

# Budget Brief: DAS Office of State Debt Collection

CAPITAL FACILITIES AND GOVERNMENT OPERATIONS

FY 2010

## 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

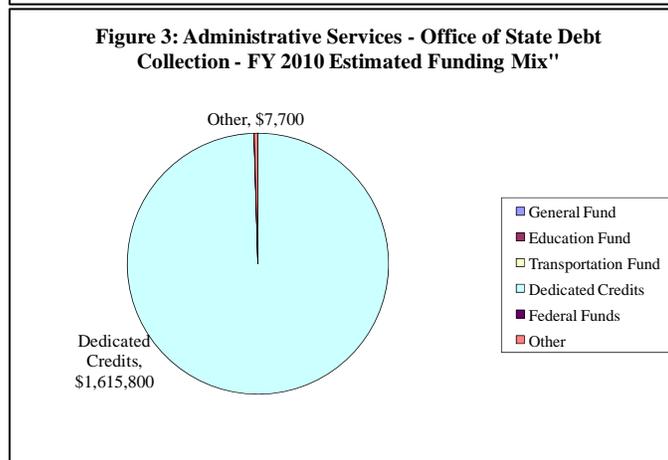
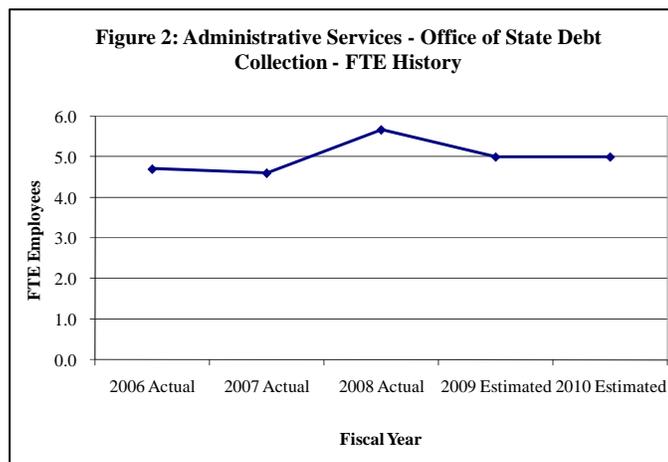
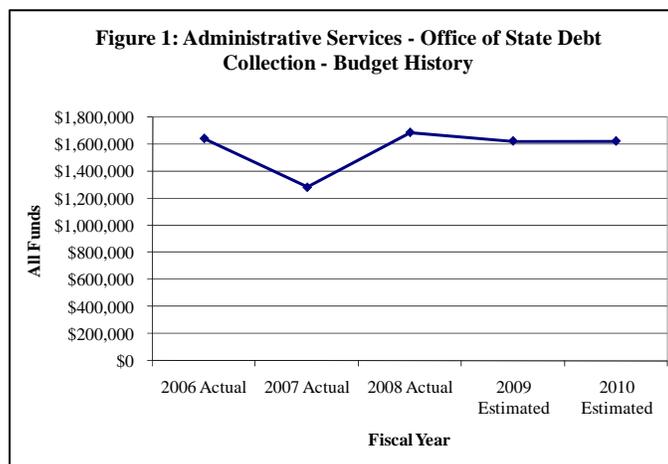
### *What are "Restricted Special Revenue Funds"?*

