OREGON DEPARTMENT OF REVENUE

2019

Executive summary

Collections Structure Feasibility Study

(HB 5535 and 5201)

February 1, 2019

Executive summary

In 2017, the department was directed to submit a feasibility study related to the establishment of a combined collections division (HB 5535). In 2018, the timeline for submitting the study was extended to early 2019 (HB 5201). Collections is defined, for purposes of the study, as activities undertaken to collect balances due; collections doesn't include auditing or other enforcement efforts that help to create or establish a debt.

DOR evaluated the feasibility of a combined collections division following a period of significant change and transition, including leadership changes, a major core systems replacement project (2013–2018), significant workload expended on responding to other budget notes, implementing several new tax programs, participating in several agency-wide audits, expanding statewide centralized debt collections for other agencies, and implementing new legislatively-approved collections tools.

DOR has a strong and robust collections function, but improvements can and should be explored. Responsibility and accountability for collections is spread across three divisions, without an agency-wide collections vision or consistent performance standards. A Collections Administrator position was established in July 2018 and hired October 1, 2018, which will begin formulating a vision and strategy for the future. The goal for this report is to share with the Legislature the agency's plan for organizing the collections function so as to achieve benefits that align with strategic priorities and efforts to stabilize the agency. Agency strategic priorities formulated in 2018 are to optimize collections efforts, enhance taxpayer assistance, and cultivate operational excellence.

The department has organized its collections function in a variety of structures over the past several decades. Prior to 1995–97, the agency enforcement functions were organized between an Audit Division, focused on tax program administration, and a Collections Division, focused on collecting debts for all tax programs. Other Agency Accounts (OAA) was established in 1971 within the Collections Division to provide centralized debt collections services for other state agencies and local governments.

During 1995–97, these two divisions were restructured into the Business Division, serving business customers, and the Personal Tax and Compliance (PTAC) Division, serving individuals. This shift aimed to make it easier for taxpayers to interact with the department. Each division performed its own collections work. Throughout the 2000's, small changes were made to best manage collections of expanding programs, including marijuana, state lodging, cigarette and tobacco and other miscellaneous taxes. In 2018, the Collections Administrator was established with responsibility for the OAA program, forming a new Collections Division.

The collections function is currently conducted across three different divisions. Cross-division teams strive to ensure consistent collections policies are formulated and laws and rules are interpreted and applied consistently, but having responsibility for policy work spread across three areas is difficult to coordinate. Additionally, some statutory restrictions and administrative requirements require types of debts to be managed differently, such as frequency of return filing, timeframes for assigning debts to private collection firms (PCFs), garnishment exemptions, and offset priorities. There is no agency-wide collections vision or strategy.

Sections develop and use metrics to guide operational decision-making. Externally, the agency reports collections activity to the legislature through key performance measures, but anticipates finding more relevant and informative measures in the future. Liquidated and delinquent accounts reports are filed with the Legislative Fiscal Office (LFO), along with annual reports beginning in 2018. DOR reports both quarterly and annually to DAS through Accounts Receivable Performance Metrics (ARPM). An outcome-based performance management assessment was recently conducted, but "collections" was more broadly defined for that assessment, so results are not used for this report.

Five organizational structures were evaluated for this report. Anticipated benefits relating to each option were evaluated for alignment with agency strategic priorities. Options 1 through 4 represent stages between a very programmatic, fully decentralized model, and a less specialized, fully centralized model. Option 5 involves outsourcing all debts through PCFs.

DOR concludes that centralizing the collections function most closely aligns with our strategic priorities by creating an agency-wide collections vision, strengthening our ability to establish and enforce performance standards, streamlining communication, leveraging IT staff resources and system capabilities, and establishing consistent, standardized policies and procedures.

This structural realignment will have significant impacts for the agency involving many aspects (staff movement, facilities, leadership restructuring, etc.) that will take additional planning and refining. The agency has been managing a high degree of change and is still in a stabilization period.

DOR plans on centralizing the collections function in phases over the next two biennia. The preliminary timeline has the agency transitioning to Option 2 in the near future, with a focus on planning for the reorganization, most likely during the 2021–23 biennium.

If the Legislature is in support of DOR executing on this plan, the Collections Administrator will establish an agency-wide collections vision and strategy, performance standards, and metrics, as well as plan for the reorganization. If additional resources are needed for the centralization effort, those will likely be identified during the planning process. DOR will engage with its Legislative Fiscal Office and Chief Financial Office analysts regarding additional resources. If appropriate, that request would be included in DOR's 2021–23 Agency Request Budget.

OREGON DEPARTMENT OF REVENUE

2019

HB 5535 and 5201 Collections Structure Feasibility Study

February 1, 2019

Introduction/purpose

Senate Bill (SB) 5535 (2017) included the following budget note and instructions for the Department of Revenue (DOR):

> *The Department of Revenue is to submit a feasibility study related to the establishment of a combined collections division. The feasibility study is to be submitted to the Interim Joint Committee on Ways and Means during Legislative Days in November 2017.*

HB 5201 (2018) changed the delivery to the 2019 Legislative Assembly.

Collections is defined, for purposes of this study, as the activities the department undertakes to collect balances due once a debt has been assessed or has been presented as ready for collections or offset efforts. Activities are included regardless of in which area of the agency they occur. Currently, department collections work takes place in three different divisions, all under different management structures. Collections doesn't include auditing or other enforcement efforts; however, these activities generally create debt that will later be collected.

DOR is evaluating the feasibility of a combined collections division following a period of significant change and transition that has greatly impacted the agency's collections function:

- DOR's director was appointed just over two years ago and has been leading the department's strategic planning efforts and setting strategic priorities. Optimizing collections efforts is one of three current strategic priorities.
- Several members of the agency's leadership team are new to their roles or to the agency in the last year, including the Collections Division Administrator, a position provided by the 2018 Legislature. The Deputy Director started with DOR in January 2018, and the Business Division Administrator was promoted to her position in October 2018.
- In 2017, DOR received nine budget notes and has dedicated significant resources to carry out the various requirements prescribed in the budget notes and to prepare responses. Fulfilling these budget notes has assisted in the agency's strategic planning processes. Recent budget notes that relate to or overlap with collections activities, other than the one requiring this study, include:
    - An outcome-based performance management assessment.
    - A comprehensive external audit of the agency under the guidance of the Secretary of State Audits Division.
    - The department's use of private collection firms (PCFs) and collections rates for the department and PCFs.
    - An update on the implementation of SB 1067 (2017), statewide centralized collections.
- The department has participated in several agency-wide audits during the past two years.
- The 2015 and 2017 Legislatures created several new tax programs for the department to administer (marijuana, vehicle privilege and use, statewide transit, bicycle, and heavy equipment rental). These new programs have been implemented, along with new tax debts.
- DOR underwent a major core systems replacement project from 2013 to 2018, requiring significant changes to business processes and some organizational changes. Each program's collections functionality was configured as part of that program's transition into the new GenTax system.
    - Where possible, collections steps or procedures are being made uniform across programs (payment plan timeframes, garnishment steps, automating docketed warrants, PCF assignment steps).
    - Assigning debts to PCFs has been fully automated.
    - Risk-scoring capabilities became available for determining the appropriate level of revenue agent or PCF for accounts to be worked more efficiently and helps resolve accounts with the right level of enforcement effort.
    - Collections analytics will be available for use in production once the department has enough native data within GenTax to be able to predict behaviors within our debtor population.
    - The agency has seen process improvements and new opportunities arising from new system functionality, but hasn't yet realized all potential benefits of GenTax processes and tools across all programs. The department continues to mature in its workflow development and system maintenance practices.
- Many agencies already had inter-agency agreements with the department's Other Agency Accounts (OAA) program for debt collections services prior to 2017. SB 1067 (2017) now requires executive branch state agencies (with a few exceptions) to send their liquidated and delinquent accounts to OAA within 90 days. Implemented July 1, 2018, the number of new accounts coming to OAA for collections services increased, with corresponding increases in the need for resources to support collections efforts. While OAA has provided debt collections services since 1971, this expanded requirement has just recently been put in place, and has increased the visibility and workload of the OAA program.

