



DEPARTMENT OF ADMINISTRATIVE SERVICES

Milwaukee County

Teig Whaley-Smith

• Director, Department of Administrative Services

MEMORANDUM

TO: Milwaukee County Board

FROM: Teig Whaley-Smith, Director DAS

RE: Legislative Changes Necessary to Maximize Revenues and Protect Vulnerable Individuals

DATE: March 11, 2016

A 2007 audit by the Milwaukee County Audit Division revealed that “Milwaukee County’s billing and collection efforts are highly decentralized ... [and] Milwaukee County departments are not routinely using effective collection tools.”¹ Unfortunately, since that time little has changed. A 2015 report by the Milwaukee County Comptroller indicates that outstanding receivables total \$69 Million and that increasing our collection rate by 5% could yield up to \$64 million of additional revenue over the next 20 years.² The County’s debt collection efforts continue to be fragmented between multiple agencies and the County is not consistently using the appropriate tools. More importantly, there is no uniform standard for allowing debt repayment plans based on income limitations or other restrictions that protect vulnerable individuals and structure payment plans based on their ability to pay. Establishing payment plans is critical to take vulnerable individuals out of uncertainty and limbo, and towards a clear path towards reestablishing financial stability.

Three legislative changes are necessary to remedy this situation. First, the statutes need to specify that debt collection efforts and payment plans are centralized with County administration so that the administration may enter into an agreement with the State Debt Collection program (“SDC Program”). Second, the statutes need to specify that the administration is able to enter into debt repayment plans based on income limitations and other criteria. Finally, the statutes need to specify that the amounts collected by the SDC Program are returned to the County. For this final item, consideration should be given to allocating a portion of the funds to assist in the workforce training of those that are unable to pay off debts. A copy of engrossed 2015 Assembly Bill 885 addresses all of these issues. The bill has been passed by the state assembly and will be presented to the Senate.

¹ Milwaukee County Department of Audit, “An Audit of Milwaukee County Billing and Collection Practices” (February 2007) at p 2, available at <http://county.milwaukee.gov/ImageLibrary/Groups/cntyAudit/report0702.pdf>

² Milwaukee County Comptroller, “Milwaukee County’s Receivables and its Collectability,” (June 11, 2015) at pp 5, 20, available at <https://milwaukeecounty.legistar.com/LegislationDetail.aspx?ID=2354353&GUID=B449D931-72C2-4DAF-A053-4E465740FD9D&Options=ID|Text|&Search=15-442>

This combined effort of (a) collecting from those that are able to pay, and (b) establishing payment plans and assistance that protect those that are not able to pay is similar to Milwaukee County's recent efforts regarding the collection of Child Support payments. This effort has resulted in a 9% increase in the delinquency collection rate over just two years,³ yielding millions of additional dollars collected for Milwaukee County children, and the attraction of regional awards⁴ and national grants.⁵

I. SDC Background

The State Debt Collection program ("SDC Program") was created by the Doyle Administration. The State of Wisconsin Department of Revenue (DOR) operates the SDC Program for many government bodies across the state, including local government bodies in 108 municipalities, 15 state agencies, 14 University of Wisconsin Campuses, and other government entities. The State Debt Collection program is an efficient method of collecting delinquent debts owed to government bodies. The SDC Program was created by legislation in 2009. Local governments that participate in the program certify their delinquent debts to DOR which then collects on their behalf. SDC charges collection fees to the person that owes the debt, which means that the government unit receives full payment, rather than payment minus a percentage fee for collection. The current charge for debt collection that is charged to the person that owes the debt is 15%.

The SDC Program has a proven track record. SDC payments have increased from \$300,000 in the first full year of operation (Fiscal Year 2011) to \$12 million in most recent year (Fiscal Year 2014). Debts currently under collection include motor vehicle violation fines, government utility debts and overdue property taxes. The SDC Program has more comprehensive collection tools than other debt collection programs. DOR enters into payment plans with individuals based on ability to pay when appropriate.

