

Office of the
Legislative Fiscal Analyst

FY 2005 Budget Recommendations

Joint Appropriations Subcommittee for
Capital Facilities and Administrative Services

Utah Department of Administrative Services
Internal Service Funds
Office of State Debt Collection

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1.0 Office of Debt Collection

	Analyst FY 2005 Base	Analyst FY 2005 Changes	Analyst FY 2005 Total
Financing by Revenue Source			
Dedicated Credits Revenue	\$367,000	\$0	\$367,000
Licenses/Fees	168,000		168,000
Interest Income	661,000		661,000
Other Financing Sources	2,100		2,100
Total	\$1,198,100	\$0	\$1,198,100
Expenditures by Program			
ISF - Debt Collection	\$1,105,200	\$0	\$1,105,200
Total	\$1,105,200	\$0	\$1,105,200
Profit/(Loss)	\$92,900	\$0	\$92,900
FTE/Other			
Total FTE	5		5
Retained Earnings	\$395,400	\$0	\$395,400

Senate Bill 235 of the 1995 Legislative Session established the Office of State Debt Collection. The office manages collection for past due debts to the State and has the following responsibilities:

- ◆ Collecting and managing state receivables;
- ◆ Developing consistent policies governing the collection and management of State receivables;
- ◆ Overseeing and monitoring State receivables;
- ◆ Developing policies, procedures and guidelines for accounting, reporting, and collecting monies owed to the State;
- ◆ Providing information, training, and technical assistance to State agencies on collection-related topics;
- ◆ Writing an inclusive receivables management and collection manual for use of State agencies;
- ◆ Preparing quarterly and annual reports of the State's receivables;
- ◆ Creating/coordinating a State accounts receivable database, information systems, and procedures;
- ◆ Establishing an automated case receipt process between State agencies;
- ◆ Establishing procedures for writing-off accounts receivable for accounting and collections purposes.

The program contracts with private vendors to assist in collection of outstanding debt. Revenue is generated for the program by assessing an administrative fee against each collection. No tax funds are appropriated to this program.

2.0 Budget Highlights

2.1 Intent Language

The Office of State Debt Collection (OSDC) must hire private collectors to recover past due debts owed to the State. OSDC may also incur legal and administrative costs that would not occur if obligations were paid when originally due. The Analyst believes that this added cost should be borne by debtors and not other taxpayers. To ensure that expenses for this program are paid by those creating the costs, the Analyst recommends inclusion of the following language in the Appropriations Act:

It is the intent of the Legislature that the Office of State Debt Collection be authorized to establish reasonable costs of collection to be passed onto the debtor including attorney fees, all legal costs and administrative costs unless inappropriate or prohibited by law.

This language appears in the last three Appropriation Acts and seems to be worthy of inclusion in statute or Administrative Rule. The Analyst recommends that the OSDC pursue a permanent means of obtaining this authority.

2.2 Retained Earnings

The Office of State Debt Collection is designed to funnel past due receivables back into the General Fund. As such, it should take only enough funds from collections to cover operating costs. As a new program, OSDC built up retained earnings from operating profit that the Legislature appropriated as one-time funds to various state needs. As part of its budget request OSDC identified approximately \$90,000 in FY 2004 and 2005 to be “transferred” back to the General Fund. The Analyst agrees that the funds should be appropriated to other one time funds once they are realized by the agency. This is only one step removed from direct deposit to the General Fund and still has Legislative oversight. As such, the Analyst shows the amounts as profit that should be recorded in retained earnings until such time as the Legislature is comfortable in appropriating the funds.

3.0 Program: Debt Collection

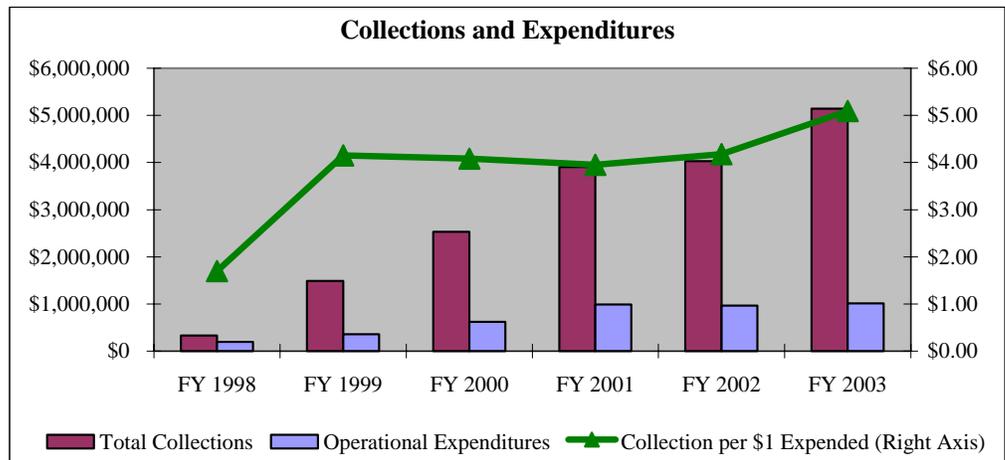
	2003 Actual	2004 Estimated*	2005 Analyst	Est/Analyst Difference
Financing				
Dedicated Credits Revenue	\$387,100	\$367,000	\$367,000	\$0
Licenses/Fees	166,700	168,000	168,000	
Interest Income	692,300	661,000	661,000	
Other Financing Sources	(1,800)	2,100	2,100	
Total	\$1,244,300	\$1,198,100	\$1,198,100	\$0
Expenditures				
Personal Services	\$320,700	\$327,900	\$327,000	(\$900)
In-State Travel	100	100	100	
Current Expense	252,700	323,100	323,000	(100)
DP Current Expense	15,700	17,600	17,600	
Other Charges/Pass Thru	421,900	432,900	437,500	4,600
Operating Transfers	667,000			
Total	\$1,678,100	\$1,101,600	\$1,105,200	\$3,600
Profit/(Loss)	(\$433,800)	\$96,500	\$92,900	(\$3,600)
FTE/Other				
Total FTE	5	5	5	0
Retained Earnings	\$206,000	\$302,500	\$395,400	\$92,900

