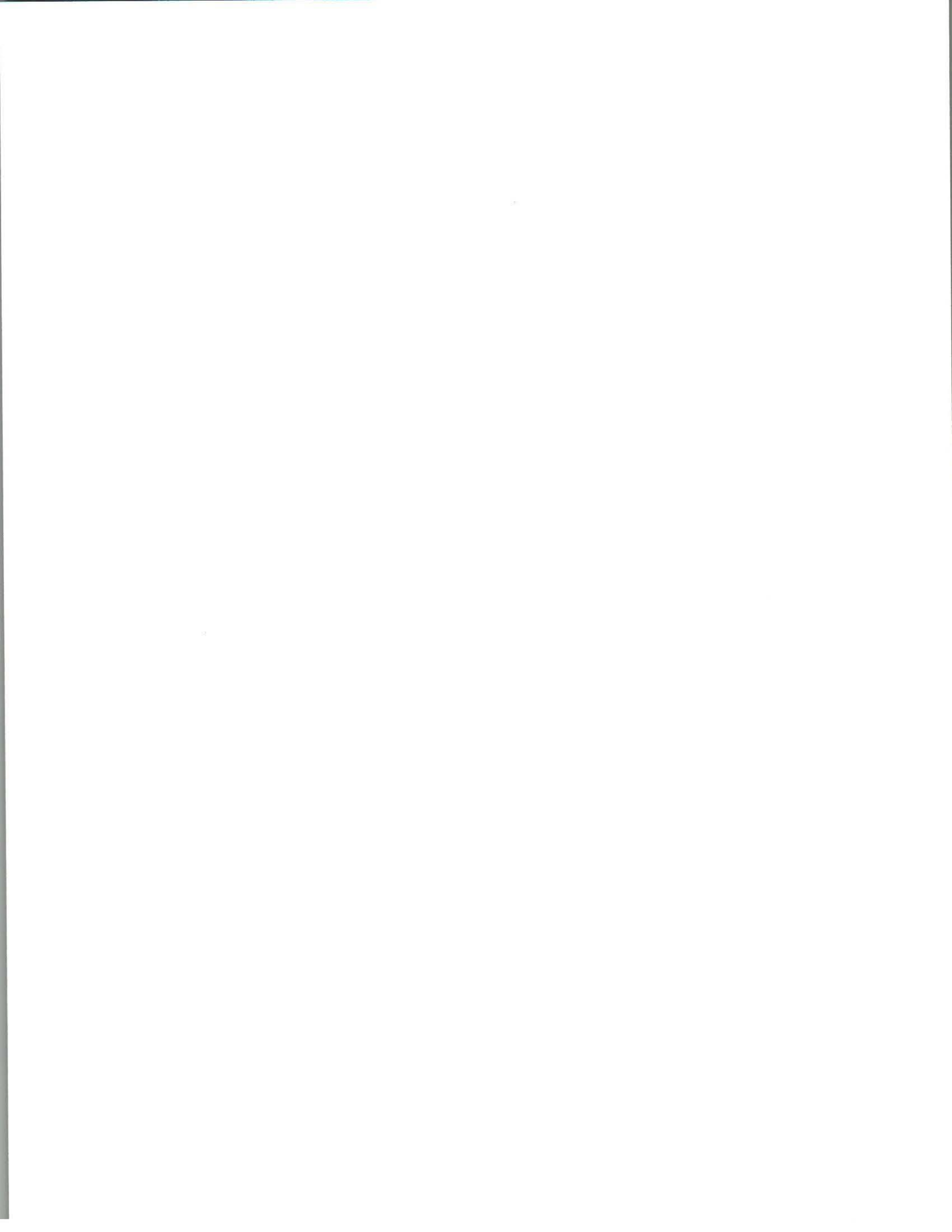
cc: Nick Khouri, State Treasurer
Ann Good, Director, Office of Collections
Cindy Peruchietti, Bureau Director