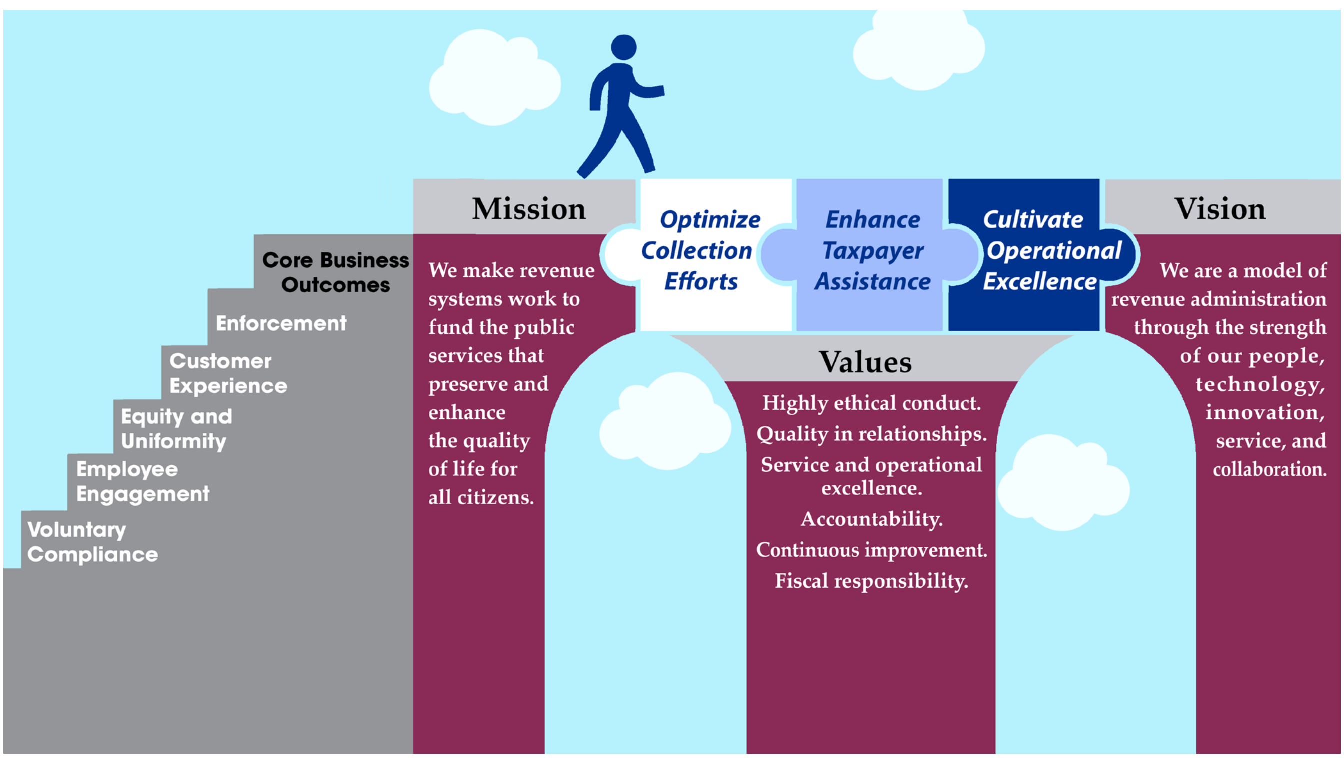
- DOR is carrying out Executive Order #17-09 (item V) by coordinating with Department of Administrative Services (DAS) and other state agencies to streamline the garnishment process for payments to state of Oregon vendors. The new process was implemented beginning early in 2018.
- Recent legislative changes have provided the department with several new collections tools to increase collections effectiveness. The department has implemented systems and processes for use of these new tools, but hasn't reached maturity in their use. The tools are:
  - Financial Institution Data Match (FIDM) (SB 254, 2017).
  - Oregon New Hire Report (SB 254, 2017).
  - OAA access to tax data (SB 1067, 2017).

Despite significant changes and a high volume of new and additional work, the agency's collections function remains strong and robust; however, improvements can and should be explored. Responsibility and accountability for agency collections is split among three divisions, and throughout this transitional time, it has become apparent that the agency needs a central collections vision and strategy. Without an agency-wide approach to collections—including setting and compiling metrics and performance standards that help to guide operational decision making—agency collections won't be as efficient, effective, or consistent as they could be. The agency hired the new Collections Administrator in late 2018, which has given DOR the opportunity to begin formulating a vision and strategy to guide its collections function in the future.

The goal of this report is to share with the Legislature the agency's plan for reorganizing its collections structure based on alignment with the agency's strategic priorities and visions, and collections best practices.

Strategic priorities

The agency's core business outcomes are what enable it to accomplish its mission, but it takes more than the results of daily operational work to fulfill the agency's vision. The strategic priorities are the bridge between where the agency is today and where leadership wants it to be.



Optimize collections efforts

- Enhance collections processes and tools to improve timeliness, accuracy, and results.
- Effectively frame and communicate the agency's debt collections potential and results.
- Develop understandable, useful, and focused metrics to support effective collections management.

Enhance taxpayer assistance

- Ensure taxpayer assistance tools are easily accessible, customer focused, and work as intended.
- Establish service standards, align processes, and educate staff to achieve more timely service.
- Leverage information from customer feedback channels to better meet customer needs.

Cultivate operational excellence

- Balance maximizing productivity with engaging employees.
- Develop metrics and other tools to enhance agency performance management, guide decision-making, and support continuous improvement.
- Establish an agency-wide governance framework that clarifies roles, responsibilities, and communication expectations.

Options for DOR's optimal collections structure were evaluated based on whether and to what extent the benefits of the option align with the strategic priorities.

Current structure

In 2018, the Legislature established a Collections Administrator position, overseeing a new Collections Division, with responsibility for the OAA program. As a result, our organizational structure has been revised to incorporate this position. This structure is currently described as Option 1 below and is our current structure within our 2019-21 Agency Request Budget.

DOR currently administers nearly 40 tax programs: Personal Income Tax and the associated withholding program, Corporate Excise Tax, Property Tax, Cigarette and Other Tobacco Taxes, Estate Transfer Tax, and the Marijuana tax programs are the largest programs in terms of our budget and the amount of revenue received. The department collects revenues from a variety of sources including taxes, penalties, interest, fees, and debts owed to other state agencies and local jurisdictions.

The collections function is conducted across three different divisions:

- Personal Tax and Compliance Division (PTAC), Collections section: personal income tax debts and other debts owed by individuals (such as timber tax, self-employment transit tax), and all advanced collections tools.
- Business Division, Withholding and Payroll Tax section: business tax debts (withholding, corporate, marijuana, lodging, cigarette and tobacco, hazardous substance vehicle privilege and use, etc.) owed by business entities.
- Collections Division, Other Agency Accounts: debts assigned to DOR for collections services from other state agencies and local jurisdictions.

In a few situations, debts from different programs are combined in an attempt to consolidate collections activity for the debtor. For example, field revenue agent 3s in the PTAC Collections unit will collect personal income tax debts from individuals, along with withholding debts from those same individuals if it's been determined that the debtor is liable for taxes owed by their business. Likewise, if the Business Division is already working with a sole proprietor entity to collect payroll taxes, the collectors will also work to resolve that sole proprietor's income tax debt. Another example is property tax deferral debts; PTAC Collections attempts to collect deferred property taxes that are now due. However, tax and OAA accounts are never combined.

Historically, PTAC and Business Divisions have collaborated to establish business priorities and strategies, some of which relate to collections under the "enforcement" umbrella. Cross-division teams are in place to help ensure collections policies are formulated and collections laws and rules are interpreted and applied consistently.