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**

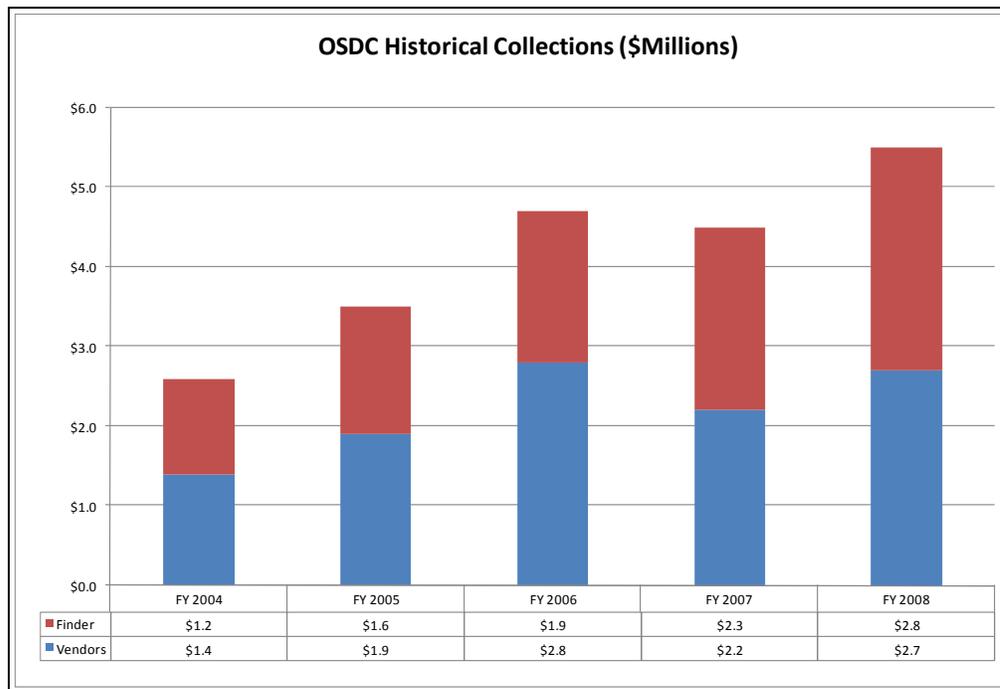
Statute requires OSDC to “ensure that monies remaining in the fund at the end of the fiscal year that are not committed [to the office’s statutory mandate] are deposited into the General Fund” (UCA 63A-8-301). This requirement existed when OSDC was an internal service fund and remains today in the restricted 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:

	<b>General Fund Deposits</b>	<b>Retained Earnings Kept</b>
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	\$1,450,000
FY 2009 Est.	\$1,250,000	\$200,000

In FY 2006 and FY 2007 the office opted not to transfer any money to the General Fund even though its fund balance was much higher than usual. By the end of FY 2007 the OSDC fund balance 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 fund balance to a more appropriate level, the Subcommittee reallocated \$500,000 from the State Debt Collection Fund in FY 2008 and FY 2009 to other Subcommittee priorities. In FY 2009 the Legislature appropriated an additional \$750,000 from the State Debt Collection Fund to the General Fund.

**Historical Collections**

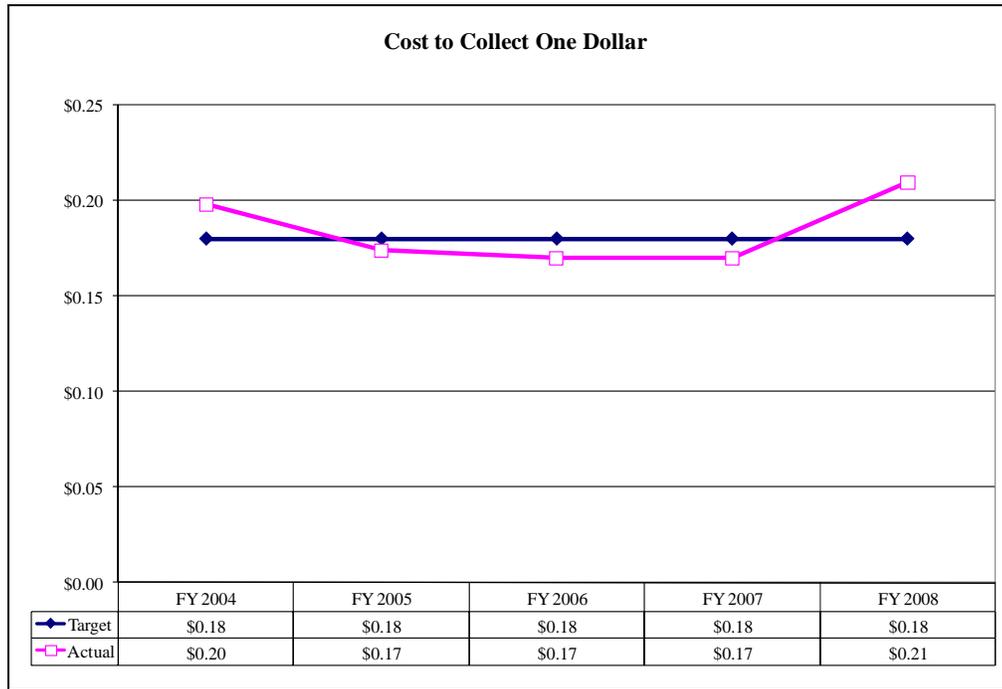
The state’s historical collections numbers show the effectiveness of collection practices by the division and its third-party vendors.