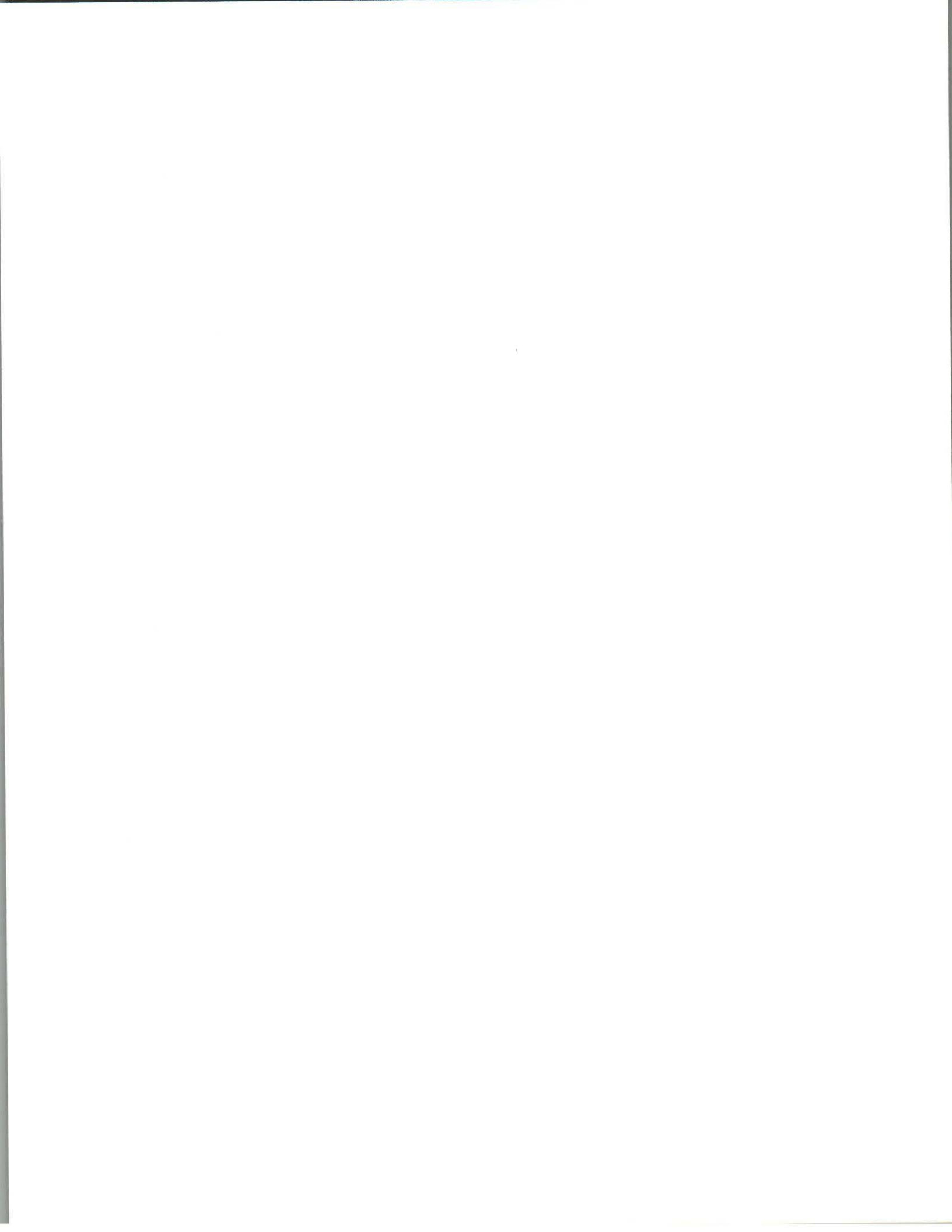






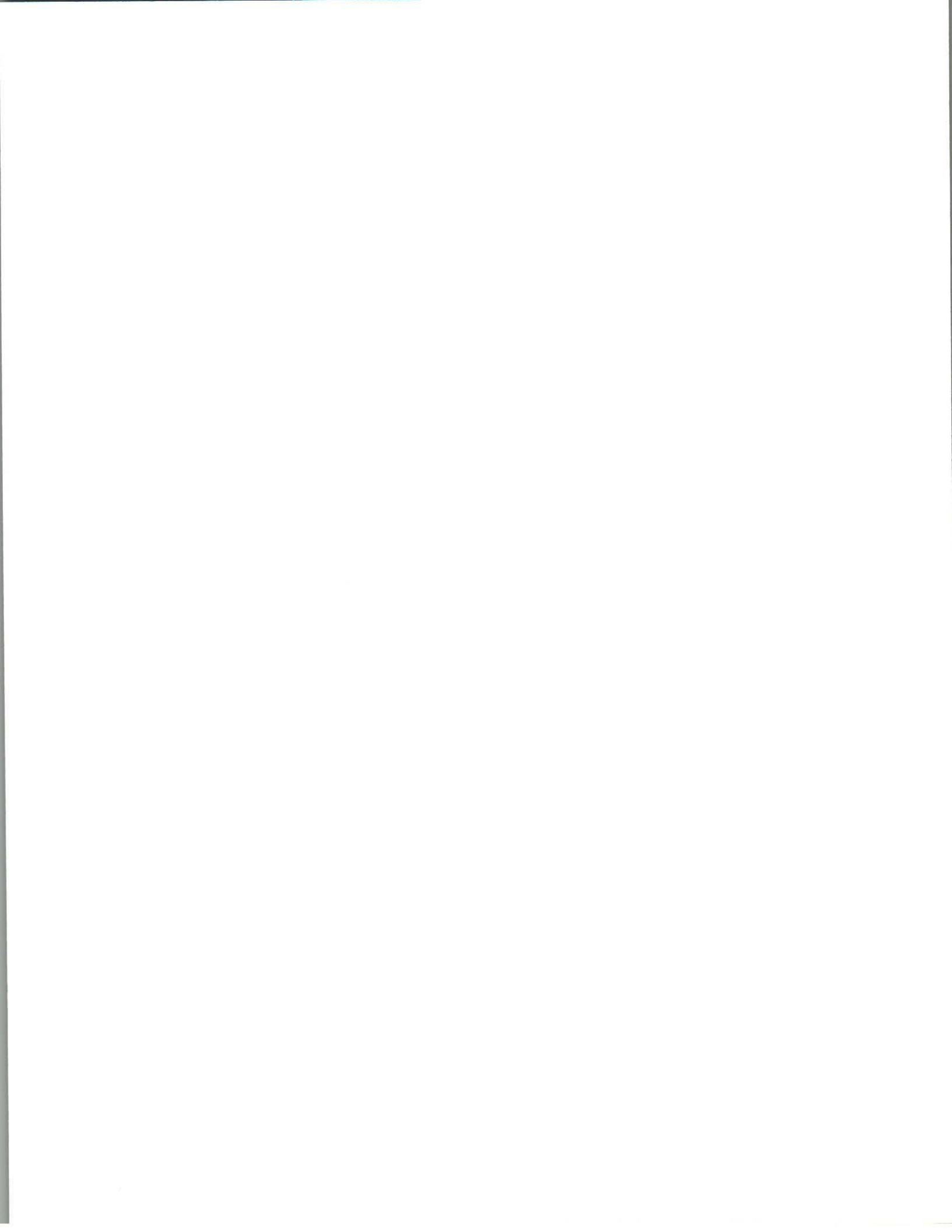
**MICHIGAN DEPARTMENT OF TREASURY
OFFICE OF COLLECTIONS
ACCOUNTS RECEIVABLE FOR ALL STATE AGENCIES AS OF 9/30/16**