However, there are many statutory restrictions or administrative requirements that call for types of debts to be managed differently. A few examples include:

- Some programs require quarterly returns (such as payroll withholding, marijuana, statewide transit, lodging, etc.), while others require annual returns (such as personal income tax, corporate excise tax). Resolving a tax debt from quarterly filings requires the department's intervention more quickly than on annual filings to prevent taxpayers from accumulating multiple quarters' worth of debt.
- Some programs require annual reconciliation filings or additional information returns (such as payroll withholding, or statewide transit), and penalties can be imposed on the number of forms that are required to be filed or number of employees. Providing education and assistance to the taxpayer can help resolve the accumulation of further debt based on noncompliance.

- Timeframes for assigning debts to PCFs are different for tax and OAA debts. ORS 293.231(3)(a) requires that OAA assign debts to PCFs after six months with no payment. ORS 293.231(6)(a) requires that DOR tax debts be assigned to PCFs after one year with no payment (although the department can send earlier, if warranted).
- OAA debts are subject to a minimum wage exemption calculation, but tax debts are not (ORS 18.385).
- The order in which debts are paid by offsetting refunds due the debtor is prioritized by type of debt (OAR 150-314-0248).

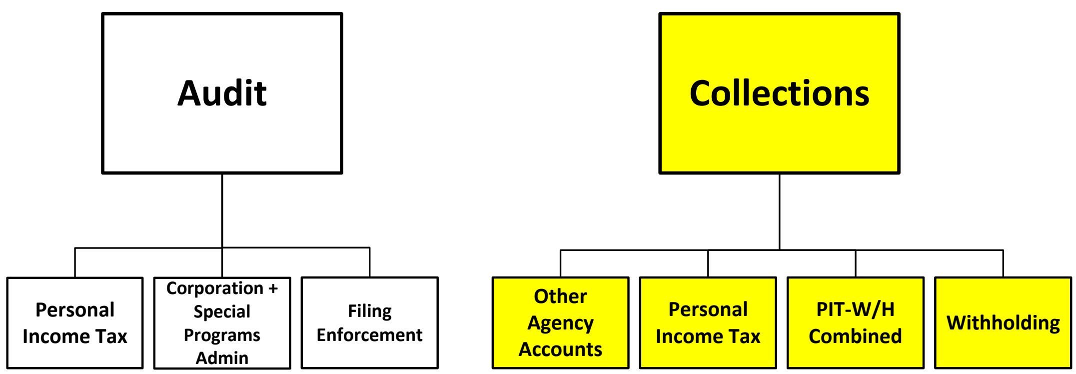
Each collections area manages debts relating to their customers and programs according to statutory and administrative requirements, to include setting their own collections priorities, establishing policies and procedures specific to their area, and setting and compiling their own performance metrics. Policies and procedures are shared with the other collections areas for informational purposes, but are not consistently adopted across the agency.

Incoming calls from debtors are routed through an automated call distribution system and directed to the area that handles the type of debt for which the caller is contacting the agency. Each of the collections areas has employees that receive these incoming calls. Many collections-related forms and publications are created and published at the agency level, and used consistently across all debtor types. For example, the same settlement offer application is used for all eligible debtor types.

Prior organizational structures for DOR's collections function

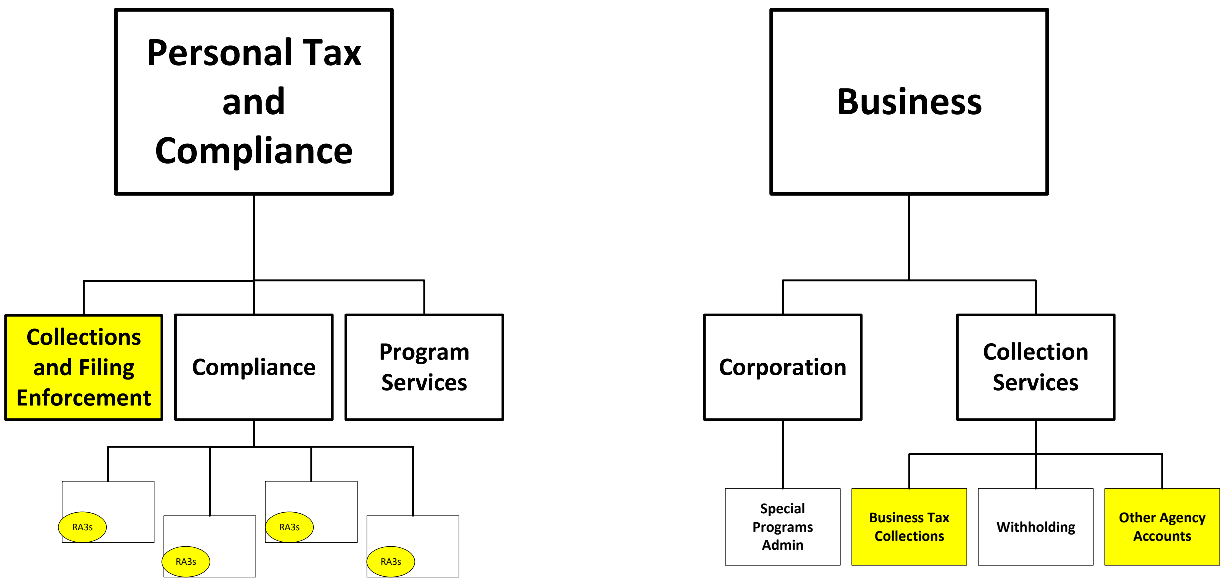
The Department of Revenue has organized its collections function in a variety of structures over the past several decades.

Department of Revenue collections structure prior to 1995–97



Prior to the 1995–97 biennium, the agency's enforcement activities were organized across two divisions: Audit and Collections. The Audit Division focused on program administration of various tax programs, including processing and validating returns, auditing, and filing enforcement. The Collections Division focused on collecting debts for all tax programs and state debts on behalf of other state entities (through OAA).

Department of Revenue collections structure approx. 1997–2009

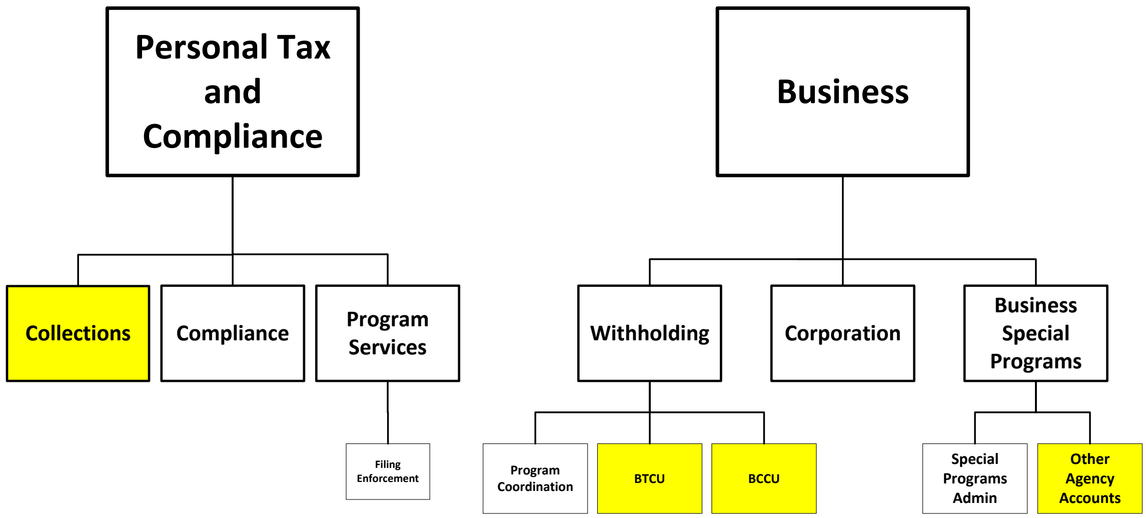


During 1995–97, the department restructured based on a shift in its customer service approach. The two divisions became the Business Division and the Personal Tax and Compliance (PTAC) Division, each based on the type of customer served. This model was based on the philosophy that taxpayers would receive more relevant assistance based on interactions by taxpayer type rather than by function. This is similar to how the IRS is structured. As a result, any taxpayer that was a "business" entity received services through the Business Division and individual taxpayers were served through PTAC.

