

# CSAC FC & NACo FSC Debt Offset

## *Improving California County Debt Collection*

### ***CSAC FC's Joint Debt Offset Program with NACo FSC Offers a Turn-Key Solution to County Debt Collection Needs***

#### **Debt Offset Defined**

CSAC FC has joined with NACo FSC to develop the *California Local Government Debt Offset* program to help counties collect outstanding debts in a timely, cost-effective manner. The debt offset service allows counties and other local government to compile and submit their delinquencies for offset against pending state personal income tax refunds and lottery winnings.

disruption, county staff expertise is engaged early on during program development to integrate its offset services into existing county revenue billing and collection processes. The local government offset program works closely with the state's lead revenue agency to meet current state offset requirements for data transmission, data security, and financial process standards.

#### ***Counties can increase debt collection rates with minimal effort and costs***

In concert with CSAC FC, NACo FSC provides and maintains the centralized automation and back office systems needed to transmit and process debts through the state's lead revenue agency.

#### **Minimal County Cost or Effort**

Participating counties incur little if any additional collection cost—the debtor is charged the local collection assistance fee which supports program operations and provides a revenue stream to the participating county associations.

The California Local Government Debt Offset service builds upon individual state agency debt collection functions already in place, allowing county offset programs to be established quickly and easily with minimal county staff effort. To lessen county work

Existing state debtor notification and appeals requirements ensure that county residents are accorded appropriate due process.

#### **Proven Success**

NACo FSC piloted its national debt offset clearinghouse system with the Association of Indiana Counties and its members January 1, 2018. The results to date have been of great value to the participating counties. Initial debtor notices have collected over \$3.2 million for Marion County, and smaller counties report collecting \$13,000 per day. The Indiana Department of Revenue initiated its debt/refund match runs January 29, 2018, in conjunction with the IRS start date for federal tax returns, and nearly 1,000 county debts have been matched.



County authority to participate, broadly defined debt, and local revenue generation are three critical factors to initiate further investigation of a new debt offset program targeted to California counties.

#### **County Treasurer Benefits:**

- Provides a fast & reliable debt collection mechanism to boost county revenues
- Requires debtors to pay for their share of county services without negative credit-rating impacts
- Provides benefits to compliant taxpayers by increasing collection rates for county taxes & fees to mitigate higher tax or fee rates to offset uncollectables.
- Treasurers advise program development & implementation to fully integrate with county processes

## CSAC FC's Joint Process with NACo FCS Ensures California's Debt Offset Success

### Proven Methodology

NACo FSC has established a practiced methodology to assess individual state debt offset programs and county fiscal processes, to ensure successful county debt offset integration with existing state and county financial standards and practices.

#### Step 1: Legal Review /Ongoing

The initial step is a review of state general statutes and administrative code regulations to summarize the state's current offset process and requirements for local government participation. NACo FSC analyzed California's debt offset authority and found that legislation enacted in 2013 enabled California local government participation in the state's debt offset program as a third party vendor.

Local governments will now engage the Franchise Tax Board (FTB) to submit debts for potential offset against state personal income tax refunds and lottery winnings. CSAC FC will act as the clearinghouse intermediary between California counties and FTB, to lessen state coordination activities with individual county governments.

California's debt offset statute also broadly defines the type of debt qualified for offset, such that

any debt for property taxes, delinquent fines, bails, vehicle parking penalties, court-ordered payments, or other permitted debts appears eligible.

#### Step 2: Finance Review

NACo FSC also examines statewide county budgetary and revenue receipt data to isolate the level of local revenue generation—debts arising from uncollectable county-administered and collected revenues, exclusive of intergovernmental transfers, are targets for offsets. For California counties, more than \$28 billion or 50% of total county revenues was locally generated in 2012.

#### Step 3: Project Planning/Ongoing

CSAC FC jointly develops a detailed project plan with NACo FSC to ensure that all milestones and tasks for project rollout are identified, scheduled, and assigned.

#### Step 4: State Agency Contact

NACo FSC and CSAC FC has convened a meeting with the state agencies overseeing debt offset—the State Controller and FTB, to validate the process requirements summary and to understand more fully the level of existing

engagement with California counties.

Discussions with other state debt offset agencies have welcomed the clearinghouse concept to ensure data accuracy and security, limit persistent interactions with numerous local agencies, and promote consistent debtor notification and due process requirements.

#### Step 5: County Engagement

CSAC FC convened a focus group of county treasurers and other county finance officials to review the debt offset program in depth and how it would integrate with existing county financial standards.

CSAC FC is now launching the pilot phase of this program with a number of CA counties to guide, design, and test county data against FTB requirements.

#### For more information contact:

##### Jim Manker

Director of Business Development  
CSAC Finance Corporation  
Office: 916.650.8107  
Mobile: 916.548.3280  
[jim@csacfc.org](mailto:jim@csacfc.org)

### Proposed Clearinghouse Process

