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Economy & Efficiency Commission
Presentation

Editorial Note: Although every effort has been made to insure the accuracy of the material in this presentation, the scope of the material covered and the discussions undertaken lends itself to the possibility of minor transcription misinterpretations.

PRESENTATION BY
Mr. Steve Ashton
Manager, Offer in Compromise Program, State of California Franchise Tax Board
Topic: Franchise Tax Board - Accounts Receivable Management and Collections
February 4, 1999

Chairman Abel introduced Mr. Steve Ashton, Manager, Offer in Compromise Program, State of California Franchise Tax Board. Mr. Ashton described the Individual Tax Collections Bureau (ITCB) as being 1 of 4 bureaus that comprise the Accounts Receivable Management Division (ARMD). ARMD has about 1,200 employees, which is approximately 25 percent of the staff of the Franchise Tax Board (FTB) headquartered in Sacramento. There are 12 field offices in California, with other offices located in Texas, Illinois, and New York.

Mr. Ashton stated that the ARMD collects about $1.7 billion annually. About $300 million of that amount is collected by the ARMD Non-Tax Debt Bureau, such as child-support collections, Department of Motor Vehicle registrations, inter-agency offset program collections, and various county and city collections. If a taxpayer with a non-tax liability is owed a refund by the FTB, the ARMD, in agreement with cities, counties, and other state agencies, will withhold that refund. Instead of sending the entire refund back to the taxpayer, the ARMD sends the liability portion of the refund directly to the agency the taxpayer owes the money. The ARMD directs over $100 million to such efforts. The ARMD has an agreement with virtually every California County for child-support collections. This effort results in about $64 million of child-support collections annually.

Mr. Ashton explained that approximately 80 percent of ARMD collections are automated. The ARMD currently has a linear approach to collections. This linear approach is scheduled to change dramatically in about 18 months. He described how these changes would effect the different stages of the collection process. In the current billing cycle, if the taxpayer owes delinquent taxes, they will generally receive 3 billing notices. The first notice is a "statement of tax due" notice. 33 days later, the ARMD sends a "past due" notice. 33 days after that, the ARMD sends a "final" notice. If there is no response after thirty days, the ARMD will then send a levy to the taxpayer's bank, or a wage garnishment to the taxpayer's employer. If the wage garnishment is not successful, and/or the taxpayer does not have a bank account, then the ARMD files a State tax lien against any real property. If there is still no response from the taxpayer, the collection account will go to the staff of 200 collectors in Sacramento for resolution. These accounts are assigned to individual collectors on a cost-benefit analysis basis. A sophisticated scoring system is in place. Accounts with a current address, a recently filed tax return, or a large liability usually get assigned first. If collection from Sacramento is unsuccessful, the ARMD will refer to an accountant in the field for collection, if warranted by the cost-benefit analysis.

Mr. Ashton stated that over the past year and a half, ARMD has begun to shift away from the aforementioned linear approach towards a more multi-dimensional approach. In the past, ARMD would modify a garnishment down to accommodate a taxpayer's hardship, but not release the wage garnishment. Currently, ARMD is releasing 75 percent of all levies on taxpayers who have received a wage garnishment and have contacted the FTB. These garnishments are generally converted into installment agreements using Electronic Funds Transfer (EFT). This allows the ARMD to leverage available technology.

Mr. Ashton passed out copies of the current ARMD Installment Agreement Request (IAR) forms. He explained that, historically, there were annually about 25 thousand taxpayers with installment agreements. The new IAR form was implemented in January 1998 to make it easier for taxpayers to qualify for payment of liabilities in installments. Now there is only one sheet of paper to fill out, whereas the old IAR forms had multiple pages. 93 percent of the new IAR forms received are now approved. Historically, ARMD's default rate had been 40 percent. Under the current EFT system, the ARMD default rate is currently only 2.7 percent. Consequently, due to liberalization, the number of California taxpayers in installment agreements has risen from 25 thousand to about 100 thousand. Mr. Ashton estimated that the number will likely plateau at about double the current amount, which is fine if the default rate remains at the current 2.7 percent. EFT and installment agreements have also facilitated the current ARMD increase in releasing garnishments, which takes the burden off of employers and minimizes clerical errors. He also credited the assistance of tools such as Internet databases and on-line computer data for contributing to the efficiency of the collections staff.

Mr. Ashton discussed a brand-new process called the Accounts Receivable Collection System (ARCS), which should be implemented by the middle of the year 2000. A major element of ARCS will involve the application of different collection strategies based on a risk/yield analysis of each collection account. Each collection account will be scored into one of nine categories of risk and yield. Each of the nine categories of risk and yield will have a separate collection strategy to insure the highest degree of efficiency and effectiveness for collection.

Commissioner Buerk asked if the development of this system in which each account is treated differently poses any problems in the training of personnel to adjust to the new procedures. Mr. Ashton replied that there should not be significant training issues because the entire system will be networked in Sacramento where specific accounts will be assigned. The accounts will come to the collector via computer. The individual collectors will be responsive, as well as proactive. Right now, an individual collector is assigned approximately 300 accounts, with an expectation that he/she resolve 50 accounts per month, with no account aging more than 5 months.

Chairman Abel thanked Mr. Ashton for his presentation. The efforts of the ARMD will provide a meaningful basis for further action by the Commission in its debt collection research efforts.

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