Each division was responsible for all administration functions including audit, filing enforcement, processing, and collections for the programs affecting their respective type of customers. As a result, the collections function was dispersed between those two divisions.

Within PTAC, the collections function was housed in the Collections Section, but also in the Compliance Section (RA3s performing advanced field collection work were housed in field offices and reported to field office managers.)

Department of Revenue collections structure 2010–2018



Beginning in January 2010, the department modified its organizational structure to address the expanded role of the Special Programs Administration unit (miscellaneous programs administered by DOR, such as state lodging, cigarette and tobacco, hazardous substance, etc.) and increased use of OAA by state and local jurisdictions. This diagram illustrates the department's structure (as it relates to the collections function) from 2010 until late 2018.

In 2010, an organizational change was also made relating to field collectors. Revenue Agent 3s (RA3s) assigned to various district field offices began reporting to either a "north" or "south" field collections unit managed within the PTAC Collections Section (while still housed in the field offices), facilitating better communication and consistent performance standards. Likewise, filing enforcement within the PTAC Division was subsequently moved to the Compliance Section, and then later to the Program Services Section for better alignment with like-kind work.

Department's current use of metrics and performance measures

DOR currently compiles and uses several measures to inform operational decision-making relating to the collections function. Some measures are compiled and used at the section level, while others are compiled for agency-wide reporting.

Section metrics

Each of DOR's three collections areas compile metrics and establish initiatives specific to their section, in alignment with agency-wide business outcomes (voluntary compliance, enforcement, customer experience, employee engagement, and equity and uniformity). However, these metrics and initiatives only reflect activity within each respective section, as measurements are not combined or aggregated for agency-wide measurement, analysis or reporting.

The PTAC Collections Section has historically compiled metrics relating to their collections activity, including:

- The number of incoming and outgoing calls.
- Payment plans established and broken.
- The number and type of garnishments issued.
- Account collections stages.
- Dollars collected.
- Various accounts receivable (AR) fluctuations.

Similarly, the Business Division Withholding and Payroll Tax Section's metrics were also developed to align to the agency's five business outcome areas. They include many of the PTAC metrics as well as:

- AR stage and other AR measures.
- Percentage of registrations through Oregon Business Registry (OBR).
- Assessment effectiveness.

OAA uses many metrics similar to those used by the other two collections areas. Key OAA metrics include:

- The number of garnishments issued.
- The amount of garnishment payments collected.
- The number of payment plans set up.
- The number of incoming, outgoing, and abandoned phone calls.

In 2018, OAA updated its goals based on recent strategic planning and goal setting work. Changes included new targets for total collections, and for associated lead activities including incoming and outgoing telephone calls, garnishments, and payment plans. OAA is also developing additional performance and accountability metrics for PCF management.[1]

Key Performance Measures (KPMs)

Two of the agency's KPMs are influenced by customer interactions, including those with our collections staff.

- KPM #4 Customer Service—Percent of customers rating their satisfaction with the agency's customer service as "good" or "excellent" based on overall experience, timeliness, accuracy, helpfulness, expertise, and availability of information.
- KPM #5 Effective Taxpayer Assistance—Provide effective taxpayer assistance through a combination of direct assistance and electronic self-help services.

KPM #4 reflects an aggregate of survey responses from customers based on their interactions with staff across the agency. DOR hasn't performed a deeper analysis to determine customer service response scores relating specifically to the collections function, either across the three divisions or at the individual section level. This level of analysis is planned for the future, but hasn't yet been developed.

Similarly, KPM #9 relates to the agency's collections function:[2]

- Collections Dollars Cost of Funds—We will demonstrate our efficiency and effectiveness at funding services that preserve and enhance the quality of life for all citizens by measuring the cost of funds (COF) for every dollar collected by our agency.

This is an agency level metric (excluding OAA) that is a complex calculation based on numerous variables that periodically need to be adjusted based on new information or new ways of capturing data. Some factors, such as automation, which support efficiency, can impact the calculation in unintended ways. As a result, the agency's confidence in this measure's relevance has decreased. Additionally, the measure is very complex to explain. The agency anticipates completing a comprehensive assessment of its KPMs during the 2019–21 biennium. The agency's objective is to find more relevant and informative measures for collections in the future.

For more information on DOR's KPMs, see the 2018 Annual Performance Progress Report, published September 28, 2018.

LFO Liquidated and Delinquent (L&D) Accounts Reports

DOR reports information on liquidated and delinquent account balances for its state tax program debts annually to the Legislative Fiscal Office (LFO) (and DAS). DOR improved the accuracy of its reporting in 2018 by properly categorizing specific transaction types (such as offsets, adjustments, reversals, etc.). The report also changed significantly from prior years as the agency identified differences in the way data was reported from our legacy system and our new core system. The report describes the status of the agency's L&D accounts and efforts made by the agency to collect L&D accounts during the previous fiscal year [ORS 293.229(1)]. LFO also uses the report to calculate an agency collections rate.

[1] *Report on Centralization of Statewide Collections.* Department of Revenue, January 18, 2019.

[2] DOR's KPM #8—Direct Enforcement Dollars—Cost of Funds, is not listed because "enforcement" dollars reflected in that measure is a combination of data for audit, filing enforcement, and collections activities.

Beginning in 2018, SB 1067 (2017) requires executive branch agencies with $50 million or more in liquidated and delinquent debt balances to also provide an accompanying report to LFO that provides:

- The agency's major categories of L&D debt.
- The amount of write-offs, cancellations, and adjustments included in the L&D Report, and how the agency uses each process.
- Steps taken by the agency during the last year to reduce the balance of L&D accounts.
- Steps planned for the current year to reduce L&D account balances.

DOR's first such supplemental report was delivered on December 31, 2018.

Accounts Receivable Performance Metrics (ARPM)
Executive Order #17-09 (2017) requires that DOR report the following collections metrics to DAS:

- Quarterly measures:
  - The total AR collected and the amount of those collections applied to L&D accounts.
  - The number and amount of AR considered "past due" and the number and amount of those that are more than 90 days past due.

- Annual measures:
  - The number of days after a debt became eligible to be assigned to a PCF before DOR assigned the account to a PCF.
  - The number of days for DOR to collect accounts.
  - How much of the available AR is written off in a fiscal year.

Quarterly reports began in November 2017, and annual reports began October 1, 2018. Also beginning in October 2018, all quarterly and annual ARPM reports include the agency's target measures for the upcoming period.

Oregon accounting manual (OAM) 35.30.90 Accounts receivable management—Account activity: Coordination of vendor payments
OAM 35.30.90 requires that DOR report semi-annually to the DAS Chief Financial Office on the number of notifications received and garnishments issued arising from the coordination of vendor payments activity [stemming from Executive Order #17-09 (item V)]. The report also includes the number of days for DOR to respond to notifications received and the number and total dollar value of vendor payments received under this process. DOR's first report was delivered in July 2018.

Outcome-based performance management assessment (OBM)
The recent OBM assessment identified 61 collections metrics that align with agency-wide strategic priorities. However, the assessment contractor defined the term "collections" more broadly than our internal use of that term; for purposes of the OBM assessment, audit and filing enforcement measures were included as collections measures. Within DOR, "collections" is generally construed more narrowly in referring to more direct activities of collecting debts once an account has been assessed. Therefore, although the OBM assessment indicates the department has many measures that align with optimizing collections efforts, many of them don't relate to collections activity as defined for purposes of this paper. The department continues to plan for implementing a fully developed outcome-based performance management assessment system that includes collections.

DOR anticipates that as it moves forward with reorganizing its collections function, the department will continue to develop, improve, and use appropriate metrics that guide decision making at not only the division level, but also at the agency level.

