MINUTES
CASH MANAGEMENT REVIEW BOARD
SPECIAL MEETING OF OCTOBER 12, 2012
HOUSE COMMITTEE ROOM 1
STATE CAPITOL BUILDING

The items on the Agenda are incorporated and considered to be a part of the minutes herein.

Jim Napper, Executive Counsel, called the meeting to order. Laura Lapeze called the roll.

MEMBERS PRESENT:
Ray Stockstill, Deputy Commissioner, designee for Commissioner Paul Rainwater
Daryl Purpera, Legislative Auditor (non-voting member)
Jim Napper, Executive Counsel, designee for Treasurer Kennedy
John Kennedy, Treasurer (arrived during SallieMae presentation)

OTHER PERSONS PRESENT:
Representative Chris Broadwater
Richard McGimsey, Assistant Attorney General
Jason Decuir, Assistant Secretary, Louisiana Department of Revenue
Clarence Lyman, Undersecretary, Louisiana Department of Revenue
Ron Henson, First Assistant State Treasurer
Laura Lapeze, CFO, State Treasury

Daryl Purpera moved for the approval of the minutes from the Special Meeting on September 28, 2012, seconded by Ray Stockstill, and without objection, the minutes were approved.

Mr. Napper stated that the first group to make its presentation would be the SallieMae Collection Services. Mr. Rodney Braxton, Mr. Scott Buchanan, and Mr. David Lind were introduced. Mr. Braxton provided background information about SallieMae, which was created about 40 years ago as a government entity to collect student loans. It was explained that SallieMae now was a private entity that was actually a Fortune 500 company. Over the years, Sallie Mae has expanded and its subsidiaries partner with municipal, state and federal governments on many levels and provide many types of services, such as collection services (including ongoing tax and non-tax collections), guarantor servicing, debt purchasing and leasing, and debtor communication and counseling. Mr. Buchanan explained SallieMae's framework that would be utilized in evaluating and resolving the State's collection problem would be: (1) create long-term cost efficiency for the state; (2) preserve relationship with constituents and oversight of collection activities; (3) drive positive behavior change among constituency; and (4) maximize net revenue to the state, including both short-term and long-term receivables.

Mr. Lind outlined three potential solutions that may be available to the state for collections: (1) sale of long-term debt; (2) lease of long-term debt and (3) establish a Centralized Collection Unit (CCU). Mr. Lind proposed the best strategy might be to establish a central collection unit. Mr. Lind stated there were several different models that could be used, which were: the Federal model, the "Turn-Key" model and the "Out-of-the-Box" model, all having different benefits and considerations.

Mr. Lind explained the federal government has similar characteristics to what Louisiana is currently experiencing. There was no consistency of collection practices and billions of dollars owed. About 20 years ago, the federal government had previously been in the same situation as

Louisiana with several agencies handling collections by specific areas of expertise of the agency, none of which were account receivables experts. The federal government decided to centralize collection services through the Debt Collection Improvement Act of 1996 and created Financial Management Services (FMS) division within the Department of Treasury. The FMS division serves as the central collection unit for federal government. Different federal agencies can attempt to collect accounts receivables with the first 180 days before it is turned over to FMS. Based on federal mandate, federal agencies then must turn delinquent accounts over to the FMS once the receivables are 180 days past due. It was also noted that different types of debt require different collection strategies. It was explained that FMS has internal collection service, referred to as Portfolio Management, with people and technology that perform traditional collection functions. It was also explained that experts in third party capacity could be used to augment centralized services. Mr. Lind explained that the "Turn-key" model would entail decision factors such as identifying the specific facility, such as an existing agency, or have to establish a new agency, add personnel and purchase technology and supplemental products.

Treasurer Kennedy inquired as to which states had decided to centralize collection functions. Mr. Lind replied that Utah, Virginia, Michigan, and Colorado currently have centralized or statewide approaches in place, but there is a variance in how each were set up. Mr. Lind explained most states have issued request for proposals for debt collection service activities and then have selected a group of multi-functional type of vendors. Agencies, depending on type of debt, will then select one of the vendors to contact with for debt collection. It was stated such a model is reasonably good since it has been tested. However, it is not vendor friendly since the RFP basically just qualifies vendors. The vendors must then market their services to the various agencies. Further, there is no centralized collection approach since each agency is handling it in the manner that best fits the agency's needs.

