

Budget Brief – DAS Office of State Debt Collection

NUMBER CFGO-08-14

SUMMARY

The Office of State Debt Collection (OSDC) was established in 1995. It is a restricted special revenue fund. The division’s primary responsibility is to contract with private vendors to assist in collection of outstanding debt.

This program was an internal service fund (ISF) from FY 1996 to FY 2006. In reality, however, it operated differently than other ISF agencies. Whereas other ISFs provide general services to other state agencies; the OSDC collects past due bills for other agencies, but charges its fees to debtors rather than customer agencies. To recognize the difference, the 2006 Legislature passed S.B. 214, *Office of State Debt Collection Amendments* (2006 G.S.), making this program a Restricted Special Revenue Fund.

ISSUES AND RECOMMENDATIONS

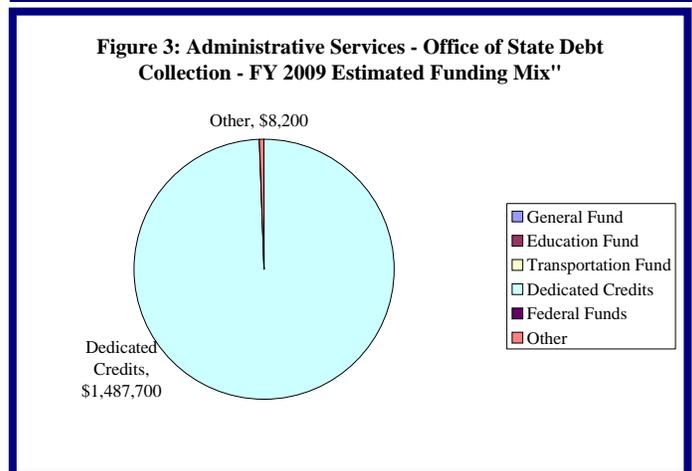
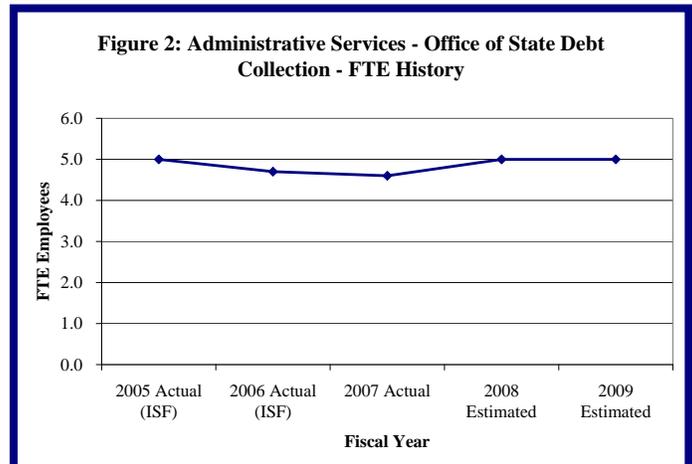
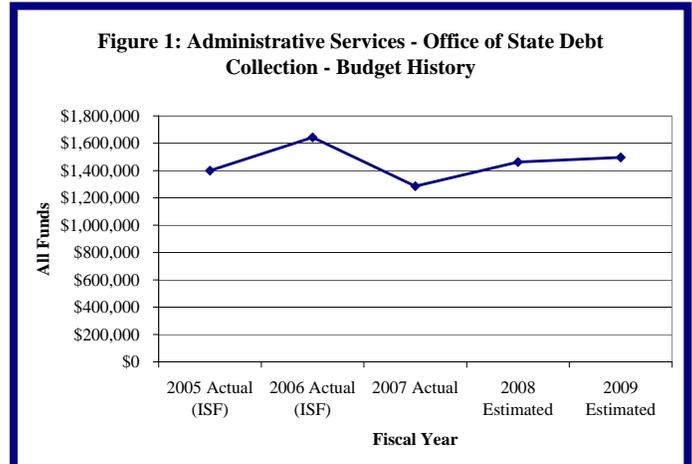
What are “Restricted Special Revenue Funds”?

Restricted Special Revenue Funds (RSRFs) are one of twelve major fund types in state government (see UCA 51-5-4). Essentially, RSRFs are funds created by legislation that:

1. Identifies specific revenue sources such as fees, taxes, donations, federal funds, etc.
2. Defines the use of the money for a specific function of government, and
3. Delegates spending authority over the fund’s assets to a board, department, or other officials.

Unlike other state fund types, RSRFs are not subject to annual legislative appropriations. However, they are subject to annual legislative review by the relevant appropriations subcommittee. The Legislature may choose to take action based upon its review.

The State Debt Collection Fund is established in UCA 63A-8-301 and consists of any appropriations that may be made to it, fees and interest established by the OSDC, and all post-judgment interest collected by the office excluding interest on restitution. The office is required to report annually on the fund balance, revenues, expenditures, and administrative costs.