Options

For purposes of this study, the following five organizational structures were evaluated and are described on the following pages:

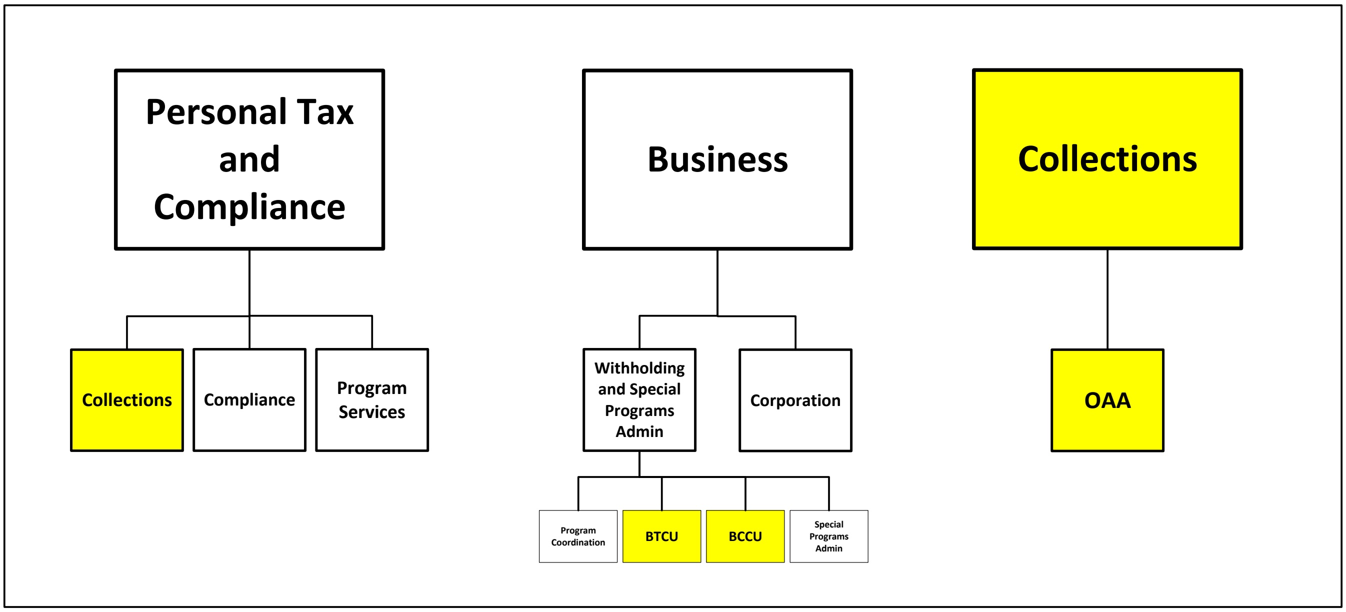
Option 1	*Current structure (as presented in the 2019-21 Agency Request Budget)*
Option 2	*Current structure, with Collections Administrator establishing collections metrics and performance standards for all collections areas*
Option 3	*Centralized division with programmatic focus*
Option 4	*Centralized division without programmatic focus*
Option 5	*Private collection firm outsourcing*

Anticipated benefits relating to reorganizing the collections function were gleaned from internal history and identified by interviewing staff and reviewing historical documentation. A group of analysts then evaluated each perceived benefit for alignment with each of the agency's strategic priorities, and conclusions drawn were reviewed by agency leadership. Benefits with the highest alignment to current strategic priorities are listed for each option. Challenges and risks for each option are also included.

Assumptions:

- Each of DOR's current strategic priorities (optimize collections efforts, enhance taxpayer assistance, and cultivate operational excellence) are equally essential to the department's success and are, therefore, equally considered in this analysis. Several benefits identified align with multiple priorities.
    - For example, enhancing collections processes and tools to improve timeliness, accuracy, and results also helps DOR to develop metrics and other tools to enhance agency performance management, guide decision-making, and support continuous improvement.
- Options were analyzed based on current statutory authorities; no assumptions have been made about possible future legislative changes.
    - For example, DOR has some tools and access to data not currently available to PCFs: financial institution data match (FIDM) results used to locate bank account assets, Oregon New Hire Report and Employment Department data used to identify debtor employment sources, and tax return data to identify additional income and assets owned by the debtor. DOR also has access to DMV and federal tax data which PCFs can't access.
- For purposes of this analysis, support services are aligned within each option with where active collections resources (revenue agents) are located within the organization.
    - Certain activities help to resolve debts and support the collections function. Examples include establishing and compiling collections metrics, legislative and statewide reporting, establishing collections performance standards, processing garnishment challenges and settlement offers, processing financial statements and innocent spouse determinations, representing Revenue's interests in bankruptcy proceedings, developing collections policies and implementing procedures from new legislation, resolving debt disputes with originating agencies (OAA), determining debts eligible for write-off or cancellation, determining debts eligible for waiver of penalty, and updating system letters, forms, publications, and website information. Most of these support services are currently organized structurally near or with each section of revenue agents. If revenue agents are moved to a new division, related support services would move with them.
- Options 1–4 anticipate approximately the same amount of ongoing debt assignments to private collections firms (PCFs). Option 5 involves the outsourcing of all eligible debt collections to PCFs.
- Option 5—No additional costs have been included in the Option 5 analysis (outsourcing to PCFs), as DOR already has statutory authority to pass PCF collections costs to debtors. Any increased PCF activity costs would continue to be passed along to affected debtors.
- Option 5—Outsourcing more collections accounts to PCFs provides an opportunity to either repurpose current collections staff to other work, or to reduce the number of revenue agent positions. However, support services are needed to administer the current and potential increased workload of outsourcing to the PCFs; therefore, no assumptions as to financial savings have been factored into the analysis.

Option 1—Current structure



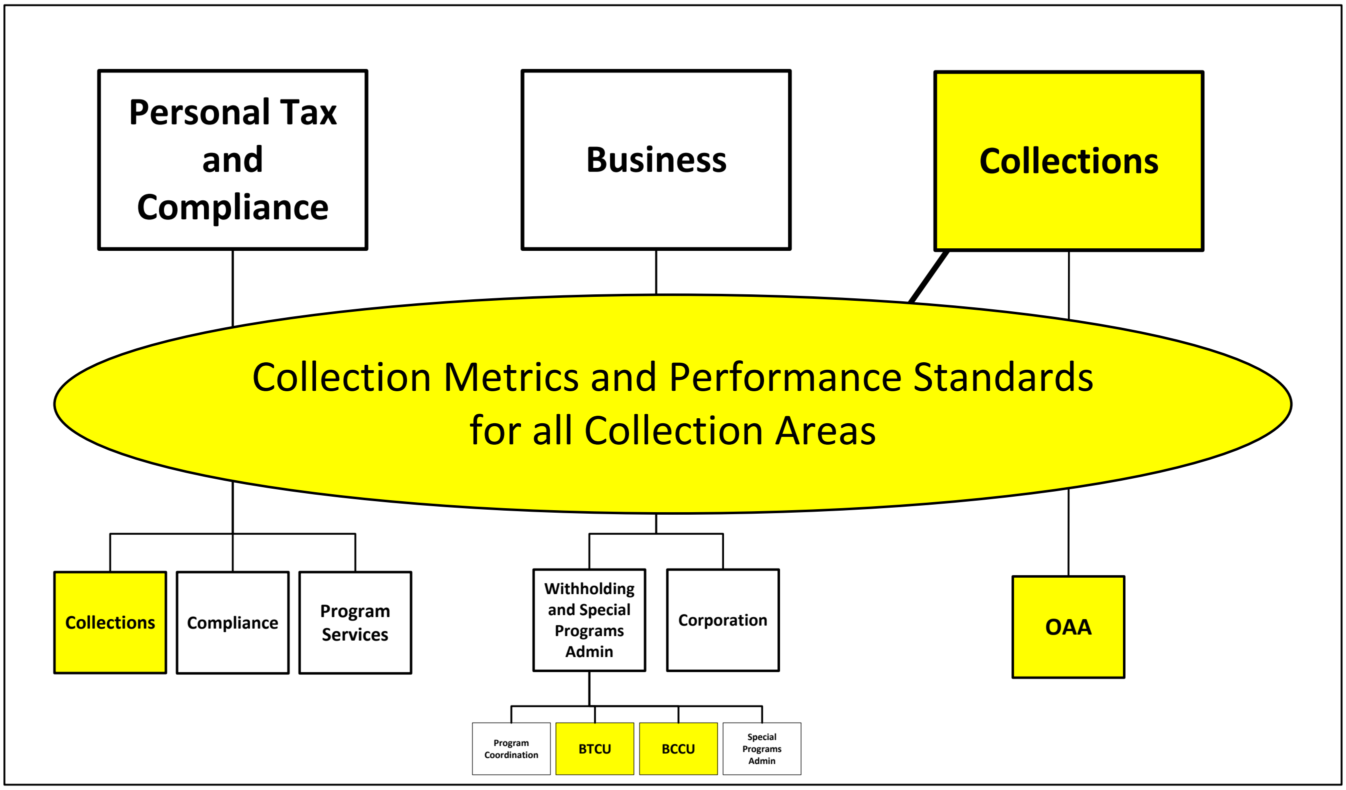
Description:

Option 1 reflects the current organizational structure and disbursement of our collections staff as included in the 2019–21 Agency Request Budget.

A more thorough description of our current structure was provided earlier in this paper.

Benefits that align with strategic priorities:	Challenges/risks:
Enhance taxpayer assistance • Employees better able to provide education and assistance due to specialization in specific tax programs and customer types. ***Cultivate operational excellence*** • Least amount of impact to agency; no or little staff movement physically or structurally.	• No agency-wide collections vision, metrics, or performance standards. • No focused accountability for agency-wide collections reporting or data compilation methodologies. • Administrators and section managers supervise multiple functions and are not focused exclusively on collections. • Inefficient communication across multiple divisions. • Collections training provided separately across three sections and customized to tax programs and customer type; could result in inconsistent practices and/or duplicate effort. • Less flexibility to shift resources between divisions as workloads fluctuate. • Collections support work is dispersed across three divisions, and in some sections, resources are shared with other functions (audit, filing enforcement, etc.). For example, handling garnishment challenges (involves working with Department of Justice and administrative law judges) is spread across three separate areas, creating some duplication and inefficiencies. • Debtors generally must work with multiple revenue agents from different sections if they owe both tax and OAA debts; payment plans can't be established for combined tax and OAA debts. • Collections areas compete for IT resources with other sections and other functions due to a lack of a coordinated, overarching collections vision.

Option 2—Current structure, with Collections Administrator establishing collections metrics and performance standards for all collections areas

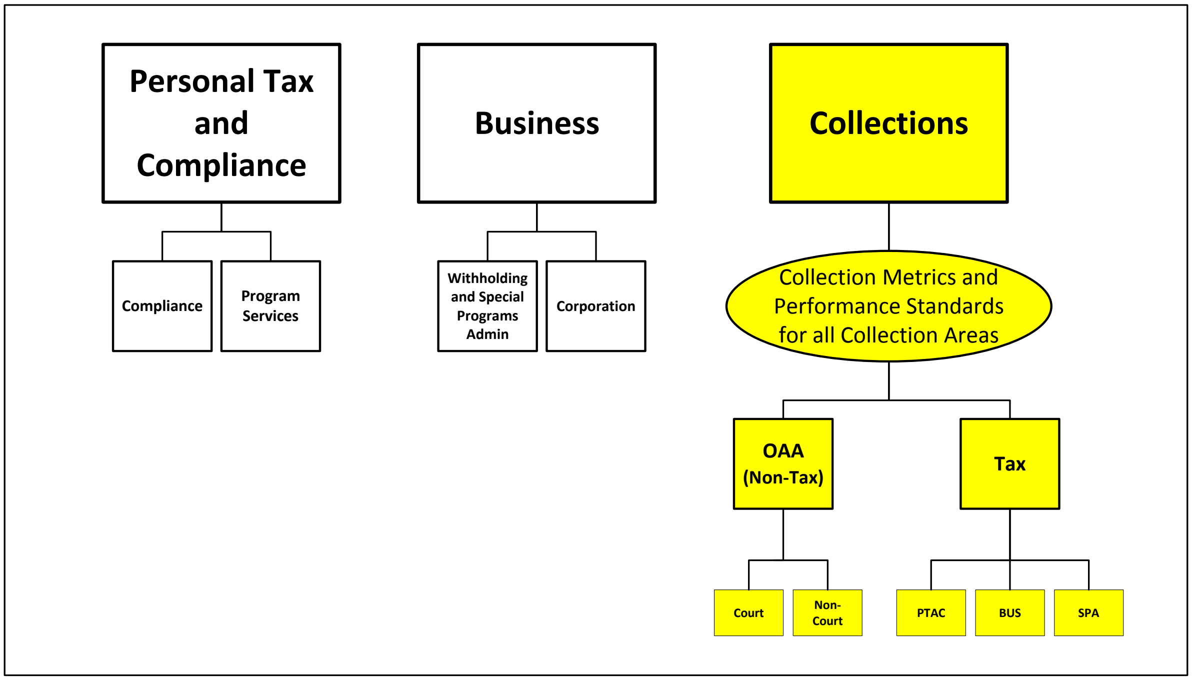


Description:

Option 2 is similar to Option 1 in that most collections staff remain in their current divisions, continuing to collect the types of debts from the types of customers with which they currently interact. Under Option 2, the Collections Division Administrator will be responsible for developing and communicating an agency-wide collections vision and performance standards, along with agency-wide collections-related metrics. Some resources may be needed to support the Administrator in this role. Other collections support resources remain within their respective divisions.

Benefits that align with strategic priorities:	Challenges/risks:
Cultivate operational excellence • Development of agency-wide collections vision, metrics, and performance standards. • Establishes a single position with focused accountability for agency-wide collections reporting. • Dedicated resources for agency-wide collections policy, metrics, and reporting workload. • Less impact to agency; no or little staff movement physically or structurally. • Establishes consistent data compilation methodology across collections function.	• Administrators and section managers supervise multiple functions and are not focused exclusively on collections. • Performance management for collections outcomes isn't aligned with organizational structure. Challenging to enforce and adhere to standards, measures, and expectations developed and set within a different division. • Inefficient communication across multiple divisions. • Collections training provided separately across three sections and customized to tax programs and customer type; could result in inconsistent practices and/or duplicate effort. • Less flexibility to shift resources between divisions as workload fluctuates. • Collections support work dispersed across three divisions and in some sections are shared with other functions (audit, filing enforcement, etc.). For example, handling garnishment challenges (involves working with Department of Justice and administrative law judges) is spread across three separate units, creating duplication and inefficiencies. • Debtors generally must work with multiple revenue agents from different sections if they owe both tax and OAA debts; payment plans can't be established for combined tax and OAA debts. • Different programs/sections have different requirements for when debts must be assigned to PCFs. • Collections areas compete for IT resources with other sections and other functions due to a lack of a coordinated, overarching collections vision.