<u>Agency:</u>	<u>Receivables</u>	<u>% of Total</u>
Agriculture	\$ 285,867	0.03%
Attorney General	\$ 4,882,115	0.54%
Community Health	\$ 71,247,656	7.82%
Corrections	\$ 45,998,047	5.05%
Education	\$ 598,025	0.07%
Environmental Quality	\$ 16,959,946	1.86%
Gaming Control	\$ 8,496	0.00%
Human Services	\$ 8,212,136	0.90%
Insurance & Financial Services	\$ 41,651	0.00%
Licensing and Regulatory Affairs	\$ 19,179,814	2.10%
Lottery	\$ 964,810	0.11%
Michigan Economic Development Corp	\$ 1,987,326	0.22%
Michigan Strategic Fund	\$ 6,490,993	0.71%
Military Affairs	\$ 1,039	0.00%
Natural Resources	\$ 130,435	0.01%
Office of State Employer	\$ 5,184,574	0.57%
State	\$ 6,296,673	0.69%
State - Driver Responsibility Fees	\$ 633,735,740	69.54%
Technology, Management & Budget	\$ 971,285	0.11%
Transportation	\$ 926,239	0.10%
Treasury	\$ 34,160,897	3.75%
State Agency Subtotal:	\$ 858,263,764	94.18%
District Court:		
5th District Court	\$ 683,345	0.07%
37C District Court	\$ 762,566	0.08%
37W District Court	\$ 5,684,203	0.62%
43A District Court	\$ 681,173	0.07%
43B District Court	\$ -	0.00%
50th District Court	\$ 321,352	0.04%
54A District Court	\$ 283,733	0.03%
422 District Court	\$ 128,145	0.01%
421 District Court	\$ 62,763	0.01%
District Court Subtotal:	\$ 8,607,280	0.94%
University:		
Central Michigan University	\$ 10,367,822	1.14%
Eastern Michigan University	\$ 12,181,026	1.34%
Ferris State University	\$ 7,805,193	0.86%
Grand Valley University	\$ 2,647,638	0.29%
Lake Superior University	\$ 847,533	0.09%
Michigan Tech University	\$ 349,469	0.04%
Northern Michigan University	\$ 2,683,189	0.29%
Oakland University	\$ 7,306,599	0.80%
Saginaw Valley University	\$ 264,154	0.03%
University Subtotal:	\$ 44,452,623	4.88%
TOTAL:	\$ 911,323,667	100%



MICHIGAN DEPARTMENT OF TREASURY
OFFICE OF COLLECTIONS
ACCOUNTS RECEIVABLE FOR ALL TAX ACCOUNTS AS OF 9/30/16

<u>Businesses</u>	<u>Receivables</u>	<u>% of Total</u>
Sales Tax	\$ 779,599,034	27.22%
Withholding Tax	\$ 496,765,000	17.34%
Michigan Business Tax	\$ 375,601,521	13.11%
Single Business Tax	\$ 76,125,924	2.66%
Use tax	\$ 208,662,069	7.28%
Flow Thru Withholding	\$ 13,375,936	0.47%
Corporate Income Tax	\$ 206,545,894	7.21%
Cigarette/Tobacco Tax	\$ 57,516,267	2.01%
IFTA Fuel Tax-Receipts	\$ 37,039,606	1.29%
Motor Carrier Tax	\$ 459,652	0.02%
Diesel Fuel	\$ 5,342,732	0.19%
Gasoline/Aviation	\$ 6,531,079	0.23%
Retaliatory Tax	\$ 3,174,242	0.11%
Other	\$ 3,434,330	0.12%
Business Subtotal	\$ 2,270,173,286	79.25%
<u>Individuals</u>		
Income Tax	\$ 584,871,928	20.42%
Real Estate Transfer Tax	\$ 1,585,279	0.06%
Principal Residence Exemption	\$ 4,042,842	0.14%
Intangibles Tax	\$ 130,769	0.00%
Estate Tax	\$ 22,996	0.00%
Inheritance Tax	\$ -	0
Individual Subtotal	\$ 590,653,814	20.62%
Levy/Warrant Costs	\$ 3,571,729	0.12%
TOTAL:	\$ 2,864,398,829	100.00%





STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

NICK KHOURI
STATE TREASURER

November 22, 2016

Mr. John S. Roberts
Director of State Budget Office
111 S. Capitol Avenue
Lansing, MI 48933

Dear Mr. Roberts:

Sections 903(3) and 930(2) of Public Act 84 of 2015 require that the Department of Treasury report by November 30, 2016 on the collection of unpaid taxes and other accounts due to the State of Michigan for the immediately preceding fiscal year.

