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**Schedule 13
Change Request for FY 2009-10 Budget Request Cycle**

Decision Item FY 2010-11 Base Reduction Item FY 2010-11 Supplemental FY 2009-10 Budget Amendment FY 2010-11

Request Title: Treasury Offset Program
 Department: Department of Revenue
 Priority Number: DI-1
 Dept. Approval by: *Russell [Signature]*
 OSPB Approval: *[Signature]*
 Date: November 2, 2009
 Date: *10-15-09*

	Fund	1	2	3	4	5	6	7	8	9	10
		Prior-Year Actual FY 2008-09	Appropriation FY 2009-10	Supplemental Request FY 2009-10	Total Revised Request FY 2009-10	Base Request FY 2010-11	Decision/ Base Reduction FY 2010-11	November 1 Request FY 2010-11	Budget Amendment FY 2010-11	Total Revised Request FY 2010-11	Change from Base (Column 5) FY 2011-12
Total of All Line Items	Total	4,319,864	4,757,667	0	4,757,667	4,805,737	158,680	4,964,417	0	4,964,417	158,680
	FTE	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	GF	3,952,629	4,349,984	0	4,349,984	4,395,465	158,680	4,554,165	0	4,554,165	158,680
	CF	363,822	393,774	0	393,774	396,343	0	396,343	0	396,343	0
	HUTF	13,413	13,909	0	13,909	13,909	0	13,909	0	13,909	0
	RF	0	0	0	0	0	0	0	0	0	0
	FF	0	0	0	0	0	0	0	0	0	0
(2) Central Department Operations, Operating Expenses	Total	1,165,323	1,173,173	0	1,173,173	1,164,112	2,431	1,166,543	0	1,166,543	2,431
	FTE	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	GF	1,028,494	1,036,286	0	1,036,286	1,027,225	2,431	1,029,656	0	1,029,656	2,431
	CF	136,829	136,887	0	136,887	136,887	0	136,887	0	136,887	0
	HUTF	0	0	0	0	0	0	0	0	0	0
	RF	0	0	0	0	0	0	0	0	0	0
	FF	0	0	0	0	0	0	0	0	0	0
(2) Central Department Operations, Postage	Total	2,364,881	2,607,241	0	2,607,241	2,591,907	149,799	2,741,706	0	2,741,706	149,799
	FTE	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	GF	2,134,475	2,344,342	0	2,344,342	2,329,008	149,799	2,478,807	0	2,478,807	149,799
	CF	216,993	248,990	0	248,990	248,990	0	248,990	0	248,990	0
	HUTF	13,413	13,909	0	13,909	13,909	0	13,909	0	13,909	0
	RF	0	0	0	0	0	0	0	0	0	0
	FF	0	0	0	0	0	0	0	0	0	0
(4) Taxation Business Group, (B) Taxation and Compliance Division, Operating Expenses	Total	789,660	977,253	0	977,253	1,049,718	6,450	1,056,168	0	1,056,168	6,450
	FTE	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	GF	789,660	969,356	0	969,356	1,039,252	6,450	1,045,702	0	1,045,702	6,450
	CF	0	7,897	0	7,897	10,466	0	10,466	0	10,466	0
	HUTF	0	0	0	0	0	0	0	0	0	0
	RF	0	0	0	0	0	0	0	0	0	0
	FF	0	0	0	0	0	0	0	0	0	0

Non-Line Item Request: A total of \$4.2 million General Fund revenue increase has been applied to the Office of State Planning and Budgeting FY 2010-11 Budget Balancing.
 Letternote Revised Text: None
 Cash or Federal Fund Name and COFRS Fund Number:
 Reappropriated Funds Source, by Department and Line Item Name: N/A
 Approval by OIT? Yes: No: N/A:
 Schedule 13s from Affected Departments: N/A

CHANGE REQUEST for FY 2010-11 BUDGET REQUEST CYCLE

Department:	Revenue
Priority Number:	DI-1
Change Request Title:	Treasury Offset Program

SELECT ONE (click on box):

- Decision Item FY 2010-11
- Base Reduction Item FY 2010-11
- Supplemental Request FY 2009-10
- Budget Request Amendment FY 2010-11

SELECT ONE (click on box):

Supplemental or Budget Request Amendment Criterion:

- Not a Supplemental or Budget Request Amendment
- An emergency
- A technical error which has a substantial effect on the operation of the program
- New data resulting in substantial changes in funding needs
- Unforeseen contingency such as a significant workload change

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Short Summary of Request:

The Department of Revenue requests \$158,680 General Fund in FY 2010-11 and subsequent years to fully implement a treasury offset program in the State of Colorado. Based on the experience of other states and its own limited experience with the program, the Department estimates that an enhanced treasury offset program will result in an additional \$4.2 million in General Fund revenue in FY 2010-11 and will continue in FY 2011-12. The Office of State Planning and Budgeting has applied the \$4.2 million in the Budget Balancing for November 6, 2009.