Option 3—Centralized division with programmatic focus

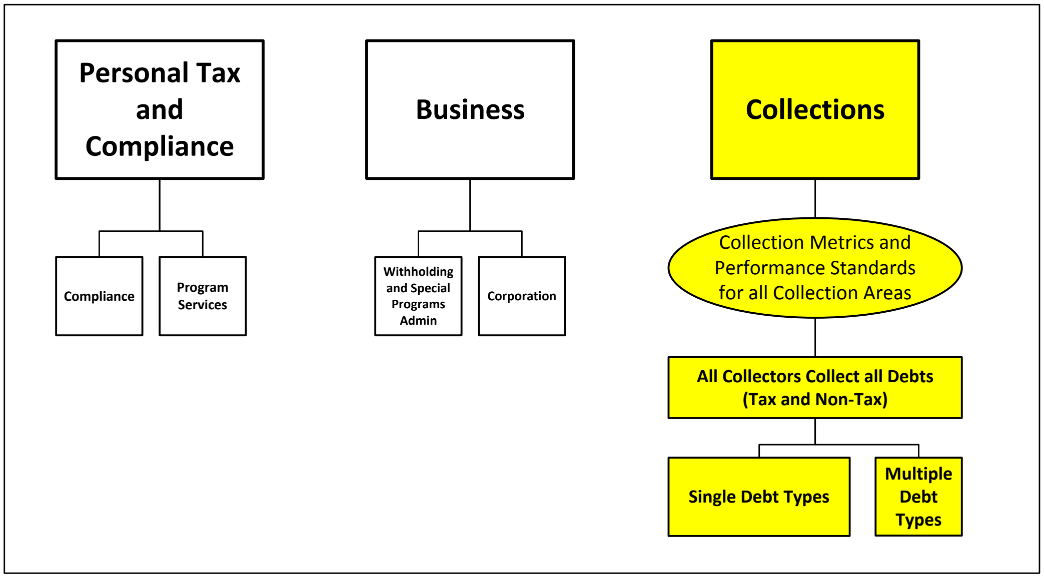


Description:

Option 3 centralizes all collections resources, including support services, within the Collections Division, under the leadership of the Collections Division Administrator. Collections staff are organized and focused programmatically by customer type within the division, presumably continuing the tax program versus OAA structure. Collectors would continue collecting from the customer type they currently work with, including OAA collectors.

Benefits that align with strategic priorities:	Challenges/risks:
Cultivate operational excellence • Development of agency-wide collections vision, metrics, and performance standards. • Establishes a single position with focused accountability for agency-wide collections reporting. • Establishes consistent data compilation methodology across collections function. • Dedicated resources for agency-wide collections policy, metrics, and reporting workload. • Employees are more focused on their primary duties: — Collections employees are able to focus on collections activities. — PTAC and Business Division administrators, managers, and staff are able to focus on tax program administration, audit, and other enforcement activities. — Support resources can be shifted so that some staff move to Collections Division as collections support, and some staff stay with current divisions to support audit and other enforcement functions. • Organizational structure provides for better communication to affected centralized collections staff. • Collections-related IT needs are coordinated under a shared vision, such that individual collections areas are no longer competing for IT resources; future system improvements relating to collections functionality are better coordinated. ***Enhance taxpayer assistance*** • Standardized processes help ensure that debtors receive consistent services across debt types. • Performance management for collections outcomes is aligned with organizational structure. • Strengthens ability to create and set performance standards and provides structure to consistently enforce standards with staff. • Allows for more consistent training and scheduling of collections resources agency wide.	• Large impact on agency depending on implementation decisions and approach (physically moving employee work areas, IT needs associated with moving staff, change leadership for moving employees to new units with new leadership, learning new standardized processes, etc.). A small number of staff may be impacted at first, but then more staff impacted over time, as decisions are made regarding amount of centralization and resulting workloads. • Impact on remaining divisions; employee workload changes as duties change to exclude collections activities. • Difficult to measure efficiencies gained by centralizing into Collections Division due to other factors influencing performance measures and metrics, such as economic conditions.

Option 4—Centralized division without programmatic focus

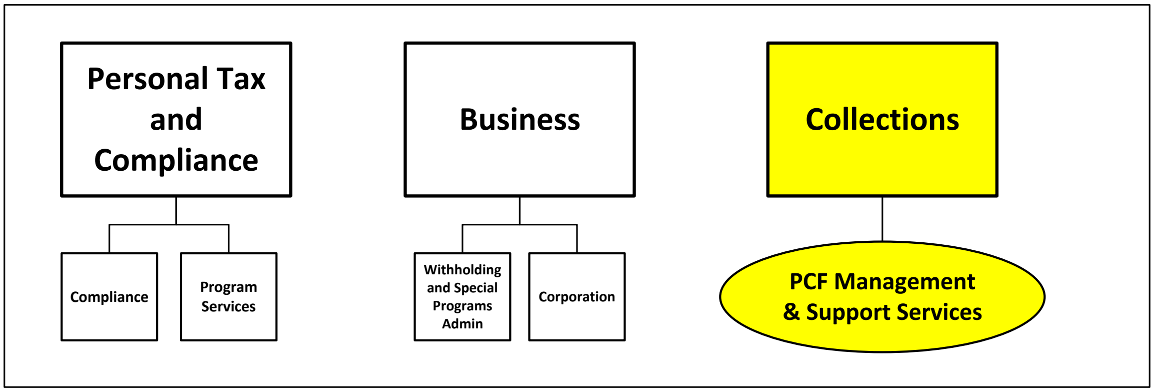


Description:

Option 4 also centralizes all collections resources, including support services, to the Collections Division, under the leadership of the Collections Division Administrator. This option, though, would change the collections function such that all revenue agents would work with all types of debtors for all programs collected by DOR. For example, a revenue agent would make and receive calls from both individuals and businesses, as well as other agencies' debtors. Staff would become generalists, without specific program knowledge pertaining to the origin of the debt.

Benefits that align with strategic priorities:	Challenges/risks:
Cultivate operational excellence • Development of agency-wide collections vision, metrics, and performance standards. • Establishes a single position with focused accountability for agency-wide collections reporting. • Establishes consistent data compilation methodology across collections function. • Dedicated resources for agency-wide collections policy, metrics, and reporting workload. • Employees are more focused on their primary duties: —Collections employees are able to focus on collection activities. —PTAC and Business Division administrators, managers, and staff are able to focus on audit and other enforcement activities. —Support resources can be shifted so that some staff move to Collections Division as primarily collections support, and some staff stay with their current divisions to support audit and other enforcement functions. • Organizational structure provides for better communication to affected centralized collections staff. • Collections-related IT needs are coordinated under a shared vision, such that individual collections sections are no longer competing for IT resources; future system improvements relating to collections functionality are better coordinated. ***Enhance taxpayer assistance*** • Standardized processes help ensure that debtors receive consistent services across debt types. • Performance management is aligned with organizational structure. • Strengthens ability to create and set performance standards and provides structure to consistently enforce standards with staff. • Allows for more consistent training and scheduling of collections resources agency wide.	• Large impact on agency (physically moving work areas, IT needs associated with moving staff, change leadership for moving employees to new units with new leadership, learning new standardized processes, etc.). • Impact on remaining divisions; employee workload changes as duties change to exclude collections activities. • Difficult to measure efficiencies gained by centralizing into Collections Division due to other factors influencing performance measures and metrics, such as economic conditions. • Steep learning curve for employees to learn basics of all debt types to be able to work multiple debt types. • Staff may have little or no program knowledge, making it difficult to identify how a debt originated, and be unable to offer education and assistance regarding individual tax programs. • Teams might lose some aspect of "teamwork"—No longer tied together by program, type of customer, etc. • Administrative challenges associated with accounting for resources spent collecting Other Fund debts (OAA) and appropriately passing on those charges to debtors and other entities for services, given that revenue agents work combination of both tax and OAA debts. • Different statutory and administrative requirements for tax vs OAA debts may impact streamlined procedures. Examples: o Different debt types have different requirements for when they need to be assigned to PCFs; could affect collections strategies for different debt types. o Tax debt and OAA debts have different statutory garnishment exemptions ("OAA, for example, has to adhere to minimum wage exemption limitations - tax debts don't.)"

Option 5—Private collection firm outsourcing



Description:

Option 5 involves outsourcing all direct collections activity to private collection firms. Support services remain with DOR within the Collections Division. When debts are assigned to PCFs, DOR continues to issue bank and wage garnishments on those debts when sources are identified by the PCFs and continues to offset against any other refunds that come payable to the debtor. DOR support is also still needed for bankruptcy and other administrative services, including increased PCF contract management, compilation of collections metrics, and reporting.