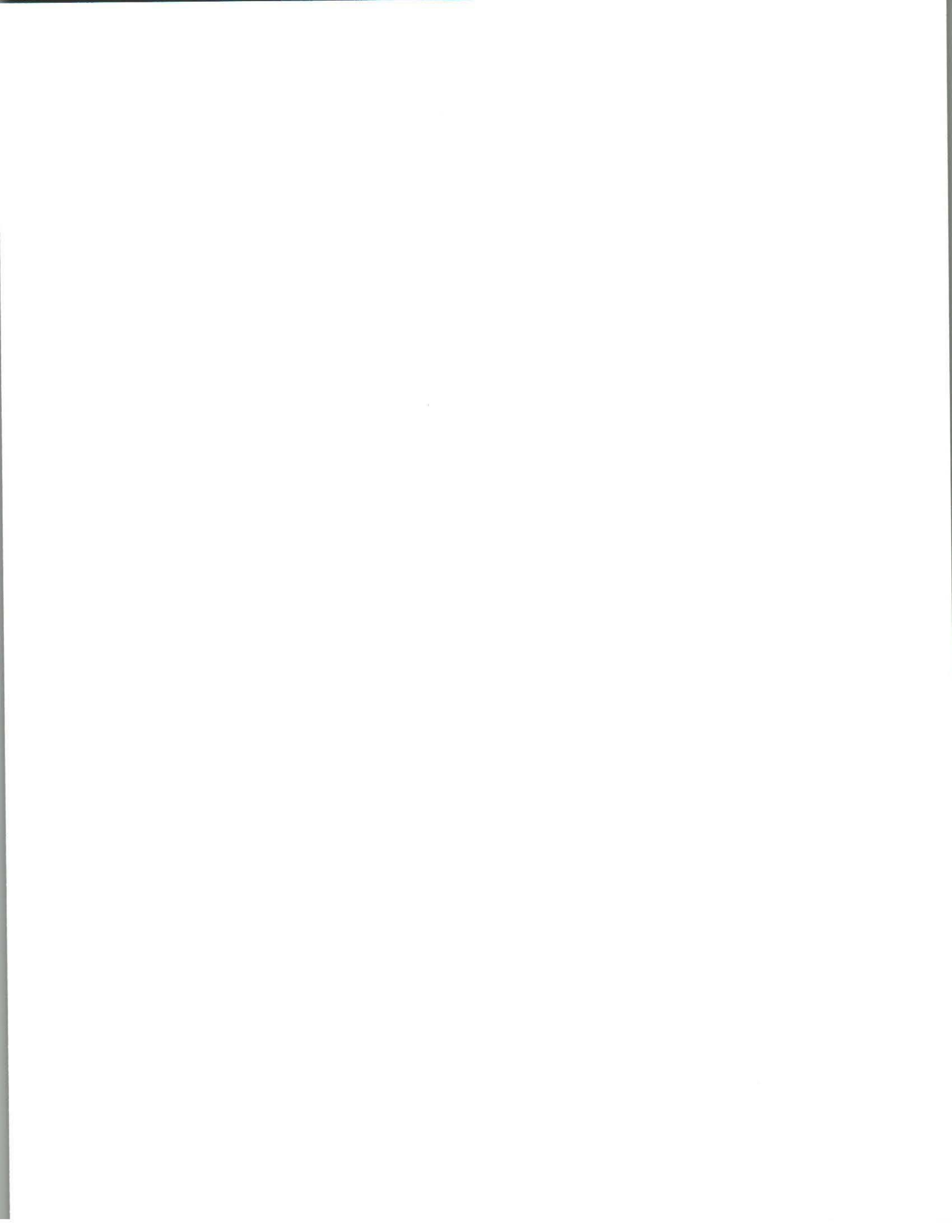
Section 903 authorizes the Department of Treasury to contract with private collection agencies to collect unpaid taxes and other accounts due the State of Michigan. The main contractor to the Michigan Department of Treasury for collection services is GC Services L.P. (GC). GC collects tax assessments and state agency debts, including Driver Responsibility Fees. The costs associated with the GC contract are stipulated in contract #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 8.13% on actual collections of certain Driver Responsibility Fees. Attached is Chart A which provides a breakdown of the tax debts collected by GC by tax type and the state agency debts collected for each state agency.

In addition to the contract with GC, the Department of Attorney General contracts with private attorneys to perform collection services on behalf of the Attorney General and the Michigan Department of Treasury. These private attorneys, who are appointed as Special Attorneys General, are paid a commission based on actual collections and reimbursed for certain costs. Below is a schedule detailing the contracted entities, amounts collected, and the costs of collection.

