

Presentation to the Commission on Unemployment Compensation

2008 House Bill 1314

Preliminary Cost Estimates

Joe Mayer, Department of Taxation

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Overview

- The Virginia Commission on Unemployment Compensation requested that the Virginia Employment Commission (“VEC”) and the Department of Taxation (“TAX”) study the feasibility of transferring some or all of the functions associated with administration of the Unemployment Insurance (“UI”) Tax from VEC to TAX.
- TAX and VEC have developed three options for transferring all or part of the administration of the UI Tax. TAX has prepared estimates of TAX’s administrative costs under each option.
- It is assumed that the transfer of responsibilities would be effective January 1, 2010.

Options

Option 1- Transfer of the Entire UI Tax Program:

- TAX would assume full administration of the UI Tax, including rate setting, return processing, audit responsibility, collections, customer services, delinquent collections, and appeals. VEC would continue to handle customer service regarding employment claims and would have appropriate access to TAX's systems. TAX would also have access to VEC's systems in order to set UI Tax rates.

Option 2- "Lockbox" Services:

- TAX would be responsible for receiving non-electronic payments and returns, depositing non-electronic payments, and delinquent collections. TAX would provide VEC with information from the non-electronic payments and deliver the returns to VEC. VEC would provide TAX with delinquent balances for TAX to collect.

Options (Continued)

Option 3- “Lockbox” Services and Return Processing:

- TAX would be responsible for receiving non-electronic payments and returns, depositing non-electronic payments, scanning and capturing data from returns, and delinquent collections. TAX would provide VEC with information and images of the payments and returns. VEC would provide TAX with delinquent balances for TAX to collect.

Administrative Costs – Option 1

OPTION 1 ADMINISTRATIVE COSTS									
OFFICE	FTE's		FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Administration- 1 director and 2 administrative assistants	3	Startup Costs:	-	\$30,000	-	-	-	-	-
		Ongoing Costs:	-	\$100,000	\$200,000	\$210,000	\$210,000	\$210,000	\$220,000
Tax Processing Operations- Staff and systems modifications to process returns, payments and assessments; registration of taxpayers; printing and mailing forms	21	Startup Costs:	-	\$380,000	-	-	-	-	-
		Ongoing Costs:	-	\$890,000	\$1.7 million	\$1.6 million	\$1.6 million	\$1.6 million	\$1.6 million
Compliance- Collections and audit of taxpayers	48	Startup Costs:	-	\$80,000	-	-	-	-	-
		Ongoing Costs:	-	\$1.9 million	\$3.9 million	\$4.0 million	\$4.1 million	\$4.2 million	\$4.3 million
Customer Service- 15 customer service representatives for call center, 4 team leaders, and supervisor	20	Startup Costs:	-	\$200,000	-	-	-	-	-
		Ongoing Costs:	-	\$430,000	\$870,000	\$880,000	\$900,000	\$920,000	\$930,000
Facilities- Space needed to accommodate approximately 100 extra employees	0	Startup Costs:	-	-	-	-	-	-	-
		Ongoing Costs:	-	\$210,000	\$440,000	\$450,000	\$470,000	\$480,000	\$490,000
Fiscal- 3 employees to monitor and do reports on payments, and also track federal funding requirements	3	Startup Costs:	-	\$30,000	-	-	-	-	-
		Ongoing Costs:	-	\$70,000	\$140,000	\$140,000	\$140,000	\$150,000	\$150,000

Administrative Costs – Option 1 (Continued)

OPTION 1 ADMINISTRATIVE COSTS (Continued)									
OFFICE	FTE's		FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Human Resources- 1 employee due to staff increase	1	Startup Costs:	-	\$10,000	-	-	-	-	-
		Ongoing Costs:	-	\$20,000	\$40,000	\$40,000	\$40,000	\$40,000	\$50,000
Internal Audit- 1 employee due to additional functions	1	Startup Costs:	-	\$10,000	-	-	-	-	-
		Ongoing Costs:	-	\$30,000	\$60,000	\$60,000	\$60,000	\$60,000	\$70,000
Technology- Systems development and testing, equipment for systems, maintenance of systems, support services, and VITA costs	6	Startup Costs:	\$740,000	\$2.2 million	\$190,000	-	-	-	-
		Ongoing Costs:	\$390,000	\$960,000	\$930,000	\$1.1 million	\$1.1 million	\$1.2 million	\$1.2 million
		STARTUP COSTS TOTAL:	<u>\$740,000</u>	<u>\$2.9 million</u>	<u>\$190,000</u>	-	-	-	-
		ONGOING COSTS TOTAL:	<u>\$390,000</u>	<u>\$4.6 million</u>	<u>\$8.2 million</u>	<u>\$8.4 million</u>	<u>\$8.6 million</u>	<u>\$8.8 million</u>	<u>\$9.0 million</u>
GRAND TOTAL:	103		\$1.1 million	\$7.5 million	\$8.4 million	\$8.4 million	\$8.6 million	\$8.8 million	\$9.0 million