In this analysis, no assumptions have been made about PCF recovery rates, which currently are less than DOR's. The department has access to information that PCFs don't (FIDM, Oregon New Hire Report, tax return data, Employment Department information, DMV, federal tax information). DOR also typically attempts to collect on debts first, and collections on newer debts is characteristically more successful. The department's authority to issue administrative garnishments, place property liens efficiently, and offset state and federal tax refunds provides DOR with highly effective tools, which are reflected in a higher recovery rate.[3]

Benefits that align with strategic priorities:	**Challenges/risks:**
Cultivate operational excellence • Development of agency-wide collections vision, metrics, and performance standards. • Establishes focused accountability for agency-wide reporting. • Establishes consistent data compilation methodology across collections function. • Creates focused resources for agency-wide collections policy, metrics, and reporting workload. • Employees are more focused on their primary duties: —PTAC and BUS administrators, managers, and staff are able to focus on audit and other enforcement activities. —Support resources can be shifted so that some staff move to Collections Division as primarily collections support, and some staff stay with PTAC and BUS Divisions to support audit and other enforcement functions. • Some current collections positions could be repurposed to other work (such as filing enforcement, processing, etc.); depending upon placement or elimination of those positions, infrastructure could be decreased (space, computers, telephones, etc.) Additional analysis and planning is needed to determine right-sizing of staffing resources for this option. • Collections-related IT needs are coordinated under a shared vision; future system improvements relating to collections functionality (even if outsourced) are better coordinated. • PCFs may have more flexibility to manage staffing levels as workload fluctuates.	• Contracts with PCFs specify expectations regarding debtors receiving consistent treatment across debt types (through standardized processes); however, less direct control of taxpayer interactions. • Increased amount of resources needed to manage the transfer of debts to and from PCFs, update account balances due to offsets from other refunds payable to debtors, and increased PCF contract management needs. • Not all PCFs have the same systems/expertise/resources, and their respective collections effectiveness can vary greatly. • Impact on customer assistance/satisfaction due to lack of tax expertise and access to program information (such as why a debt was established). • If PCFs unsuccessful with debtor interactions and unable to collect, the department may no longer have resources to work with the taxpayer to resolve the debt. • Resources still needed within DOR for support services (issue garnishments, bankruptcy, etc.). • Less emphasis on helping taxpayers come into tax compliance (for example, less focus on filing past due returns) • PCFs don't have access to information and tools available to DOR, including: —Financial Institution Data Match, to identify bank garnishment sources. —Oregon New Hire Report, to identify wage garnishment sources. —Employment Dept. data, to identify wage garnishment sources. —State tax return data. —DMV and federal tax data. • PCF contracts need to clarify expectations as to priority of PCF efforts toward DOR debts. • Current collections staff would need to have duties changed to support services, shifted to other agency work, or have positions eliminated. Potential significant negative impact to employee engagement. • Administrative challenges associated with accounting for resources spent supporting PCF work relating to Other Fund debts (OAA) and appropriately passing on those charges to debtors and other entities for services, given that debts worked by PCFs would be combination of both tax and OAA debts.

[3] *Report on Private Collection Firm Use and Collection Rates.* Department of Revenue, January 18, 2019.

Comparison of options:

The benefits of organizing our collections function in various structures were evaluated as to how closely each aligns with the agency's strategic priorities.

Optimize collections efforts

- Enhance collections processes and tools to improve timeliness, accuracy, and results.
- Effectively frame and communicate the agency's debt collections potential and results.
- Develop understandable, useful, and focused metrics to support effective collections management.

Enhance taxpayer assistance

- Ensure taxpayer assistance tools are easily accessible, customer focused, and work as intended.
- Establish service standards, align processes, and educate staff to achieve more timely service.
- Leverage information from customer feedback channels to better meet customer needs.

Cultivate operational excellence

- Balance maximizing productivity with engaging employees.
- Develop metrics and other tools to enhance agency performance management, guide decision-making, and support continuous improvement.
- Establish an agency-wide governance framework that clarifies roles, responsibilities, and communication expectations.

Determination

Options 1 through 4 represent stages between a fully decentralized collections structure with programmatic focus and a fully centralized collections structure with no programmatic focus. No one stage is a perfect, risk-free collections organizational structure, and there are risks and challenges of moving from one stage to another. Analysis of all options focused on optimization of the department's collections function. The best solution may require DOR to remain somewhat fluid to ensure DOR is always positioned to meet the needs of the state, with measured steps and evaluation before any large transitions.

Based on the analysis detailed in the previous section, the benefits of centralizing DOR's collections work within one division most closely aligns with the department's strategic priorities (Options 3 and 4).

Centralizing the collections function within one division will result in:

- Focused leadership and accountability.
- The ability to develop an agency-wide collections vision.
- Consistent policies, procedures, performance standards, and metrics (including consistent data compilation methodologies).
- Timely and consistent streamlined communication with staff performing collections and support activities.
- Improved channels for leveraging information from customer feedback to better meet customer needs.
- Leveraging of IT staff resources and system capabilities (eliminating competition between sections with similar needs to accomplish similar work, and in implementing future technological enhancements).
- Enhanced communication with debtors through consistent delivery of information.
- Improved, more consistent training.
- The ability to shift staff resources as workload fluctuates.
- Employees being more focused on their primary roles (revenue agents and other job classifications currently engaging in collections-related work as an additional duty).

Moving to a centralized structure does pose some challenges and risks:

- Centralizing staff generally involves co-locating staff that perform similar activities or that work as a team. Existing workspaces may need to be reconfigured, and employees may need to be relocated.
- Moving staff requires computers and telephones to also be moved. Additionally, some system reconfiguration may be needed to restructure workflows or to change business rules.
- Successful large-scale reorganizations involve organizational change management to promote acceptance of the changes by staff and prepare them for the changes.

Options 3 and 4 both centralize all collections activity under the Collections Division. Option 3 differs from Option 4 by the way staff resources are structured into units to collect different debt types. Option 3 maintains the current programmatic focus, which enables employees to offer tax-program-specific education and assistance to debtors while helping them resolve their debts. This value-added assistance encourages and promotes voluntary compliance with our tax structure, which helps taxpayers to not fall back into similar debt patterns in the future. Option 4 streamlines collections processes and procedures such that staff focus exclusively on debt collections, without providing tax or program-related education and assistance during interactions with debtors. This structure facilitates debt resolution, but doesn't necessarily promote voluntary compliance.

DOR leadership believes that a centralized collections division, with the flexibility to structure division resources in alignment with strategic priorities is the optimal approach. For example, many collectors could be consolidated into the Collections Division and continue collecting the same program debts that they currently collect, but a specialized unit could also be established where collectors work with debtors that owe multiple programs' debts.

The agency has been managing a high volume of change for several years; initially due to the core systems replacement project, but also due to legislative directives in the 2017–19 biennium, including implementation of several new tax programs, completion of nine budget notes, several agency-wide audits, and the centralization of statewide collections within DOR. Combined with responding to federal tax reform and a high degree of focus on tax revenue policy, the agency has undergone significant adjustments.

All agencies have an amount of change that is "manageable." When the degree of change exceeds this threshold, employees can suffer change fatigue, which can adversely affect the organization's success, as evidenced by employee withdrawal and decreased organizational performance. Given this, DOR's director has made stabilization a priority for agency leadership. This means trying to keep the agency at a tolerable level of change while enhancing resilience and fostering adaptability to change in staff.

Therefore, DOR plans on centralizing its collections function in phases over the next two biennia to allow for an appropriate stabilization period after three recent biennia of significant changes. The preliminary timeline has the agency transitioning to Option 2 in the near future, with a focus on planning for the reorganization, most likely during the 2021–23 biennium.

If the Legislature is in support of DOR executing on this plan, the Collections Administrator will establish an agency-wide collections vision and strategy, performance standards, and metrics, as well as plan for the reorganization. If additional resources are needed for the centralization effort, those will likely be identified during the planning process. DOR will engage with its Legislative Fiscal Office and Chief Financial Office analysts regarding additional resources. If appropriate, that request would be included in DOR's 2021–23 Agency Request Budget.