Section 903

<u>CONTRACTOR</u>	<u>TYPE OF DEBT</u>	FY 2016 <u>COMMISSION COLLECTIONS</u>	<u>COST</u>
GC Services L.P.	TAX	\$119,076,688.51	\$19,118,443.58
	NON-TAX	51,743,570.27	10,312,395.11
Special Attorneys General	TAX	12,700.00	2,558.00
	NON-TAX	.00	.00
GRAND TOTAL		\$170,832,958.78	\$29,433,396.69

Section 930 requires the Department of Treasury to provide accounts receivable collection services for other principal executive departments and state agencies pursuant to Public Act 375 of 1927, as amended (Michigan Compiled Laws 14.131 to 14.134). Section 930 also provides that the Department of Treasury report on the principal executive departments and state agencies served, funds collected, and the costs of collection. Attached is Chart B which details the amounts collected by the Department of Treasury for



Mr. John S. Roberts
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November 22, 2016

each state department or agency and the costs of collection. The collection amounts in Chart B do not include the amounts collected by GC indicated in Chart A. Below is a summary of the amounts collected and the costs of collection for both GC and the Michigan Department of Treasury on behalf of the state departments and agencies.

Section 930

	<u>FY 2016 COLLECTIONS</u>	<u>COST</u>
GC Services L.P.	\$51,743,570.27	\$10,312,395.11
Department of Treasury	53,033,914.16	1,512,342.69
Special Attorneys General	.00	.00
GRAND TOTAL	\$104,777,484.43	\$11,824,737.80

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

Sincerely,



Joseph L. Fielek
Chief Deputy State Treasurer

Enclosures

cc: Nick Khouri, State Treasurer
Ann Good, Director, Office of Collections
Cindy Peruchietti, Bureau Director



