



Association of Indiana Counties Tax Refund Exchange and Compliance System (TREC)s Summary of Program

AIC's Local Government Debt Setoff Program

- Association of Indiana Counties' *TREC*s is a results-oriented process to help counties collect outstanding debts in a timely, cost-effective manner
- *TREC*s debt setoff allows counties to compile and submit their delinquencies for setoff against pending state personal income tax refunds
- Participating counties incur little if any additional collection cost—the debtor is charged the local collection assistance fee supporting program operations
- To lessen county work disruption, AIC engaged county staff expertise early on during program development to integrate its setoff services into existing financial county revenue billing and collection processes
- AIC has worked closely with the Indiana Department of Revenue to meet current state setoff requirements for data transmission, data security, and financial process standards
- Existing state debtor notification and appeals requirements ensure that county residents are accorded appropriate due process

Perspectives on Debt Setoff in Indiana

- Current code allows Indiana state agencies and local governments to submit debts of at least \$25 dollars against state personal tax refunds
- Statutory authority granting local government agencies to participate in the state's debt setoff program was granted in April 2017 through Senate Enrolled Act No. 515 and codified in IC 6-8.1-9.5
- The Indiana Department of Revenue (IDoR) will have a Memorandum of Understanding with the Association of Indiana Counties to function as the one clearinghouse entity to submit local government debts to IDoR
- Corporate, limited liability and partnership tax refunds are currently not eligible for intercept

Program Implementation

- AIC county treasurers confirmed that the workflow process would have to include a social security number look-up service as counties do not collect SSNs with property tax and other fees data
- The clearinghouse will offer an automated data export exchange between the county financial systems and the clearinghouse, with a similar back-end data import feature to update county financial records
- To ensure ease of implementation, AIC is working with the four primary financials software vendors in Indiana to generate the needed data stream with little county intervention and at little or no cost to counties
- IDoR shared its data file requirements with the clearinghouse, and a record layout and data dictionary structure incorporating state and clearinghouse data needs was developed to standardize data submission and receipt
- IDoR will provide a lump sum of monthly offsets to the clearinghouse for its disbursement to participating counties, and TrustINDiana was selected and agreed to be the funds bank to receive IDoR transfers and make the individual county fund allocations based on clearinghouse instructions

Marion County Pilot

- After establishing intensive process requirements for systems development, workflow, and program operations, AIC worked with the National Association of Counties to begin systems build for a pilot test with Marion County, a combined county-city unified government in Indiana

- Marion County generated its standard file of delinquent property taxes—real, personal, ag, and mobile homes, as well as its outstanding judgement files for delinquent debts, and submitted these for clearinghouse data import
- 27,000+ debt records were submitted, reformatted and had data scrubbing techniques applied to eliminate ineligible records such as business-owned debt
- Data cleansing left about 24,000 records eligible for the SSN lookup process, with secured data file exchange to and from the SSN lookup service and the clearinghouse
- The SSN lookup process realized a nearly 83% hit rate, with 77% having posted a valid SSN and nearly 6% certified deceased
- Further debt record consolidation collapsed multiple debts per individual debtor into single debtor files and excluded debts under \$25. (IDoR only allows one record per SSN to be submitted by each claimant agency and has a debt minimum of \$25)
- A subset of the master file with a total of about 14,300 records was generated to submit to the IDoR's test and production secured FTP file sites. Earlier data runs with IDoR had tested its ability to receive and process clearinghouse files
- IDoR was able to import the clearinghouse's debt file and process the file against its 2016 refund file to project the match rate that might be expected for the 2017 tax year (Jan. 1, 2018 implementation)
- The process run generated 4,057 successful matches with over \$1.04 million in offsets, realizing an impressive match rate of 28% (nearly double that experienced in North Carolina—the program used as a basis for national debt setoff efforts)
- The AIC is working on analysis of the data to parse it by debt type to test for any correlation of type v. hit rate

Benefits Realized by Counties and the AIC

- County debtors end up paying for their share of direct or indirect county services but avoid negative credit-rating impacts
- Compliant taxpayers benefit from higher collection rates for county taxes and fees, thereby mitigating the need for higher tax or fee rates to offset uncollectables.
- AIC will regularly report the total setoff dollars received per county participant and help identify and share county best practices to maximize debt setoff receipts

The AIC Clearinghouse Process

