



# Service Employees International Union, Local 503, OPEU

MEASURE: HB 3655  
EXHIBIT: B  
HOUSE REVENUE COMMITTEE  
DATE: 5/16/2011 PAGES: 5  
SUBMITTED BY: AMELIA PORTERFIELD

Testimony in Favor of HB 3655  
Submitted by Amelia Porterfield, SEIU Local 503  
May 16, 2011

Co-Chairs Barnhart and Berger, members of the committee:

My name Amelia Porterfield with SEIU Local 503, and I am here testifying in support of HB 2519 on behalf of the frontline workers in the Department of Revenue.

The Department of Revenue (DOR) collects tax debts as well as debts owed to other state agencies, which don't have the infrastructure or expertise to do that work themselves. Under current statute, after a certain amount of time – which varies depending on the type of debt but is one year for tax debts – the DOR is statutorily required to send these uncollected debts to private collections firms.

These are not the easiest moneys to collect. Typically, Department of Revenue staff are able to collect 20-22% of these debts, while private collections firms bring in less than 2% of the liabilities assigned to them. Historically, there has been pushback about whether these rates were an apples-to-apples comparison, as the private collection firms tended to collect on older debts than the in-house staff.

This issue was addressed in the recent Secretary of State's audit of the Department of Revenue, which recommended that the agency refine the criteria of submission of cases to private collection firms. As a result of this recommendation, the agency conducted two different studies, aimed at measuring the effectiveness of the private collection firms against in-house collection teams on the same types and ages of debts. The two studies led to some interesting information.

The first pilot project involved sending debts of varied size and age to two firms, with one of the firms working on a flat-fee structure. This pilot raised some concerns, including the fact that one of the contracted private collection firms failed to timely remit payments to DOR and continually passed the work on assigned accounts back to DOR staff. Also, statistics from the pilot revealed that one DOR staff member, working less than half time on a similar queue of accounts, exceeded the direct collections of each of the pilot firms.

The second assessment involved assigning 1071 new tax debts in a double-blind comparison. They were randomly split four ways between DOR and each of the agency's three contracted private collection firms. DOR accounts were not assigned to any one specific agent and were left in DOR's normal collection workflow. The agents to whom these debts were being assigned had no knowledge they were a part of the study. Accounts being assigned to the private firms were mixed in with other, older cases so the private firms would not easily be made aware of the newer debts assigned to them. They also didn't know that these cases were being tracked.

Salem Headquarters	Bend	Portland	Corvallis	Medford	Eugene	Pendleton
1730 Commercial St. SE PO Box 12159 Salem, OR 97309-0159 503-581-1505 800-452-2146 (Fax) 503-581-1664	925 SE Second St. Suite C Bend, OR 97702-1756 541-385-8471 800-832-0593 (Fax) 541-388-9078	6401 SE Foster Road Portland, OR 97206-4659 503-408-4090 800-527-9374 (Fax) 503-408-4099	Physical Site/Do Not Mail 606 SW 15th St. Rm. 109 Corvallis, OR 97331-4806 541-752-0183 (Fax) 541-752-0241	1257 N Riverside #7 Medford, OR 97501 541-779-4324 800-452-7965 (Fax) 541-779-4325	488 E 11th Ave. Suite 100-B Eugene, OR 97401-3801 541-342-1055 800-521-3446 (Fax) 541-342-2932	200 SE Hailey Ave. Suite 302 Pendleton, OR 97801-3069 541-276-4983 800-452-8146 (Fax) 541-276-4984

Again, this study resulted in some interesting data. The in-house staff collected 20% of the debts assigned to them. The private firms, though they fared better in the second study and produced a significantly higher collection rate than the typical 2%, still only brought in 10, 8, and 10% respectively. The department also found that there is quite a bit of staff work necessary by DOR employees to manage the accounts with the private collection firms. Add to that the 16-23% commission that the state pays the collections firms for their work, and we find that this is a much less effective way to collect the revenues owed to the state of Oregon.