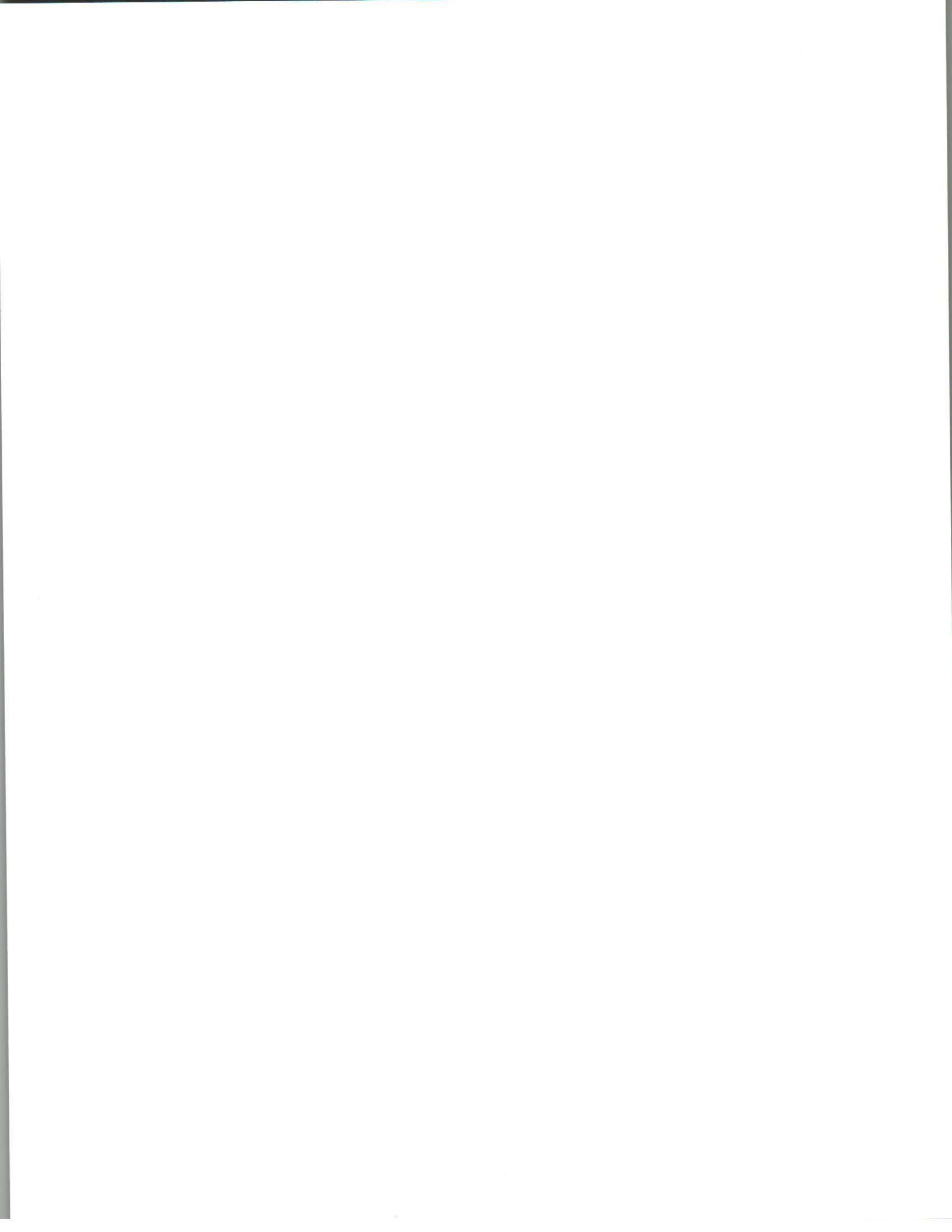
CHART A

COLLECTION SERVICES CONTRACTOR: GC SERVICES L.P.

FISCAL YEAR ENDED 9/30/2016

<u>TAX DEBT</u>	<u>COMMISSION COLLECTIONS</u>
INDIVIDUAL INCOME	\$70,688,082.22
SALES	18,616,914.56
SINGLE BUSINESS	1,720,768.79
WITHHOLDING	10,459,576.85
USE	2,433,011.79
MOTOR FUEL	857,596.37
TOBACCO	281,164.00
MICHIGAN BUSINESS RETALIATORY	144,891.78
HOMESTEAD PROPERTY	517,839.36
MOTOR CARRIER	4,326.38
CAR LOANING	4,982.72
CONVENTION FACILITIES	2,024.08
ENVIRN PROTECT REG	5,844.62
PUBLIC UTILITIES	2,326.67
ACCOUNTS RECEIVABLE	1,576.34
REAL ESTATE TRANSFER	680.00
RETALIATORY	0.00
SEVERANCE	0.00
INTANGIBLES	0.00
UNCLAIMED BOTTLE DEPOSIT	0.00
MICHIGAN BUSINESS	8,044,259.02
UNCLASSIFIED ACQUIRER	0.00
HICA	270,990.25
CORPORATE INCOME	3,487,048.68
CORPORATE INCOME RETALIATORY	71,217.60
FLOW THRU WITHHOLDING	1,461,566.43
ESTATE	0.00
TOTAL TAX	<u>\$119,076,688.51</u>

<u>NON-TAX DEBT</u>	<u>COMMISSION COLLECTIONS</u>
AGRICULTURE	\$17,116.58
ATTORNEY GENERAL	1,852.26
COMMUNITY HEALTH	944,353.50
CORRECTIONS	958,318.49
EDUCATION	49,438.84
ENVIRONMENTAL QUALITY	24,871.94
HOUSING & DEVELOPMENT AUTHORITY	170,349.73
HUMAN SERVICES	257,767.83
LICENSING & REGULATORY AFFAIRS	345,594.83