ACCOUNTABILITY DETAIL

Deposits into the General Fund

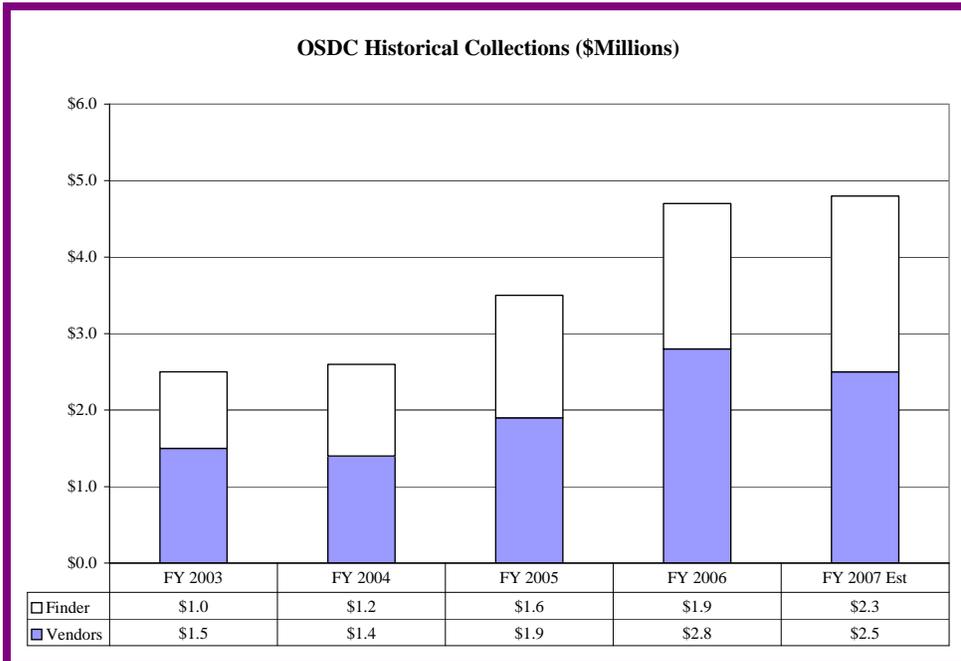
Statute requires OSDC to “ensure that monies remaining in the fund at the end of the fiscal year that are not committed [to the office’s statutory mandate] are deposited into the General Fund” (UCA 63A-8-301). This requirement existed when OSDC was an internal service fund and remains today in the restricted special revenue fund. Exactly what constitutes a “commitment” is not defined, making compliance difficult to gauge. The following table shows the actual amounts returned to the General Fund and amounts kept as retained earnings since FY 2002:

	General Fund Deposits	Retained Earnings Kept
FY 2002	\$350,000	\$639,800
FY 2003	\$667,100	\$206,000
FY 2004	\$50,000	\$236,100
FY 2005	\$50,000	\$399,600
FY 2006	\$0	\$941,600
FY 2007	\$0	\$1,411,100
FY 2008	\$500,000	\$911,100
FY 2009	\$500,000	\$411,100

In FY 2006 and FY 2007 the office opted not to transfer any money to the General Fund even though their retained earnings were much higher than usual. By the end of FY 2007 the OSDC retained earnings reached \$1,411,100 which represents almost a year’s worth of reserves. Though OSDC is no longer an ISF, the standard amount of retained earnings allowed by federal auditors is sixty days’ worth of reserves. In order to decrease the retained earnings to a more appropriate level, the Subcommittee reallocated \$500,000 from the OSDC retained earnings in FY 2008 to the Department of Technology Services. These funds were used to partially fund two Automated Geographic Reference Center building blocks. The Analyst recommends that another \$500,000 be reallocated out of OSDC retained earnings to other Subcommittee priorities in FY 2009.