The conclusion of these studies, as reported in the DOR's testimony to the Ways & Means General Government Subcommittee, was this:

"Since the process for managing accounts assigned to private firms is so labor-intensive and collections are lower than internal efforts, we can better use our staff by keeping the accounts in house. However, a statutory change would be necessary."

This is the genesis for this bill. HB 3655 simply changes the statute from "shall" to "may" so that the department can send debts to private collections firms when it actually makes fiscal sense to do so, not just as the result of an arbitrary timeline. We feel that this bill will allow the department to operate within best practices and through evidence based decisions. The DOR would still be allowed to use private collections firms – for example if certain types of debts are more efficiently collected by private firms, or if the department needs to manage to staff capacity – but would not be required to do so if they could collect more in house.

Though we don't know exactly why the in house staff achieve better collection rates, we do know that DOR staff have an incentive to work well with the taxpayers they serve. Taxpayers are the department's customers that they work with every single year. It is in the staff's best interest to educate and assist those taxpayers to be in compliance, not only on the debts they currently owe but also for the long term. That changes the tenor and tone of those collections conversations. Whether that is the reason for the higher amount is unclear. But it does speak to the customer service aspects of state government.

There is a significant amount of money owed to the state, cumulating in a \$1.25 billion tax gap in personal taxes alone. We can do better at collecting it than we have been. In fact, the Department of Revenue collections section has been implementing some of the frontline worker suggestions in recent months, and this March had the highest rate of collections this biennium. They are on track to bring in almost \$75 million more than what they expected just in 2009-11.

Considering the fact that in 2009 alone, the state sent \$146,074,973 in delinquent liabilities to private collections firms, the ability for the Department of Revenue to more efficiently collect these debts could make a significant difference. In this time of fiscal crisis, we should do everything we can to make sure the DOR has the tools it needs to effectively and efficiently collect these debts so that the state can fund the services on which struggling Oregonians rely. We encourage you to pass HB 3655 to move Oregon forward toward that result.

**SOS recommendation: Refine criteria of submission of cases to private collection firms (PCFs). Transfer liabilities to PCFs based upon case characteristics to obtain the most DOR revenues.**

**DOR action plan:** Two assessments were completed in 2010 that provided data on the effectiveness of private firms with different types of debt. This data may be used to help guide assignment of cases in the future.

The first project involved sending debts of varied size and age to two firms, with one of the firms working on a flat-fee structure. The second assessment involved only new tax debts in a double-blind comparison. The aim of both projects was to measure the effectiveness of the PCFs against in-house collection teams on the same types and ages of liabilities.

The first pilot project raised several concerns:

- a. One of the contracted PCFs has failed to timely remit payments to DOR and has continually passed the work on assigned accounts back to DOR staff.
- b. Statistics from the pilot revealed that one DOR staff member, working less than half time on a similar queue of accounts exceeded the direct collections of each of the pilot firms.

