

## Department of Planning and Budget

### 2007 Fiscal Impact Statement

**1. Bill Number** SB 937

**House of Origin**    ☒ Introduced    ☐ Substitute    ☐ Engrossed  
**Second House**    ☐ In Committee    ☐ Substitute    ☐ Enrolled

**2. Patron** Ticer

**3. Committee** Courts of Justice

**4. Title** Child support; court shall recalculate obligation of an obligor who is incarcerated

**5. Summary/Purpose:** Provides that a court shall recalculate the child support obligation of an obligor who is incarcerated during the support period, the recalculation being retroactive to the date of incarceration. This bill also provides that prisoners and minor obligors are exempt from various fees and costs that may be collected by the Department of Social Services in enforcing support obligations. This bill further provides that reductions in the child support arrearages owed by prisoners and minor obligors should be granted for timely payments of support.

**6. Fiscal impact estimates are preliminary.**

**Expenditure Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>Fund</i>
2007	-	-	-
2008	\$1,346,010	3.0	General Fund*
2008	\$2,612,843	6.0	Nongeneral Funds*
2009	\$1,273,981	3.0	General Fund*
2009	\$2,473,021	6.0	Nongeneral Funds*
2010	\$1,273,981	3.0	General Fund*
2010	\$2,473,021	6.0	Nongeneral Funds*
2011	\$1,273,981	3.0	General Fund*
2011	\$2,473,021	6.0	Nongeneral Funds*
2012	\$1,273,981	3.0	General Fund*
2012	\$2,473,021	6.0	Nongeneral Funds*
2013	\$1,273,981	3.0	General Fund*
2013	\$2,473,021	6.0	Nongeneral Funds*

\* Reflects increased operating costs and the replacement of lost special fund revenue.

**7. Budget amendment necessary:** Yes. Item 336

**8. Fiscal implications:** This legislation would have the following fiscal implications:

- The reduction of the support order obligation, arrearages and interest that potentially would be collected and sent to the custodial parent.

- The percent of reductions that are Temporary Assistance for Needy Families (TANF) debts to the state and the associated loss of revenue to the Division of Child Support Enforcement (DCSE), including revenues from fees.
- Other costs associated with reprogramming agency systems and additional DCSE staff needed to handle the added workload.

#### Reduction of Collections

Based on 2006 figures, there are approximately 9,358 cases with child support obligations for incarcerated non-custodial parents (NCP). Of this total, 6,289 cases have a current support obligation. Based on current DCSE data, the average child support order for an incarcerated NCP is \$148 per month. Assuming the incarcerated NCP has no opportunity for an institutional work assignment, the order would likely be lowered to zero per month. The estimated average loss of child support entitlement to these families would amount to \$148 per month per case. The total projected loss of child support entitlements would be \$11,169,264 per year (6,289 NCPs x \$148 x 12 months). Based on the current collection rate of 25 percent, the potential lost collections subsequent to release would be \$2,792,316 per year (\$11,169,264 x 25 percent).

This bill also calls for eliminating the accrual of any interest on child support arrearages owed while the NCP is incarcerated. The average arrearages owed by an obligated incarcerated NCP is \$9,800. The total arrearages owed by incarcerated NCPs amounted to \$92 million in 2006. Current law allows 6 percent interest to be charged on arrearages. Over a 12-month period, the accumulated interest lost on the debt would be \$5.5 million (\$92 million x 6 percent). Based on the current two percent collection rate of accrued interest, potential lost collections in interest would total \$110,000 (\$5.5 million x 2 percent).

The lost collection effect on the arrearages forgiveness section of this bill is difficult to determine because of the unknown percentage of NCPs that would take advantage of this after their incarceration period by making continued timely payments. It is assumed that only ten percent would be able to make continued timely payments. Using 2006 figures, the total amount of arrearages owed by incarcerated NCPs is \$92 million. A ten percent participation rate would equal \$9.2 million (\$92 million owed x ten percent participation rate). The chart below gives an estimate of the percent of arrears that potentially will be forgiven:

Months of timely payments	Percent Reduction	Arrearage Owed	\$ Amount Reduced	\$ Owed After Reduction	Cumulative \$ Reduction	Percent
6 months	5%	\$9,800	\$490	\$9,310	\$490	5.00%
12 months	10%	\$9,310	\$931	\$8,379	\$1421	14.50%
18 months	15%	\$8,379	\$1,257	\$7,122	\$2,678	27.33%
24 months	25%	\$7,122	\$1,780	\$5,342	\$4,458	45.49%
				Average percent forgiven		23.08%

If these NCPs stay employed and make payments on time, the estimated total amount of arrearage debt forgiven would be \$2,123,360 (\$9.2 million x 23.08 percent) per year. The total estimated amount of potential collections lost would be:

\$2,792,316 – Reduction in support orders  
 \$ 110,000 – Accrued interest  
\$2,123,360 – Arrears forgiven  
 \$5,025,676 – Total Collections Lost\*

\*Note: Estimated figures are based on an average collection rate of 25 percent for obligated support orders and two percent on accrued interest.