Historical Collections

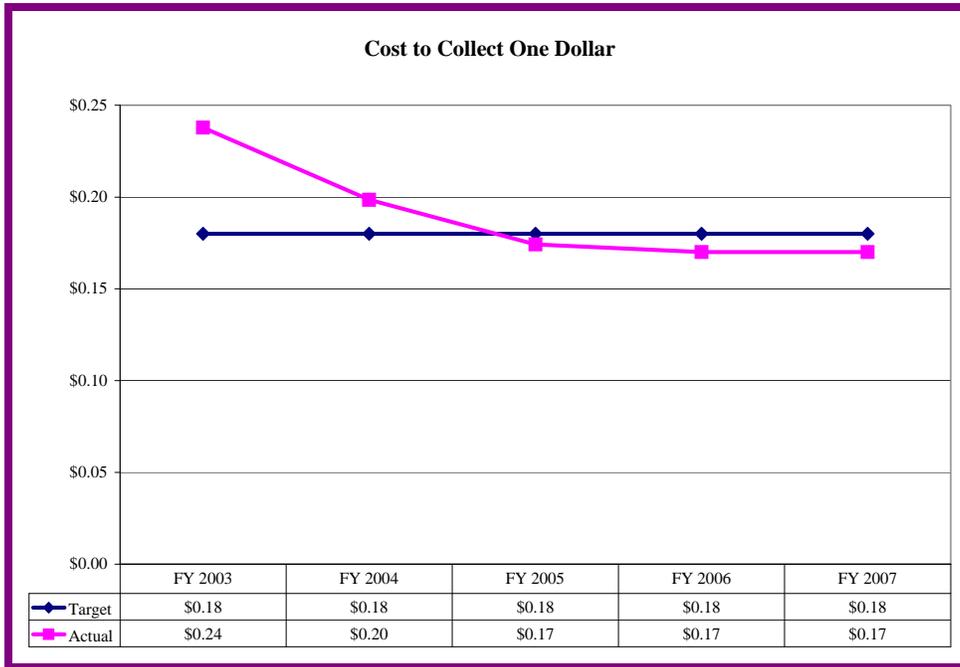
The state’s historical collections numbers show the effectiveness of collection practices by the division and its third-party vendors.



Approximately half of all collections are made by the Tax Commission’s private vendors, many of whom are the same vendors used by OSDC. In total OSDC continues to collect more dollars than in previous years. This is the result of improved collection processes, though the amount of collections is also influenced by other factors such as the economy and the practices of other state agencies.

Cost to Collect One Dollar

The cost to collect one dollar measures the efficiency of OSDC in collecting receivables for the state. Lower amounts mean the office is more efficient.



OSDC reached its target in FY 2007. This is the result of increasing collections without increasing FTE.

BUDGET DETAIL

No appropriation is necessary for this restricted special revenue fund. The following information is provided to assist the appropriations subcommittee in meeting its requirement to annually review the fund balance, revenues and expenditures of the program.

The office lost one FTE in FY 2007 to the new Department of Technology Services. This employee was reassigned by DTS to another agency, which caused concern by OSDC because the employee was the only person familiar with OSDC’s systems. As a result DTS has assigned the employee back to OSDC systems.

Fees

In accordance with UCA 63-38-3.2, the following fees are charged by the Office of State Debt Collection:

	FY 2008 Current	FY 2009 Proposed	Difference	FY 2009 # Units	Revenue Change
Post Judgment Interest: Rate established by federal government on January 1 each year					
Collection Penalty	5.0%	5.0%			
Administrative Collection Fee	14.0%	14.0%			
Collection Interest: Per 63A-8-201(4)(g), on July 1 of the new fiscal year, a rate not to exceed Prime plus	2.0%	2.0%			

LEGISLATIVE ACTION

The Analyst recommends the Legislature consider adopting:

1. A reallocation of \$500,000 in FY 2009 from the Office of State Debt Collections retained earnings to other Subcommittee priorities.
2. Fees as shown above

BUDGET DETAIL TABLE**ISF - Administrative Services - ISF - Office of State Debt Collection**

	FY 2007	FY 2008		FY 2008		FY 2009*
Sources of Finance	Actual	Appropriated	Changes	Revised	Changes	Base Budget
Dedicated Credits Revenue	832,300	970,000	0	970,000	8,000	978,000
Licenses/Fees	8,100	9,700	0	9,700	0	9,700
Interest Income	437,100	474,500	0	474,500	25,500	500,000
Other Financing Sources	7,300	8,200	0	8,200	0	8,200
Total	\$1,284,800	\$1,462,400	\$0	\$1,462,400	\$33,500	\$1,495,900
Programs						
ISF - Debt Collection	1,284,800	1,462,400	0	1,462,400	33,500	1,495,900
Total	\$1,284,800	\$1,462,400	\$0	\$1,462,400	\$33,500	\$1,495,900
Categories of Expenditure						
Personal Services	326,100	408,400	0	408,400	(10,700)	397,700
In-State Travel	0	0	0	0	0	0
Current Expense	345,200	743,000	0	743,000	22,200	765,200
DP Current Expense	130,400	297,000	0	297,000	11,000	308,000
Other Charges/Pass Thru	13,500	14,000	0	14,000	(13,500)	500
Operating Transfers	0	0	0	0	0	0
Total	\$815,200	\$1,462,400	\$0	\$1,462,400	\$9,000	\$1,471,400
Other Data						
Budgeted FTE	5.0	5.0	0.0	5.0	0.0	5.0
Actual FTE	4.7	0.0	0.0	0.0	0.0	0.0
Retained Earnings	1,411,100	911,100	0	911,100	0	911,100

*Does not include amounts in excess of subcommittee's state fund allocation that may be recommended by the Fiscal Analyst.