II. How Milwaukee County Debt Collection Would Change

As mentioned above, the current Milwaukee County debt collection practices are decentralized, do not consistently utilize the appropriate tools, and do not systematically protect citizens who are unable to pay by offering income based payment plans. Milwaukee County has essentially three types of debt it collects: (1) Property Taxes, (2) Court Obligations, and (3) Miscellaneous. Property Taxes and Court Obligations represent nearly 80% of the debt owed to the County, and nearly 100% of the debt that can be used for funding additional County programming.⁶ Currently, Property Taxes are collected by the County Treasurer, Court Obligations are collected by the County Clerk of Courts, and the remainder is collected by the County Administration. The County Treasurer does not utilize an outside

³ 2012 Collection rate of arrears 48.5% see Milwaukee County 2014 Operating Budget at p 180, available at <http://county.milwaukee.gov/ImageLibrary/User/bpariseau/2014-Adopted-Operating/Revised2014AdoptedOperatingBud.pdf>. 2014 Collection rate of arrears 52.88%, see Milwaukee County 2016 Operating Budget at p 176, available at <http://county.milwaukee.gov/ImageLibrary/Groups/cntyDAS/PSB/Budgets/2016-Budget/2016-Adopted-Budget/2016Adopted-Finalv2.pdf>. 52.88%/48.5% = 9% increase.

⁴ Milwaukee County 2015 Operating Budget at p 11. ("In 2013 they were named the Wisconsin Child Support Department of the Year"), available at <http://county.milwaukee.gov/ImageLibrary/Groups/cntyDAS/PSB/Budgets/2015-Budget/2015-Adopted-Budget/2015AdoptedBudgetNarrative.pdf>

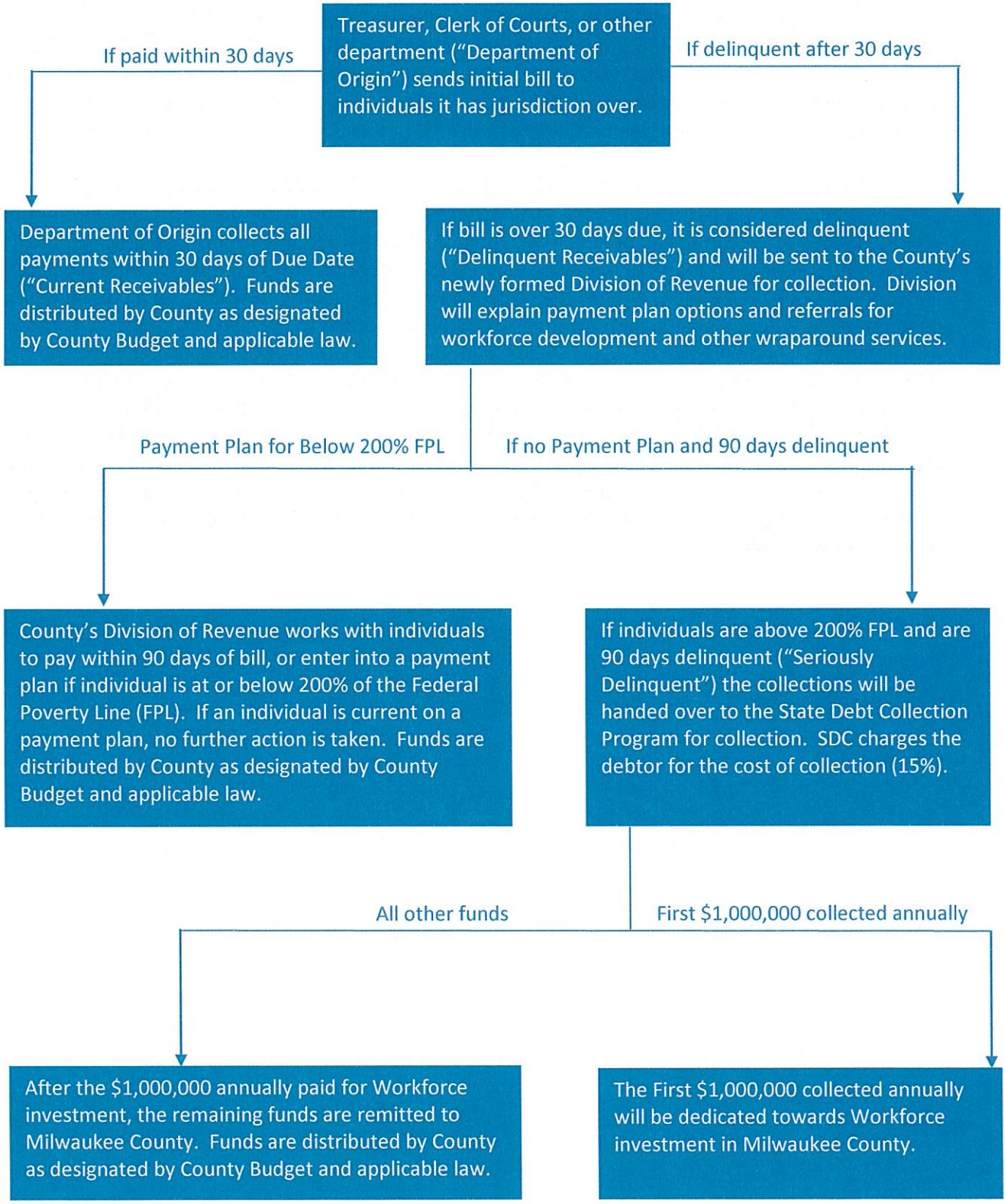
⁵ Fox 6 News. Milwaukee County receives \$10M grant to enhance "Pathways to Responsible Fatherhood" project (Oct. 8, 2015), available at <http://fox6now.com/2015/10/08/milwaukee-county-receives-10m-grant-to-enhance-pathways-to-responsible-fatherhood-project/>