Approximately half of all collections are made by the OSDC’s private vendors, many of whom are the same vendors used by the Tax Commission. In total OSDC continues to collect more dollars than in previous years. In FY 2007, the decline in collections may largely be attributed to the termination of a contract with one of OSDC’s two collection vendors due to contract issues; which decreased collections for a period of time until new vendors came online. The decrease in Vendor collections was partially offset by higher Income Tax Garnishments.

**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.



**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.

**Fees**

In accordance with UCA 63J-1-303, the following fees are charged by the Office of State Debt Collection:

	FY 2009 Current	FY 2010 Proposed	Difference	FY 2010 # 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. Fees as shown above

**BUDGET DETAIL TABLE**

<b>Administrative Services - Office of State Debt Collection</b>						
	<b>FY 2008</b>	<b>FY 2009*</b>		<b>FY 2009*</b>		<b>FY 2010*</b>
<b>Sources of Finance</b>	<b>Actual</b>	<b>Estimated</b>	<b>Changes</b>	<b>Estimated</b>	<b>Changes</b>	<b>Estimated</b>
Dedicated Credits Revenue	975,000	926,300	0	926,300	0	926,300
Licenses/Fees	8,100	7,700	0	7,700	0	7,700
Interest Income	719,400	683,400	0	683,400	0	683,400
Other Financing Sources	(16,300)	6,100	0	6,100	0	6,100
<b>Total</b>	<b>\$1,686,200</b>	<b>\$1,623,500</b>	<b>\$0</b>	<b>\$1,623,500</b>	<b>\$0</b>	<b>\$1,623,500</b>
<b>Programs</b>						
ISF - Debt Collection	1,686,200	1,623,500	0	1,623,500	0	1,623,500
<b>Total</b>	<b>\$1,686,200</b>	<b>\$1,623,500</b>	<b>\$0</b>	<b>\$1,623,500</b>	<b>\$0</b>	<b>\$1,623,500</b>
<b>Categories of Expenditure</b>						
Personal Services	400,800	506,500	0	506,500	0	506,500
Out of State Travel	4,200	6,200	0	6,200	0	6,200
Current Expense	604,000	833,800	0	833,800	58,700	892,500
DP Current Expense	138,200	152,000	0	152,000	15,200	167,200
<b>Total</b>	<b>\$1,147,200</b>	<b>\$1,498,500</b>	<b>\$0</b>	<b>\$1,498,500</b>	<b>\$73,900</b>	<b>\$1,572,400</b>
<b>Other Data</b>						
Budgeted FTE	5.0	5.0	0.0	5.0	0.0	5.0
Actual FTE	5.7	0.0	0.0	0.0	0.0	0.0
Retained Earnings	1,450,000	950,000	0	950,000	(750,000)	200,000

\*This program is not appropriated funds by the Legislature, but is given authority to expend from collections