

2013

Oregon Department of Revenue

Presentation to the Joint Ways and Means General Government Subcommittee

Responses to Questions from Committee Members

March 27, 2013



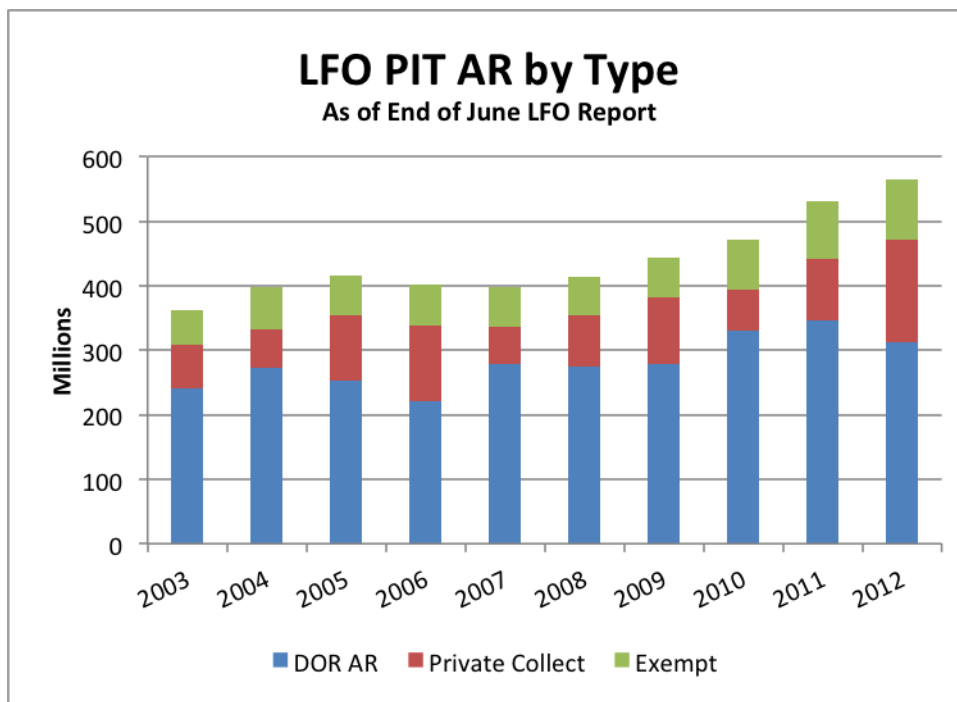
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What is the average age of the accounts receivable when sent to private collections?

The average age of accounts sent to private collection firms in 2012 was 3.1 years. The median age was 1.9 years.

Can you provide more data regarding accounts receivable over the past decade?

This chart provides a 10-year review of personal income tax accounts receivable. Exempt accounts are exempt under Oregon law from going to a private collection firm for collections. Reasons for exemption include litigation, bankruptcy, hospitalization, and imprisonment. Our collection staff eventually will pursue some of these exempt accounts.



Do we apply interest to accounts we collect for other agencies?

There are more than 100 different interest rates that we apply to accounts we collect for other agencies. When the agency sends us the account, they provide an interest rate code that tells us the interest rate we should apply and accrue on that particular liability's debt balance. Some agencies do instruct us not to apply interest or accrue any interest on a particular debt balance. One example is the Oregon Judicial Department, which does not charge or accrue interest on its accounts.

What does the state pay in commissions to private collection firms? What are taxpayers paying in fees to these firms?

