



## CalTRECS Debt Offset Clearinghouse Overview of Program Requirements

**To:** County Treasurers and Local Government Financial Officers  
**From:** Alan Fernandes, Chief Executive Officer  
**Date:** September 1, 2018  
**Subject:** CalTRECS, CSAC FC's Local Government Debt Offset Clearinghouse Program  
**CC:** Board of County Supervisors

The California State Association of Counties Finance Corporation has launched a program to compile local government debts for processing through a centralized clearinghouse for potential offset against state personal income tax refunds and lottery winnings. CalTRECS builds upon the California Franchise Tax Board's Interagency Intercept program to increase local government efficiencies and revenue collections.

California Government Code 12419.8 defines the following local governments as eligible to participate in the program:

- A county*
- *A city*
- *A special district*

The debt offset program permits the above local government agencies to submit any outstanding delinquent debt (totaling \$10 or more) if the debt is:

- *Where the amount has been reduced to a judgment.*
- *Where the amount is contained in an order of a court.*
- *Where the amount is from a bench warrant for payment of any fine, penalty, or assessment.*
- *Where the amount is delinquent unsecured property taxes on which a certificate lien has been filed for record in the office of the county recorder pursuant to Section 2191.3 of the Revenue and Taxation Code;*

CSAC FC has contracted with the National Association of Counties Financial Services Corporation (NACo FSCorp) to perform the back-office functions of the debt offset program. FSCorp receives individual debt files from each participating local government, processes these files and provides a social security number lookup service and submits the compiled debts to the Franchise Tax Board. The FSCorp has established an Interactive Voice Response system to receive telephone calls from taxpayers who have had their refunds offset, in whole or in part—the IVR directs the debtor to the entity holding that debt. CSAC FC, working with NACo FSCorp, will also submit successful offset information back to the participating local agencies as their designated service provider. CSAC FC has put on their website information and documents for participation.

Participating counties are asked to impose a \$25 local collection assistance fee per debt, to be charged to the debtor, to support CalTRECS operations and processes. CalTRECS will be responsible for adding the \$25 to each debt. **Each delinquent debt that is successfully matched incurs the \$25 collection assistance fee. This applies to individual debts of \$10 or more, and to those combined debts to meet the \$10 minimum. No clearinghouse charges accrue unless a successful tax refund offset is made. Again, the clearinghouse will add the \$25 to the amount of debt submitted by the participating local agency. (This fee may need to be approved by the government agency's governing body.)** The Franchise Tax

Board charges an additional \$2 per each successful offset and their fee may also be charged to the debtor. To help with financial records processing, CalTRECS will add this amount to the debt total.

An individual local agency may combine debts under a single debtor in order to meet the \$10 minimum. The local agency must furnish the full name and last known address of each debtor.

In order to participate in the program, each unit of local government should become familiar with California Government Code 12419.2 - 12419.12 and the FTB's annual Interagency Intercept Collection Program Participation Guide. By way of a Memorandum of Understanding, each participating entity must attest to complying with the requirements therein.

State requirements oblige local agencies to send their debtors a pre-intercept notice before submitting their debts for offset. Pre-intercept notices must provide the Government Code Sections that authorize a local government agency to submit debts for intercept, provide the local government's contact information where the debtor can dispute the liability, and allow debtors 30 days to resolve or dispute the debts. To maximize collections potential, it is recommended that the pre-intercept notice be mailed by October 1<sup>st</sup>. Please see the available sample notification letter on the CSAC FC website.

**Please note that no debt can be submitted to the clearinghouse until the entire notification and appeals process is completed for that debt.**

**CSAC FC's CalTRECS Debt Offset Clearinghouse Program and Match Guidelines highlights include:**

- Counties, cities, and special districts under California law may participate in the state's Interagency Intercept program and may contract with the local government clearinghouse as a service provider
- Local governments may submit debts of at least \$10 each individually by debtor name and last known address to the clearinghouse. Smaller debts less than \$10 can be combined to meet the \$10 threshold
- Debts must be submitted in the format and media required by CalTRECS; please see the *File Layout* requirements
- Per state law, priorities for multiple claims against the same refund are set according to the account hierarchy below (Government Code Section 12419.3):
  - Child or family support enforced by an agency or court.
  - Spousal support enforced by an agency or court.
  - Victims Compensation and Government Claims Board agency.
  - Internal Revenue Service (Effective January 1, 2015).
  - Employment Development Department benefit overpayments
  - SCO determines the priority of all other account types.
  - If there are multiple identical priority accounts, then FTB directs funds to the account with the largest liability.
- Each delinquent debt successfully intercepted will incur the \$25 local collection assistance fee and the \$2 FTB offset charge

For local agencies wishing to participate, please see the *Memorandum of Understanding with the CSAC FC Tax Refund Exchange and Compliance system* for your execution. Please also complete the *Registration/Participation Form* that requires the designation of a CalTRECS' local government contact (see CSAC FC website). Please return an original executed copy of the Agreement and the

registration/participation form to [jim@csacfc.org](mailto:jim@csacfc.org). Please note that each participating agency will need to have executed FTB Forms 2282, 2280, and Vendor Form 7904 (CalTRECS will assist in the completion of these forms as needed).

Please see the following documents:

- Memorandum of Understanding and Agreement, CSAC FC's CalTax Refund Exchange and Compliance system
- File Layout
- Registration/Participation Form
- FTB Forms 2282, 2280, and 7904
- A Sample Debtor Notification Letter
- Talking Points for Program Adoption by Board of County Commissioners or governing body

The California State Association of Counties Finance Corporation is pleased to provide this service to their local government partners. We believe it will prove useful as a method of debt collection. If you have any questions, please contact:

**CSAC FC:** Jim Manker

Director of Business Development

[Jim@csacfc.org](mailto:Jim@csacfc.org)

(916) 650-8107 O

(916) 548-3280 M