Treasurer Kennedy inquired as to which state had the best model. Mr. Lind responded was that no particular state could be said to have the best. Mr. Buchanan stated that it was thought the federal model had the best proven performance rate. He also stated that challenging economic times were forcing states to consider centralization of collection services and many states are currently considering the federal model. Treasurer Kennedy asked if any state had adopted the federal model. Mr. Buchanan stated that while four states had been previously mentioned as utilizing the centralized approach but it is their belief there is still opportunity for those states to go the next level. Treasurer Kennedy asked for an opinion for one state had a model that was working well and to provide an explanation of why the state chose its particular approach. Mr. Lind stated he would gravitate to the model being used by Utah. He indicated Utah has a central collection group that focuses more on non-tax collection areas. It was also stated that while there is the central group, it functions more like a "portfolio manager" since it also utilizes a multitude of vendors in its collection efforts. Treasurer Kennedy inquired as to how long Utah had been utilizing the central collection unit. The response was that it was not known exactly when the model was implemented but it was his understanding that some employees had been working for at least 5 years.

Treasurer Kennedy stated he thought the group understood advantages, so he would like to move the discussion from the conceptual to the practical, in particular, how do we do it; if the first step to issue a RFP and is that the right approach; where should the centralized collection unit be housed; which state could be used as a model; and projections for initial capitalization. Mr. Buchanan stated the RFP would be the first step to identify information because the challenge is that each state is unique since receivables will be different mixtures due varying tax structures. He stated the question as to where to house the collection unit is an "open" ended one because it could be a stand-alone agency or within a department if it is independent and focuses on collection of receivables across all agencies. Mr. Buchanan stated the solution can be flexible with the centralized collection unit using tools as well as third party collection services or another alternative would be to implement the "turn-key" model. Mr. Buchanan advised the State could consider taking an incremental approach in centralizing collection efforts by bringing in a third party provider, which would involve minimum investment. Once results and performance were achieved, then the state could hire state employees to work in the centralized collection unit.

Mr. Napper asked the specific length of time involved before collections must be turned over to the centralized collection unit in the federal model and if the IRS also utilized the centralized collection unit. Mr. Buchanan responded the IRS does its own tax collections but the statutory mandate require all other federal agencies place non-tax related receivables with the FMS division no later than 180 days of delinquency. However, he noted some smaller agencies place the receivables with the FMS on day one while others attempt to perform some collection functions.

Treasurer Kennedy stated the Division had requested to consider some agenda items out of order, one of which was the presentation schedule to be made by the Office of Statewide Reporting and Accounting Policy. Deputy Commissioner Stockstill explained that Afranie Adomako, OSRAP Director, had encountered a family emergency that prevented him for making the presentation but he could provide an update on the state's efforts. He explained the Division had been aggressively and persistently pursing money owed to the State. Further last month Commissioner Rainwater had announced that a RFP had been released to engage private sector expertise for data collection and analysis of long-term delinquent accounts receivable and other state debt. At that time Commissioner Rainwater had also outlined the framework for the RFP, which encompassed: (1) consolidate, centralize, and coordinate state debt function; (2) trigger early action for delinquent payments and (3) evaluate the sale or securitization of old debt. It was also explained that one step taken in the process was to research the amount of outstanding debt over 3 years old. It was determined the current estimate of outstanding debt over 3 years old that had been written off by state agencies during the last 10 years was approximately $1.7 billion. It was explained the figure had been extrapolated from raw data that had been currently available to OSRAP and could possibly be affected by factors such as death or bankruptcy of the debtor. Deputy Commissioner Stockstill said OSRP would be doing further analysis of the data.

Treasurer Kennedy inquired about the speculative return figures presented by Mr. Dave Ludwig, National Loan Exchange (NLEX), at the September 28, 2012, CMRB meeting. Representative Broadwater stated that Mr. Ludwig had quoted a return of 5 to 10 cents on the dollar could be expected on long-term outstanding debt if debt was sold. In addition, Representative Broadwater announced that since that meeting, he has spoken with the NLEX representatives who had surmised that if legislative changes extended prescriptive period for the sale of such debt, the expected return could possibly be doubled. Mr. Stockstill stated that the Commissioner had explained that collection efforts would be enhanced by implementing penalties, fees, and fines against debtors. In addition, offsets such as withholding state income tax or unclaimed property refunds, would be used as well. The State will be using a data-driven approach in an attempt at maximizing returns and has been working closely with Department of Revenue on the offset tax program being announced today. Treasurer Kennedy remarked that even being conservative, estimates for selling such debt would be in the range of $100 to $500 million.