⁶ Infra Note 2 at pp 4, 6.

agency, and develops individual payment plans that are not income or asset based. The County Clerk of Courts utilizes an outside collection agency and uses payment plans established by the agency. Neither the County Treasurer, nor the County Clerk of Courts participate in the SDC Program, and consequently are not using the SDC's collection tools. The proposed legislation would allow the County Executive to enter into an agreement with the State Department of Revenue on behalf of the entire County. This statutory change is necessary because after repeated requests by the County Executive for other branches to consolidate debt collection and participate in the SDC, these branches have not done either.

If the proposed legislation were adopted, the County Treasurer would continue to be the first point of contact for property tax payers. The difference would be that if an individual does not pay within 30 days of when the payment is owed, then the County administration would be responsible for establishing a payment plan with the individual. If the individual does not qualify for a payment plan and still has not paid the debt, or has not cooperated with the County in setting up an income based payment plan, within 90 days, then the debt would be forwarded to the SDC Program. The same would be true for the County Clerk of Courts. The County Clerk of Courts would continue to be the first point of contact for those making payments related to the courts. The difference is that after 30 days, instead of forwarding the debt to a private debt collection agency, the County administration would be responsible for establishing a payment plan with the individual, and if the payment plan is not met, forwarding the debt to the SDC Program. This process will address the two primary recommendations of the 2007 audit: centralizing the debt collection process and utilizing tools that the SDC Program has to offer. This centralization will also allow for the uniform protection of individuals that qualify for payment plan options.

Figure 1: New model for the Centralization and Broader Tools of Debt Collection.



III. Criteria for Payment Plans

As mentioned above, there is currently no uniform payment plan criteria at Milwaukee County. The proposed legislation would allow the County administration to develop uniform payment plan criteria for the entire county. The proposed legislation includes the following criteria for eligibility for a payment plan which are based on various federal standards for debt forbearance. Under the legislation, payments can be made in equal monthly installments for up to three years for:

- (a) individuals with family income less than 200% of the federal poverty line,
- (b) individuals who have experienced *unemployment* during the calendar year which are expected to reduce the individual's annual family income to less than 200% of the federal poverty line,
- (c) individuals who have experienced a *family hospitalization* or disability during the calendar year which is expected to reduce individual's annual family income to less than 200% of the federal poverty line.
- (d) individuals whose annual household income will be less than 200% of the federal poverty line due to incarceration in the last 12 months.
- (d) individuals who are on active duty military service.

The above payment plans would be interest free, unless otherwise required by statute, such as for property taxes and civil judgments. Payment plans may be extended beyond three years if the payment would reduce the individual's annual income below the federal poverty line. The minimum monthly installment for all payment plans would be \$25.

IV. Calculating Milwaukee County's Incremental Gain

Because each municipality's debt and debt collection efforts are different, it is difficult to make an apples to apples comparison of what participation in the SDC Program will yield. One comparison method is comparing what gains a community experienced when moving from the Tax Refund Intercept Program (TRIP) administered by the DOR to the SDC Program.

One local example is the University of Wisconsin – Milwaukee (UWM). Below is graph of the total dollars collected by DOR for UWM for TRIP vs. SDC.