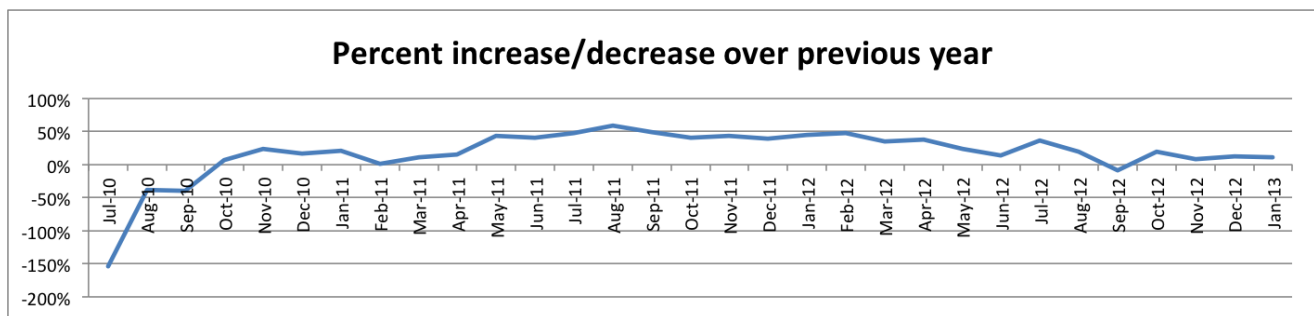
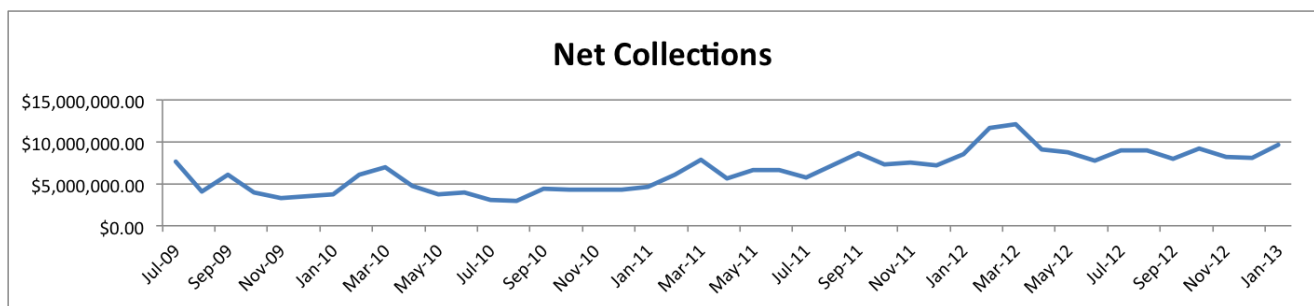
We paid \$788,934 in commissions to private collection firms from July 2010 to February 2012. In 2010, the commission rate ranged from 7 percent to 23 percent. The commission was based on the type of collections the firm did. If we had to assist the firm—for example, issue a garnishment on its behalf—the firm would receive a reduced rate.

As of the new contract, which was put into place in fall 2011, we no longer pay commissions. These commissions are now being passed on directly to the debtors by the collection firms. The negotiated commission rates range from 10 percent to 23 percent, based on the type and extent of work performed by the firm. Commissions are assessed on dollars actually collected.

What were the benefits of reorganizing collection staff? Are collectors bringing in more dollars than prior to the restructure?

The charts below show an increase in collections, but we cannot completely identify a correlation of increased collection dollars to our specific actions. However, we do believe the following actions have had an impact:

- By better aligning our staff for specific tasks, we are able to focus our resources on consistent treatment of cases. We also are better able to assign accounts more promptly to appropriate collection staff.
- Our old method of caseload management prior to January 2012 involved assigning the same priority level to all accounts, regardless of age. During our restructure, we assigned some staff to manually triage accounts, giving the newest debts top priority in accordance with industry best practice. We now contact the debtor sooner or take the most appropriate resolution action without unnecessary additional work.



How does the economy affect collections?

A chart on page 29 of our Ways and Means presentation illustrates the personal income tax revenue we collected due to our direct enforcement efforts. In gathering this information, we discovered two trends:

- Direct enforcement revenue is countercyclical to the employment level—in other words, we expect increased collections with a corresponding decrease in employment.
- Direct enforcement revenue is proportional to accounts receivable—in other words, an increase in accounts receivable leads us to expect an increase in collections.

Putting these together, we believe that a lower level of employment leads to a lower ability to pay tax liability, which leads to an increase in our accounts receivable and an increase in dollars collected by the Department of Revenue. However, these factors are interdependent and nuanced; it is more accurate to think in terms of a dynamic, complex relationship, rather than in terms of linear cause-and-effect.