Deputy Commissioner Stockstill introduced Jason Decuir, Assistant Secretary, Department of Revenue (DOR), to make the presentation on the new offset program being introduced, which has potential to increase $11 million of debt to be collected on an annual basis. Mr. Decuir introduced other staff from DOR who were in attendance at the meeting. Treasurer Kennedy asked about the amount of debt being held by Revenue for period of 3 to 10 years. Clarence Lyman, Undersecretary, responded it was noted in an email that the total of 3 to 10 years of old debt being held by DOR is about $543 million. Mr. Lyman explained that are two components of debt, qualified or self-assessment receivables reported in the CAFR (taxpayer files a return but either under or not remitted an amount with the return) and proposed or estimated receivables (through third-party information or other means, DOR believes the taxpayer owes that amount). Mr. Lyman estimated that DOR routinely collects about 85% of qualified receivables based on a 5 year average.

Mr. Decuir stated there are two existing debt collection tools, the tax refund garnishment program and the federal tax refund offset program. He explained the refund garnishment program allows Louisiana state agencies and governmental entities to garnish Louisiana tax refunds for debts owed to their agency (R.S. 47:299.1-21). Non-state agencies may also use that recovery tool as well. Since July 2008, DOR has collected $56.4 million in outstanding debt. DOR charges an administrative fee of $4 for each individual or company on which debt submission can be recovered.

Mr. Decuir explained the federal tax refund offset program was created in 2001. This program allows federal income tax refunds to be intercepted to satisfy individual state income tax debt (R.S. 47:1583). In turn, Louisiana income tax refunds can be intercepted to satisfy individual federal income tax debt. The measure has generated an average of $21 million per year for the state. Since July 2008, it has collected $137.2 million of debt. Treasurer Kennedy asked if DOR initiates state personal income tax audits. Mr. Lyman replied that periodically audits of personal income are initiated by Revenue but primarily rely on the Federal-State tax match program to verify incomes. Most state audit cases involve the challenges of residency. It was also explained that the IRS does supply the department with audit results. Treasurer Kennedy asked if the department had ever conducted a study to identify cost benefits of auditing individuals who may be not be filing either a federal or state tax return. Mr. Lyman replied the Department's Audit Director is working with several different agencies that have fraud programs.

Mr. Decuir explained the new offset tool authorizes the Secretary of the Department of Revenue to enter into reciprocal offset of indebtedness agreements with the federal government and the federal government will agree to offset from federal payments to vendors, contractors, and taxpayers, debt owed to the state (R.S. 47:1523). This allows Revenue to intercept vendor or contractor payments for federal debt and vice versa. This new program could potentially realize a return of $11 million annually for the state. This program has been implemented by 4 states. Representative Broadwater asked who serves as the "prime" the state or the federal government. Mr. Decuir responded that it was probably the federal government that serves as the "prime" since that is how it usually works for the tax to tax program. Representative Broadwater suggested that Revenue examine the cooperative agreement to determine the benefits of who serves as the "prime". Treasurer Kennedy asked what was involved in rolling out the program. Mr. Decuir replied it would involve the RFP process and securing a vendor through the professional services contract. It would probably take about 6 to 8 months for the pilot to begin.

Mr. Decuir stated that with the continued use and implementation of these measures, fraudulent income tax returns could be reduced and an increased measure of outstanding debt be collected. A more equal and level playing field could be achieved for all tax payers within the state. Representative Broadwater and Treasurer Kennedy encouraged DOR to actively seek participation by municipal governments in these programs.

Mr. Lyman provided additional information about the tools, methodology and strategies utilized by DOR for collections of tax debt. $363M tax debt was collected in FY 2011-12. It was stated that various types of licenses (drivers, hunting, fishing, boat registrations, etc.) can be suspended if tax debt is owed. Mr. Lyman also provided statistics for FY 2007-08 through FY 2011-12 on average account receivables, receivable collections and recovery rate. It was explained that the reporting is done for a 5 year average but there is older debt on the books.

Treasurer Kennedy introduced Mr. Derek Steel with the Municipal Intelligence Group (MIG). Mr. Steel explained that MIG is an enforcement tool. MIG typically works directly with agencies and third-party debt collection companies. MIG is a technology services company that focuses on license plate recognition since vehicles have become a second address. Mr. Steel stated the company has a fleet of 1,800 licensed fleet operators owned vehicles with 5,400 operators that capture 31 million plates monthly. Currently MIG has over 900 million plate images in the company's database. MIG uses the information for the following purposes: (1) to locate violators and debtors (i.e. places stickers on vehicles as identification of debt owed); (2) to communicate outside normal parameters such as mail or telephone calls; and (3) to enforce collections within realms of legal means (i.e. execution of judgments and liens).