*Non-state funds as estimated by agency

OSDC Operates Differently than Other ISF Agencies

One concern with the conversion of OSDC to an Internal Service Fund was in the ability of the Division to continue to make enough profit to cover expenses. In reality, OSDC is not an Internal Service Fund. Internal Service Funds provide general service to other state agencies – the OSDC collects past due bills for other agencies, but their funding is from debtors rather than state agencies. Therefore, funding sources for the Division do not include “intra-governmental revenue.”

The expansion of private sector vendor contracts allows the office to increase collections without increasing the costs of running the program. This year two vendors are pursuing the more standard past due accounts and a third vendor is pursuing complicated cases where debtors have attempted to shield income from collection. The cost of collection is passed on to the debtor.



Source: OSDC and OLFA Meribah Database

Performance Measures

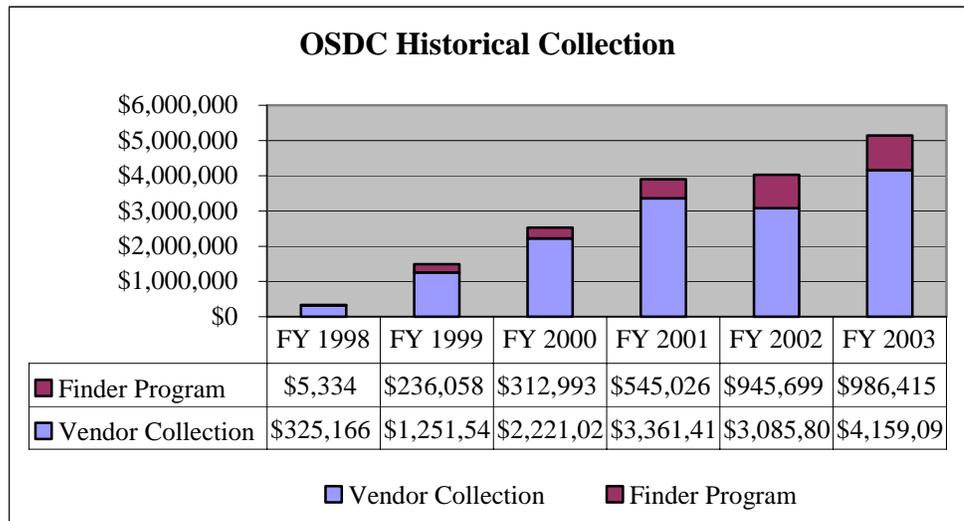
When the Legislature reallocated OSDC General Fund appropriations in FY 2001 it did so with the understanding that there would be a need to monitor operating expenses. Even without the subsidy, the Office manages to operate at a profit. The exception to this was in FY 2003 when the Legislature took a one-time reduction of OSDC retained earnings to fund budget shortfalls. The operating loss came as a result of Legislative action, not a reduction of collection on the part of the agency.

OSDC Retained Earnings	
FY 1999	\$195,000
FY 2000	\$424,800
FY 2001	\$600,300
FY 2002	\$639,800
FY 2003	\$206,000

Source: GOPB and OLFA

Annual Report Highlights

The Office of State Debt Collection reports performance measures its Annual Report.¹ In past years the Office provided printed copies The report outlines collection activity for every agency of state government and makes recommendations for improving processes to maximize realization of all receivables.



Source: Office of State Debt Collection and OLFA

¹ A copy of the annual report is included following the 4.0 table and can be accessed through the OSDC website. The link for the PDF version of the report is <http://debt.utah.gov/documents/2003recreport.pdf>

4.0 Tables: Office of Debt Collection

	2001	2002	2003	2004	2005
Financing by Revenue Source	Actual	Actual	Actual	Estimated*	Analyst
Dedicated Credits Revenue	\$396,900	\$413,700	\$387,100	\$367,000	\$367,000
Licenses/Fees	140,000	191,400	166,700	168,000	168,000
Interest Income	569,700	767,200	692,300	661,000	661,000
Transfers		(350,900)			
Other Financing Sources	9,200	(17,100)	(1,800)	2,100	2,100
Total	\$1,115,800	\$1,004,300	\$1,244,300	\$1,198,100	\$1,198,100
Financing by Program					
ISF - Debt Collection	\$1,115,800	\$1,004,300	\$1,244,300	\$1,198,100	\$1,198,100
Total	\$1,115,800	\$1,004,300	\$1,244,300	\$1,198,100	\$1,198,100
Expenditures					
Personal Services	\$278,400	\$282,700	\$320,700	\$327,900	\$327,000
In-State Travel	100	300	100	100	100
Out of State Travel	1,800	600			
Current Expense	305,500	276,200	252,700	323,100	323,000
DP Current Expense	14,900	16,500	15,700	17,600	17,600
Other Charges/Pass Thru	388,600	388,700	421,900	432,900	437,500
Operating Transfers			667,000		
Total	\$989,300	\$965,000	\$1,678,100	\$1,101,600	\$1,105,200
Profit/(Loss)	\$126,500	\$39,300	(\$433,800)	\$96,500	\$92,900
FTE/Other					
Total FTE	4	4	5	5	5
Retained Earnings	\$600,300	\$639,800	\$206,000	\$302,500	\$395,400

*Non-state funds as estimated by agency.