Background and Appropriation History:

Section 24-35-108, C.R.S. (2009), requires the Department of Revenue to collect delinquent taxes. The Department manages approximately \$201.6 million in delinquencies at any time and it utilizes a variety of collection techniques to settle these debts. Among the most cost efficient is the treasury offset program, established in 26 U.S.C. §6402. Treasury offset programs, created in 1996, allow states to intercept a federal tax refund to satisfy income tax debts owed the state.

The Department of Revenue has only been able to participate in the program on an ad-hoc basis, usually toward the end of the fiscal year when expenditure patterns become more concrete and funding may materialize. In FY 2001-02, the Department participated in the treasury offset program for the first time. Due to budget constraints, the next time the Department placed notifications was in FY 2007-08. The Department was able to send notifications again in FY 2008-09. All mailings occurred in the latter part of the fiscal year and are relatively small in comparison to the population that can be notified. A specific appropriation has not been established for the Department's treasury offset efforts.

History of Colorado's Treasury Offset Program		
	Notifications Sent	Gross Collections*
March 2002	2,403	\$173,493
March 2008	2,264	\$12,131
March 2009	4,400	\$903,345

*Note: Gross collections by year represent a best approximation of the return of a particular mailing. The Department does not track revenues by mailing, only by fiscal year. March 2009 data include federal stimulus refunds, which may skew results slightly.

On average, each notification sent as a part of Colorado's treasury offset program has returned \$120 to the state. In each year identified above, the Department participated in the program in a limited manner. Dedicated funds have not been available to implement a treasury offset program.

General Description of Request:

Implementing the Colorado Integrated Tax Architecture (CITA) project has allowed the Department to vigorously debate how industry best practices might be adopted or expanded in Colorado. These best practices come from the experience of the vendor of GenTax and other states that have implemented its product. A fully realized treasury offset program is an area where the Department is currently deficient in best practices.

The treasury offset program requires states to notify the taxpayer of the Department's intent to intercept federal tax refunds via certified mail. Federal law also requires the Department to include return receipt notification. The Department anticipates mailing 34,724 letters; this pool was identified by data cleansing efforts in the existing

delinquency system in preparation for CITA's income tax phase implementation on November 3, 2009. It is comprised only those accounts who received a federal refund but owe the state income tax.

Data obtained from five other states' experiences with the treasury offset program show that the return is far greater than the cost to administer. Moreover, the return is greater than what the State of Colorado has experienced with its limited use of the program. The states identified below have experienced an average return of approximately \$190 per notice sent.

Other States' Results from Treasury Offset Programs				
State	Approximate Letters	Approximate Cost	Approximate Collection	Net Return
Louisiana	56,900	\$177,000	\$27,800,000	\$27,623,000
West Virginia	62,400	\$169,000	\$9,250,000	\$9,081,000
Alabama	112,000	\$486,000	\$7,000,000	\$6,514,000
Wisconsin	5,500	\$17,000	\$1,800,000	\$1,783,000
North Dakota	8,000	\$33,000	\$630,000	\$597,000

Based on Colorado's limited experience, this request has assumed a \$4.2 million increase to the General Fund in FY 2010-11. If Colorado's experience turns out to mirror that of other states with more robust treasury offset programs, then it is possible that 34,724 mailings could return up to \$6.6 million to the General Fund. The \$4.2 million increase to the General Fund revenue has been applied in the OSPB's Budget Balancing for FY 2010-11.

Consequences if Not Funded:

The Department will not be in position to fully implement a best practice in tax administration. The Department of Revenue's goal is to fairly administer Colorado's tax laws and a fully implemented treasury offset program will assist the Department in obtaining that goal. Additionally, the state will not realize an increase to General Fund revenues if this request is not implemented.

Calculations for Request:

Summary of Request FY 2010-11	Total Funds	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	FTE
Total Request	\$158,680	\$158,680	\$0	\$0	\$0	0.0
Forms	\$2,431	\$2,431	\$0	\$0	\$0	0.0
Postage	\$149,799	\$149,799	\$0	\$0	\$0	0.0
Labels	\$6,450	\$6,450	\$0	\$0	\$0	0.0

Summary of Request FY 2011-12	Total Funds	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	FTE
Total Request	\$158,680	\$158,680	\$0	\$0	\$0	0.0
Forms	\$2,431	\$2,431	\$0	\$0	\$0	0.0
Postage	\$149,799	\$149,799	\$0	\$0	\$0	0.0
Labels	\$6,450	\$6,450	\$0	\$0	\$0	0.0

Cash Funds Projections:

Not applicable.