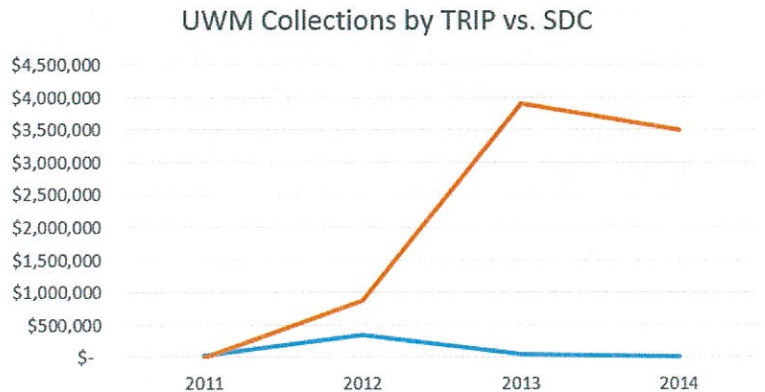


Figure 2: By using the SDC Program, UWM has experienced tremendous increases in its collection efforts. Source: Wis. DOR

As you can see, the SDC Collections proved to be a much more powerful tool than TRIP collections alone. The total annual pool of debt sent by UWM to SDC was between \$11 Million to \$12.5 million annually. The total amount of TRIP debt certified by the County thus far in 2015 is over \$81 million, with collections of less than \$1.3 million, leaving \$78.7 million on the table.

Again, there is no perfect comparison of what the Milwaukee County experience will be. Although UWM is a local example, the individuals that owe UWM may be very different from the individuals that owe Milwaukee County's. Fortunately DOR has shown gains when other municipalities switched from TRIP to SDC as well. These municipalities may also have very debt collection practices, so their results are not a perfect indication of what Milwaukee County's experience will be. For example, the TRIP vs. SDC comparison does not include an analysis of what debt is collected by each municipality outside of TRIP and SDC; which is a very complicated analysis.

Despite there not being a perfect comparison, given the SDC's stronger tools, SDC's experience, the centralization of SDC, and Milwaukee County's large uncollected debt balance; it is reasonable to conclude that there will be an additional \$3,000,000 to \$4,000,000 annually collected; while continuing to collect an amount similar to what Milwaukee County would have collected outside of the SDC Program. This estimate of \$3,000,000 to \$4,000,000 annually is consistent with the Milwaukee County comptroller's estimate of \$64 million over a 20 year period if collection rates are increased by 5% annually.⁷

V. Allocation of Debt Collection Funds

Milwaukee County's unemployment rate has consistently been 3 percentage points higher than the state average. Consequently, unemployment and underemployment is undoubtedly a primary cause for some individuals not being able to pay off debts. Consequently, it is recommended that the first \$1,000,000 annually obtained by the County from the SDC Program be allocated towards the Milwaukee Area Workforce Development (MAWIB) for contracted programming with Milwaukee County. As illustrated by the figure to the right, MAWIB has had proven success in increasing the wages for Milwaukee's unemployed and underemployed.

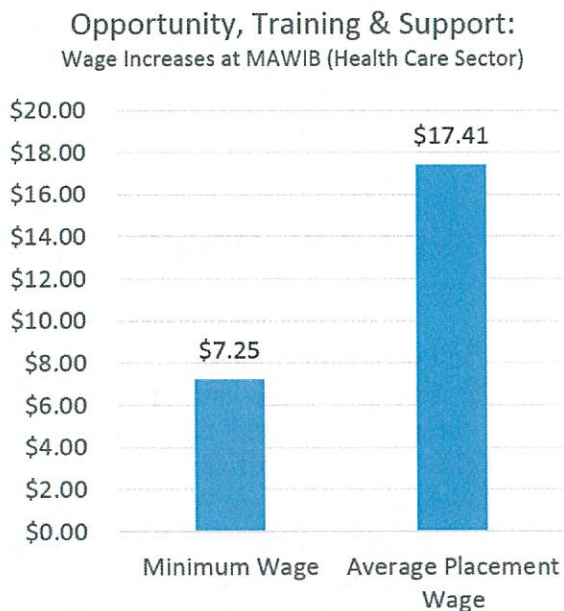


Figure 3: Through its extensive employer and community partnership, MAWIB has achieved significant wage gains for Milwaukee's unemployed and underemployed in the healthcare sector. Source: MAWIB Health Professionals Opportunity Grant

⁷ Infra Note 2.

VI. Other Important Provisions in Legislation

The proposed legislation also includes several other important provisions.

A. Comptroller Review

Section 6 of the proposed legislation indicates that the initial agreement with the County is for 3 years and may only be extended “if the comptroller certifies, prior to the expiration of each term, that the agreement has resulted in increased collections over the initial term of the agreement.”

B. Restitution

In many cases, crime victims are entitled to restitution. Restitution is a property right of the crime victim and may not be collected by the County and used for County purposes. Consequently restitution will not be a part of the primary agreement between SDC and the County. Section 5b of the proposed legislation does, however, allow the Clerk of Courts to enter into an agreement with SDC so that crime victims have the same access to the powerful SDC tools.