MIG has 80% market share with lending institutions, helping them locate charged off assets. Mr. Steel explained that during the process of identifying debtors, MIG is frequently able to send to local and state law enforcement officials information that assists in the apprehension of criminals. Treasurer Kennedy inquired how MIG charges for services. Mr. Steel explained fees and structures vary in every market. Fee splits are appropriate when working with partners. There is a cost of collections component on judgments.

During the process of identifying debtors, MIG frequently is able to send to local and state law enforcement officials information that helps in the apprehension of criminals. Criminal intelligence is provided free of charge if MIG is under contract in the vicinity to identify people with outstanding debt. It is done as part of a community partnership.

Legislative Auditor Pupera asked what MIG's coverage is in Louisiana. Mr. Steel explained that MIG's coverage in Louisiana is light. Louisiana just changed repossession laws allowing MIG to enter into the market. Treasurer Kennedy inquired if MIG would have a problem with the state enacting a statute that would mandate any information collected by MIG, on the State of Louisiana's behalf, to be used by the state exclusively for certain legitimate purposes. Mr. Steel responded that he thought that type of approach would be a wise decision due to privacy laws. Even though there is no expectation of privacy while driving on public streets, the state should place parameters in the beginning as to how the data will be used.

Mr. Steel explained that there are two data sets gathered: (1) data gathered by the company's private fleet not operating for a private entity and (2) data gathered by fleet decided for a private entity's purpose. The private entity can dictate how the data listed in #2 can be used.

Mr. Steel does not think selling past due receivables is the way to go. He said of uncollected debt, MIG can triple or quadruple collections on delinquent accounts. Of $700M viable past due receivables, MIG can capture $187M of revenue for the state, which is a liquidation rate of 31.9% over and above normal accounts receivable collection processes.

Treasurer Kennedy introduced Mr. Scott Cole and Ms. Sarah Galiana with GC Services. GC Services has been around for over 50 years as a debt collector. It has also migrated into the customer service world. GC Services currently has a multitude of government receivables partnerships throughout the United States. They manage a variety of government projects ranging from amnesty management, child support enforcement, student loans, toll highway violations, and IRS system integration.

Mr. Cole stated some of the benefits of outsourcing debt collection to GC Services are the use of the latest advanced technology and data sources with a strong focus on customer service. Among GC Service's core services are inbound phone calls, outbound calls, in-house printing services, and location and skip-trace services. It was noted that GC Services stringently adheres to the Fair Debt Collection Practices Act with an eye toward future regulatory issues. Treasurer Kennedy asked should the State sell its debt. Mr. Cole stated that the State should research whether it is legal to sell the debt and if it is in the State's best interest. Mr. Cole thought that a better alternative would be the securitization model that MIG discussed. The State should ask for up-front capital for the debt pool from a debt collector and then engage in a revenue sharing operation when funds are trued up at the end.

Treasurer Kennedy introduced Mr. Dannie Garrett and Mr. Pete Spitalieri of CELCO, which is a wholly-owned subsidiary of PASCO. CELCO provides comprehensive collection and revenue recovery services to both public and private sectors. The company specializes in personal and business taxes, student loans, and medical collections for various institutions and state governments. They are licensed and certified in Louisiana and are members of The Association of Credit and Collection Professionals (ACA), the governing organization for 75% of collection companies in the United States. Mr. Garrett recommended that Louisiana contact ACA for general collection statistics.

Mr. Garrett cautioned that the State will not receive 10 to 20 cents on debt. The best the State will receive is 4 to 5 cents on debt. The average collection rate is 10-11%. 15% is the best the State can expect to receive.

Mr. Garrett noted the state of Ohio was an example of a state with a successful centralized collection agency, which is overseen by Ohio's Attorney General's Office. Debt is typically turned over to that agency when it is 120 days old. The AG's office works the debt for another 60 days, and then the debt is turned over to four (4) vendors. All vendors use the same platform, so the State can see daily what work has been done on a past due account. Vendors pay a license fee to use the platform, paying the State's technology costs. All collection payments are sent directly to the state of Ohio, not the vendor. Vendors are paid a percentage based on the type of debt. If the vendors cannot collect the debt, it is then sent to twenty-one (21) special counsel, which are private law firms, which will pursue legal action.

Treasurer Kennedy asked Mr. Stockstill what was the next step in the RFP process. Mr. Stockstill replied that grading of the proposals will be completed on October 29th by a panel. There is no need for another Cash Management Review Board meeting until the process is complete. Treasurer Kennedy would also like to learn more about the Attorney General's efforts once the RFP process is complete.

Having no further business to discuss, Treasurer Kennedy adjourned the meeting.