LOTTERY	55,114.69
MICHIGAN ECONOMIC DEVELOPMENT CORP	67,464.62
MILITARY & VETERAN AFFAIRS	0.00
NATURAL RESOURCES	6,378.26
STATE	44,553,698.23
STATE EMPLOYER	276,703.91
TECHNOLOGY, MANAGEMENT & BUDGET	70,672.01
TRANSPORTATION	9,947.70
TREASURY	1,173,295.90
CENTRAL MICHIGAN UNIVERSITY	323,279.78
EASTERN MICHIGAN UNIVERSITY	441,119.74
FERRIS STATE UNIVERSITY	582,416.05
GRAND VALLEY STATE UNIVERSITY	247,895.25
LAKE SUPERIOR STATE UNIVERSITY	42,191.64
MICHIGAN TECHNOLOGICAL UNIVERSITY	19,849.68
NORTHERN MICHIGAN UNIVERSITY	67,120.37
OAKLAND UNIVERSITY	276,411.25
SAGINAW VALLEY STATE UNIVERSITY	3,860.06
5th DISTRICT COURT	66,178.94
37C DISTRICT COURT	59,486.59
37W DISTRICT COURT	482,626.12
42-1 DISTRICT COURT	15,138.00
42-2 DISTRICT COURT	21,900.00
43A DISTRICT COURT	100,073.67
50th DISTRICT COURT	5,330.00
54A DISTRICT COURT	5,753.81
TOTAL NON-TAX	<u>51,743,570.27</u>



**CHART B
DEPARTMENT OF TREASURY'S
STATE AGENCY COLLECTIONS
FISCAL YEAR ENDED 9/30/2016**

AGENCY	COLLECTIONS	COSTS
AGRICULTURE	\$20,315.93	\$942.84
ATTORNEY GENERAL	\$5,907.00	\$37.89
COMMUNITY HEALTH	\$4,272,540.34	\$337,763.69
CORRECTIONS	\$762,323.47	\$124,566.61
EDUCATION	\$4,853.67	\$0.00
ENVIRONMENTAL QUALITY	\$2,723.70	\$367.19
HOUSING & DEVELOPMENT AUTH	\$196,715.31	\$2,983.67
HUMAN SERVICES	\$310,798.12	\$16,284.77
LICENSING & REGULATORY AFFAIRS	\$111,699.07	\$31,673.72
LOTTERY	\$19,687.11	\$5,429.86
MICHIGAN ECONOMIC DEV CORP	\$14,573.70	\$0.00
MILITARY & VETERAN AFFAIRS	\$862.00	\$0.00
NATURAL RESOURCES	\$2,772.55	\$664.26
STATE	\$43,758,707.14	\$528,781.18
STATE EMPLOYER	\$104,408.08	\$0.00
TECHNOLOGY, MGMT & BUDGET	\$22,269.67	\$6,746.63
TRANSPORTATION	\$9,247.72	\$1,393.39
TREASURY	\$1,357,022.52	\$105,032.84
CENTRAL MICHIGAN UNIVERSITY	\$309,849.37	\$45,958.79
EASTERN MICHIGAN UNIVERSITY	\$481,985.19	\$67,008.10
FERRIS STATE UNIVERSITY	\$405,231.00	\$71,693.21
GRAND VALLEY STATE UNIVERSITY	\$140,423.91	\$28,188.05
LAKE SUPERIOR STATE UNIVERSITY	\$46,825.37	\$6,447.22
MICHIGAN TECHNOLOGICAL UNIVERSITY	\$9,104.73	\$2,101.80
NORTHERN MICHIGAN UNIVERSITY	\$49,798.84	\$8,487.15
OAKLAND UNIVERSITY	\$261,905.10	\$39,076.33
SAGINAW VALLEY STATE UNIVERSITY	\$5,329.33	\$667.06
5th DISTRICT COURT	\$19,691.47	\$6,233.33
37C DISTRICT COURT	\$32,957.18	\$6,710.48
37W DISTRICT COURT	\$234,427.67	\$52,050.87
42-1 DISTRICT COURT	\$3,045.67	\$1,319.95
42-2 DISTRICT COURT	\$4,274.82	\$1,900.03
43A DISTRICT COURT	\$32,660.14	\$9,635.13
50th DISTRICT COURT	\$6,064.41	\$827.12
54A DISTRICT COURT	\$13,112.86	\$1,369.53
TOTAL	<u>\$53,033,914.16</u>	<u>\$1,512,342.69</u>

NOTE: The collections indicated above are the amounts collected by the Department of Treasury's Office of Collections on behalf of the state agencies and do not include amounts collected by GC Services L.P. These figures may include adjustments, credits, or refunds. Adjustments, credits, or refunds may include collection amounts from a prior fiscal year. The costs indicated above reflect the overhead expense of the Office of Collections on all commissionable collections and non-commissionable Driver Responsibility Fee (DRF) collections.