Assumptions for Calculations:

Mailings associated with the treasury offset program include the following per notice:

- (1) 2 sheets of perforated paper at \$0.015 per sheet;
- (2) 2 envelopes at \$0.02 per envelope;
- (3) Certified mail at \$2.80 per piece;
- (4) 1st class postage at non-automated presort rates;
- (5) Labeling for electronic return receipt at \$6,450 per 50,000 labels; and
- (6) Electronic return receipt at \$1.10 per notification.

Treasury Offset Program Cost Estimates			
Item	Unit Cost	Volume	Extended Cost
Perforated Paper	\$0.015	69,448	\$1,042
Envelopes	\$0.02	69,448	\$1,389
1 st Class Postage – non automated presort	\$0.414	34,724	\$14,376
Certified Mail	\$2.80	34,724	\$97,227
Electronic Return Receipt	\$1.10	34,724	\$38,196
Labels	n/a	50,000	\$6,450
TOTAL			\$158,680

Revenue projections are based on the following assumptions:

- Previous efforts have resulted in average collections totaling \$5, \$72, and \$205 per notification in 2002, 2008, and 2009, respectively, for a three-year average of \$120.
- Average \$120 collection per notification will generate \$4.2 million in collections in FY 2010-11. The value of the pool of accounts targeted with this proposal totals \$38.2 million. \$4.2 million represents a rate of return of nearly 11 percent.
- Data collected from other states indicates an average rate of return of nearly 12 percent of total outstanding amounts. The Department’s estimates are slightly more conservative based on the limited experience and available data associated with prior trials of the Treasury Offset Program.
- Revenue associated with the Treasury Offset Program will be realized in the last quarter of FY 2010-11 because of the timing when notices are sent and when individuals file taxes. The Department would mail the notices as soon as possible after July 1, 2010. The Department will realize the revenue when federal taxes are paid.

Impact on Other Government Agencies: None.

Cost Benefit Analysis: An increase in postage and operating expenses is estimated to allow allow the Department to return at least \$4.2 million General Fund to the state and allow the Department to more effectively enforce and administer the tax laws of Colorado. The Department assumes that each notification will result in a return of \$120, similar to its previous experience with this program.

Benefits	Cost	Ratio
The Department estimates that a fully implemented treasury offset program will increase collections by at least \$4.2 million based on Colorado's past experience with limited notifications.	\$158,680	Benefit/Cost ratio is: \$4,200,000 / \$158,680 = 26.5 to 1.

Implementation Schedule:

Task	Month/Year
Mailing Notifications	Throughout the year – as soon as delinquencies are identified, notifications will be sent ahead of the next tax filing season.

Statutory and Federal Authority:

24-35-108 C.R.S. (2009). Functions of department of revenue - collection of state taxes.
 (1) *In addition to any function specified in this article, the functions of the department of revenue and the duties of the executive director of the department of revenue as the head of said department or of the head of a group, division, or subordinate department appointed by the executive director in accordance with this article are:*
 (a) *To collect delinquent taxes, assessments, and licenses under the jurisdiction of the department of revenue;*

26 U.S.C. §6402 (e) (4) Notice; consideration of evidence

No State may take action under this subsection until such State--
 (A) *notifies by certified mail with return receipt the person owing the past-due State income tax liability that the State proposes to take action pursuant to this section;*
 (B) *gives such person at least 60 days to present evidence that all or part of such liability is not past-due or not legally enforceable;*
 (C) *considers any evidence presented by such person and determines that an amount of such debt is past-due and legally enforceable; and*
 (D) *satisfies such other conditions as the Secretary may prescribe to ensure that the determination made under subparagraph (C) is valid and that the State has made reasonable efforts to obtain payment of such State income tax obligation.*

Performance Measures:

The Department of Revenue seeks to enhance its revenue collections through the fair administration of Colorado's tax laws. Productivity gains and seeking initiatives with ideal returns on investment are priorities. To this end, the Department looks for ways to increase audit revenues and the number of delinquent collections.

Performance Measure	Outcome	FY 2007-08 Actual	FY 2008-09 Actual	FY 2009-10 Appropriation	FY 2010-11 Request
Percent of delinquent accounts closed per year.	Benchmark	70.0%	70.0%	70.0%	70.0%
	Actual	79.0%	80.0%	TBD	TBD