



The Honorable James Lower, Committee Chair
Local Government and Municipal Finance
Michigan House of Representatives

*National Association of Counties Support of House Bill 5016 and 5017
Rebecca Troutman, NACo Representative
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The National Association of Counties (NACo) appreciates the committee's consideration and approval of House Bill 5016 and 5017. These companion bills would enable Michigan counties through the Michigan Association of Counties (MAC) to submit their non-property tax debt to the Michigan State Treasury for administrative offset of the debtor's personal income tax refund or lottery winnings.

NACo has developed a multi-state debt setoff program to assist county associations in bringing this important debt collection tool to their county governments through a coordinated clearinghouse process. NACo has worked closely with MAC to gauge goodness of fit and county interest for a debt setoff clearinghouse established in Michigan. Several counties were queried through a focus group approach to determine debt collection issues. Simulations based on actual county debt data were run through the clearinghouse process, and the results show encouraging prospects for improved debt collection through offset. NACo and MAC representatives also met with the Collection Services Bureau, Department of Treasury to better understand state offset processes and how a clearinghouse function can integrate within the existing administrative offset program.

Based on NACo's research of state statutes authorizing state debt offset programs, all 42 states that impose a personal income tax provide for some level of refund intercept, principally for collecting child support in arrears and erroneously paid state benefits. Most states allow local government offset participation, but the extent of participation is dependent upon the complexity of state processes established for local involvement.

House Bill 5016 and 5017 would streamline county processes for debt submission and provide for a clearinghouse to receive and process county debts for transmission to Treasury for administrative offset. This clearinghouse function would limit Treasury's time spent on resolving individual county issues for participation, by funneling all processes and communications through the clearinghouse. No state technology investments are needed to effect House Bill 5016, as the clearinghouse would follow current state standards for secure debt file transmission for offset processing. Additional funding would accrue to Treasury, as Treasury's current \$5 per debt record charge for offset participation would be imposed on the clearinghouse's individual debt records.

Drawing upon the successful local government clearinghouse established during my tenure with the N.C. Association of County Commissioners, NACo has implemented a cloud-based, secure automated system which is customized to meet the specific data and transmission standards of each state. NACo's debt setoff clearinghouse collects, massages, and compiles debt files on behalf of counties in each participating state to transmit to the state agency administering the debt setoff program.

Indiana was the initial pilot in 2018, and now is set to register 112 local entities for participation in 2020. California was the second program adopter in 2019 and anticipates a 4-fold increase in county participants. NACo is working closely with other state associations to design and implement a customized debt setoff program to spur county participation in the state's program. Of particular



importance in each state's implementation is a seamless integration into the state's existing debt setoff processes.

State offset processes invariably require debtor information that includes a social security number (SSN), but NACo has found that counties rarely collect SSNs given federal restrictions. To provide state-required debtor information, NACo has established a SSN lookup service to help ensure that the right debtor is identified. Strong security systems and procedures protect SSN confidentiality.

One of the most important aspects of a state's debt setoff program is a robust debtor notification and appeals process to ensure appropriate due process for taxpayers. House Bill 5106 and 5017 require written debtor notification prior to debt submission through the clearinghouse. A preliminary discussion with MAC has determined that the notice provide a 30-day response period for debtor payment or appeal, in keeping with similar requirements in other states.

To help counties comply with debtor notification requirements, NACo offers a debtor letter service for interested counties and requires that all notice and appeals occur before file transfer. NACo also provides an interactive voice response (IVR) system for debtor inquiries, which connects the debtor directly to the county contact for debt questions and resolution. State agencies noticing debtors of offset action can also direct debtor inquiries to the IVR tollfree number, thus limiting state time spent on debt resolution issues.

NACo is hopeful that the Michigan State Legislature grant its counties streamlined authority to pursue administrative offsets through a clearinghouse function by enacting House Bill 5016 and 5017. Through MAC and its member counties, NACo will work closely and cooperatively with Treasury to integrate the clearinghouse function within the state's existing administrative offset processes. Debt setoff provides an important debt collection tool for counties by requiring debtors to pay for their share of county services without impacting credit ratings while benefiting compliant taxpayers by increasing collection rates on existing county taxes and fees.