#### Reduction of Revenue for Program Operations

Federal Law allows states to retain 50 percent of child support payments that are due to custodial parents who receive TANF. The state of Virginia disregards the first \$50.00 of those payments which are sent to the custodial parent. The department uses these collections to administer the program, pay staff, and other associated costs. These funds are considered the state's share which amount to 34 percent of expenditures. The Federal Child Support Enforcement Agency matches 66 percent of expenditures. Any loss of TANF collections (minus the disregard) must be considered a loss in operating revenue, plus the additional 66 percent federal match that is lost. TANF debts amount to approximately 42 percent of total debts owed by incarcerated NCPs, which is considerably higher than the normal average of TANF debts. The chart below calculates each of the three areas this bill will affect and represents estimated revenue that will be lost each year:

	Total Amount	% TANF	Total TANF Dollars	Retained 50%	Total Federal Dollars 66%	Total Lost Revenue
<b>Reduction in Support Orders</b>	<b>\$2,792,316</b>	<b>42%</b>	<b>\$1,172,773</b>	<b>\$586,386</b>	<b>\$1,138,279</b>	<b>\$1,724,665</b>
<b>Accrued Interest</b>	<b>\$110,000</b>	<b>42%</b>	<b>\$46,200</b>	<b>\$23,100</b>	<b>\$44,841</b>	<b>\$67,941</b>
<b>Arrears Forgiven</b>	<b>\$2,123,360</b>	<b>42%</b>	<b>\$891,811</b>	<b>\$445,906</b>	<b>\$865,582</b>	<b>\$1,311,488</b>
<b>Total</b>	<b>\$5,025,676</b>		<b>\$2,110,784</b>	<b>\$1,055,392</b>	<b>\$2,048,702</b>	<b>\$3,104,094</b>

The loss of revenue is estimated at \$3,104,094 per year (\$1,055,392 special funds and \$2,048,702 federal funds). The amount of special funds lost will have to be replaced by general fund dollars.

#### Other Costs

The implementation of this bill would result in an increased number of requests for review and adjustment of child support orders. Normal time to review and process a request is two hours. Based on the 6,289 cases that will be reviewed, the department will need nine additional DCSE specialists. Using a mid-range salary of \$46,009 in pay band 4 for Program Administration Specialists I, total salaries and benefits would be \$574,778 per year. Funds to cover the routine operating costs of postage, office, travel, supplies, telephone, and rent are estimated at \$68,130. One-time costs totaling \$58,500 are included in the first year for office

furniture and equipment. Personnel, equipment, and support costs for the additional staff totals \$701,408 in FY 2006 and \$642,908 per year thereafter.

The DCSE information systems will require modifications if this bill is implemented to:

- Develop and automate an application form for arrears forgiveness
- Add data fields to track application
- Develop automated monitoring of payments on these cases with work lists and events
- Develop an automated calculation module of arrearage reduction upon successful completion of payments
- Develop automated adjustments to arrearages

To accomplish the above, it will require one programmer (\$57,507), one functional analyst (\$57,507), and one policy analyst (\$38,337) to spend a total of 960 hours over twenty four weeks to modify the system. Thus, there would be a one-time total programming cost of \$153,351.

**Summary of Cost:**

	FY 2007	FY 2008
Salaries and Benefits	\$ 574,778	\$ 574,778
Operating Costs	\$ 68,130	\$ 68,130
One-time Equipment	\$ 58,500	\$ -
One-time Programming Cost	\$ 153,351	\$ -
Lost Revenue	\$ 3,104,094	\$ 3,104,094
Total Cost	\$ 3,958,853	\$ 3,747,002
Federal	\$ 2,612,843	\$ 2,473,021
General Funds	\$ 1,346,010	\$ 1,273,981

**9. Specific agency or political subdivisions affected:**

Department of Social Services  
Juvenile and Domestic Relations Courts

**10. Technical amendment necessary:** No

**11. Other comments:** None

**Date:** 01/22/07

**Document:** G:\2007 Fiscal Year\2007 Ga Session\Efis 2007\Sb937.Doc

cc: Secretary of Health and Human Resources