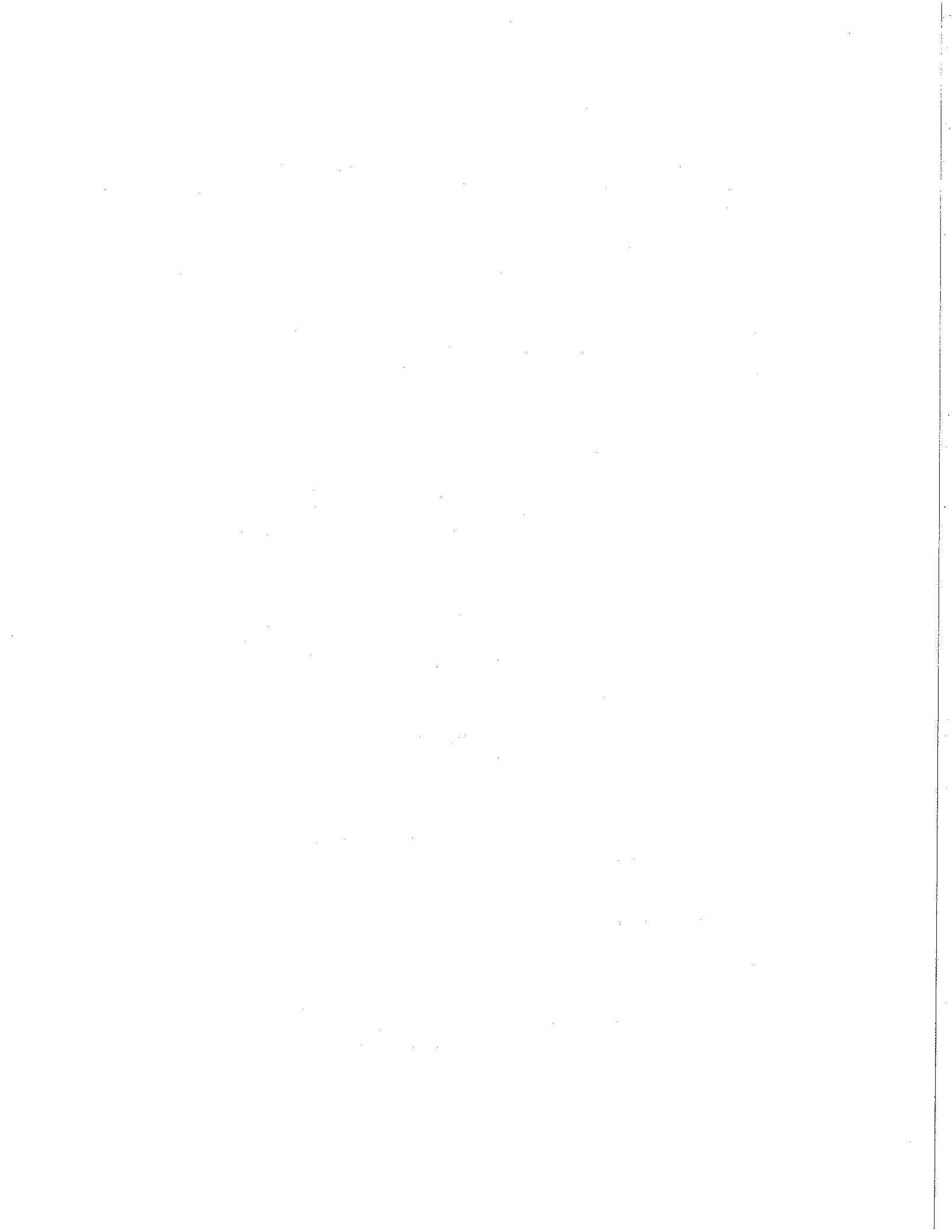
For the second assessment, 1,071 new/current liabilities were identified and selected. These debts were randomly split four ways between DOR and each of our three contracted private collection firms. DOR accounts were not assigned to any one specific agent and were left in DOR's normal collection workflow. The agents to whom these debts were being assigned had no knowledge of this assessment.

Accounts being assigned to the private firms were mixed in with other, older cases so the private firms would not easily be made aware of us assigning a batch of newer debts to them. They also didn't know that these cases were being tracked by us.

Again, the accounts retained at DOR produced a higher collection rate. However, the private firms fared better in this second assessment and produced a significantly higher collection rate themselves.

DOR direct collection rate = 20%  
PCF #1 direct collection rate = 10%  
PCF #2 direct collection rate = 8%  
PCF #3 direct collection rate = 10%

Since the process for managing accounts assigned to private firms is so labor-intensive and collections are lower than internal efforts, we can better use our staff by keeping the accounts in house. However, a statutory change would be necessary.