Administrative Costs – Option 2

OPTION 2 ADMINISTRATIVE COSTS									
OFFICE	FTE's		FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Tax Processing Operations- Staff and systems modifications to process payments and mailing services	6	Startup Costs:	-	\$130,000	-	-	-	-	-
		Ongoing Costs:	-	\$110,000	\$220,000	\$210,000	\$200,000	\$190,000	\$180,000
Compliance- Delinquent collections	39	Startup Costs:	-	\$70,000	-	-	-	-	-
		Ongoing Costs:	-	\$1.4 million	\$3.2 million	\$3.3 million	\$3.4 million	\$3.5 million	\$3.6 million
Customer Service- 6 customer service representatives for call center	6	Startup Costs:	-	\$60,000	-	-	-	-	-
		Ongoing Costs:	-	\$120,000	\$250,000	\$250,000	\$260,000	\$260,000	\$270,000
Fiscal- 1 employee to monitor payments	1	Startup Costs:	-	\$10,000	-	-	-	-	-
		Ongoing Costs:	-	\$20,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000
Technology- Set-up of "lockbox", equipment, maintenance, and VITA costs	0	Startup Costs:	\$80,000	\$190,000	-	-	-	-	-
		Ongoing Costs:	-	\$40,000	\$50,000	\$50,000	\$50,000	\$50,000	\$60,000
		STARTUP COSTS TOTAL:	<u>\$80,000</u>	<u>\$460,000</u>	-	-	-	-	-
		ONGOING COSTS TOTAL:	-	<u>\$1.7 million</u>	<u>\$3.7 million</u>	<u>\$3.8 million</u>	<u>\$3.9 million</u>	<u>\$4.0 million</u>	<u>\$4.1 million</u>
TOTAL:	52		\$80,000	\$2.2 million	\$3.7 million	\$3.8 million	\$3.9 million	\$4.0 million	\$4.1 million

Administrative Costs – Option 3

OPTION 3 ADMINISTRATIVE COSTS									
OFFICE	FTE's		FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Tax Processing Operations- Staff and systems modifications to process payments and mailing services	11	Startup Costs:	-	\$210,000	-	-	-	-	-
		Ongoing Costs:	-	\$230,000	\$450,000	\$420,000	\$410,000	\$390,000	\$380,000
Compliance- Delinquent collections	39	Startup Costs:	-	\$70,000	-	-	-	-	-
		Ongoing Costs:	-	\$1.4 million	\$3.2 million	\$3.3 million	\$3.4 million	\$3.5 million	\$3.6 million
Customer Service- 6 customer service representatives for call center	6	Startup Costs:	-	\$60,000	-	-	-	-	-
		Ongoing Costs:	-	\$120,000	\$250,000	\$250,000	\$260,000	\$260,000	\$270,000
Fiscal- 1 employee to monitor payments	1	Startup Costs:	-	\$10,000	-	-	-	-	-
		Ongoing Costs:	-	\$20,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000
Technology- Set-up of "lockbox", equipment, maintenance, and VITA costs	0	Startup Costs:	\$80,000	\$410,000	-	-	-	-	-
		Ongoing Costs:	-	\$40,000	\$50,000	\$50,000	\$50,000	\$50,000	\$60,000
		STARTUP COSTS TOTAL:	<u>\$80,000</u>	<u>\$760,000</u>	-	-	-	-	-
		ONGOING COSTS TOTAL:	-	<u>\$1.8 million</u>	<u>\$4.0 million</u>	<u>\$4.0 million</u>	<u>\$4.1 million</u>	<u>\$4.2 million</u>	<u>\$4.3 million</u>
TOTAL:	57		\$80,000	\$2.6 million	\$4.0 million	\$4.0 million	\$4.1 million	\$4.2 million	\$4.3 million

Issues and Concerns

- Because of complexity related to TAX's integrated systems, it is unclear whether the Commonwealth would benefit from any savings that would occur from TAX taking over functions from VEC.
- Because much of VEC's funding comes from the federal government, any savings may result in the federal government cutting its funding of VEC by the same amount.
- Because its system is larger and more complex, while there may be savings in TAX taking over the processing of payments and returns from VEC, the set-up and programming costs may be more expensive for TAX.

Issues and Concerns (Continued)

- At this point, the source of funding is unclear for the set-up and programming costs that TAX would incur in taking over functions from VEC. Potentially, these costs would need to be paid out of the General Fund and possibly would not be reimbursed by the federal government.
- The VEC systems will need to continue operating until it is proven that TAX's systems are operating acceptably. Potentially, both sets of systems would need to be operational for a significant period of time. The cost of continuing to run the VEC system is not contemplated in these estimates and may be substantial.

Contact Information

Joseph E. Mayer

Lead Tax Policy Analyst

Office of Policy and Administration, Policy Development
Virginia Department of Taxation

Telephone: (804) 371-2299

joseph.mayer@tax.virginia.gov