**Executive  
Summary**

Between June and November 2010, the Dept. of Revenue (DOR) Collection Agency Program (CAP) team conducted a double-blind assessment to compare the collection performance of private collection firms to the collection performance of internal DOR revenue agents. The assessment showed that private collection firms can produce higher collection rates on “fresh” debt, than for the older debt that DOR typically transfers to them. The assessment also showed that DOR has a higher rate of collection for fresh debt than the private firms. These results are consistent with an Internal Revenue Service study on private collection firm performance that was conducted from 2006 to 2009.

---

**Applicable  
Laws/Rules**

- DAS Statewide Accounts Receivable Management (SWARM)
  - Statewide Private Collections Contract and Purchase Order Requirements  
[http://oregon.gov/DAS/SCD/ASP/pcf.shtml#Collection\\_Contract\\_Details](http://oregon.gov/DAS/SCD/ASP/pcf.shtml#Collection_Contract_Details)
  - Fair Debt Collection Practices Act (FDCPA)
  - Oregon Revised Statute 293.231
- 

**References**

- IRS Private Debt Collection Study Report – March 2009
- 

**Background**

In May 2010, the PTAC CAP team developed a plan for a double-blind assessment of private collection firm performance on new tax liabilities. Contracted private collection agencies often contend they could match or surpass DOR collection rates if they were able to work newer debts as our internal agents do. In an attempt to validate these contentions, the CAP team pulled a query of new liabilities – assigning approximately 250 accounts to each of our normally contracted vendors and tracking approximately 250 accounts left in our internal collection workflow. Neither the private firms nor the DOR revenue agents knew of this plan nor which accounts would be tracked. This assessment ran from June through November 2010 and involved tracking the collection rates for new debts reported by taxpayers during the 2010 filing season.

There were some limitations on this project. The small number of accounts that were tracked were randomly selected and may not have been a statistically valid sample. The time period for the assessment was only six months and did not reflect the typical amount of time that either a private collection firm or a DOR revenue agent would have to work a set of accounts.

This project did not consider or compare **cost effectiveness** of collections by either DOR or the private collection firms. DOR invests significant time and effort to coordinate and monitor collections through private firms. The work is manual and labor-intensive, and it requires numerous DOR staff to manage assignments, balance reconciliations and cancellations, and to process special requests.

---

## Results

1071 new / current liabilities were identified and selected for this assessment. These debts were randomly split four ways between DOR and each of our three contracted private collection firms. 268 accounts were identified to be retained internally and were left in DOR's normal collection workflow – not assigned to any one specific agent. The agents to whom these debts were being assigned had no knowledge of this assessment. Accounts being assigned to the private firms were mixed in with other, older cases so the private firms would not easily be made aware of us assigning a batch of newer debts to them. As well, they would have no knowledge of these cases being tracked by us. Private firm #1 received 267 accounts, firm #2 received 268 accounts and firm #3 received 268 accounts.

The private firms did achieve a higher collection rate than they typically deliver with the older tax debts that are routinely assigned to them. That collection rate typically is between one and two percent of the liabilities assigned. With the newer debt, the private firm production rate increased to between eight and 10 percent of the value of the debt assigned to them.

	DOR	Private Firm #1	Firm #2	Firm #3
# of Accounts	268	267	268	268
Value of Assigned Accounts	\$1,326,631	\$682,846	\$597,025	\$484,932
Collections *	\$268,289	\$70,351	\$46,067	\$49,048
Collection Rate	20%	10%	8%	10%

*\* Collections exclude offsets which are automatic, not a result of collection activity and are all processed by DOR. Collections for the private firms includes amounts remitted directly to DOR as well as garnishment on those assigned accounts even though the garnishments are processed and monitored by DOR after the private firm identifies the garnishment source.*

---

## Conclusion

The assessment summarized above showed that external, private collection firms produce higher collection rates on newer debt; although their production was still significantly less than internal agency staff collection rates.

---

## Contacts

Shiloh Sierra, Collection Agency Program, Program Analyst  
 Lisa Pineda-Volk, Collection Agency Program, Manager