

Department of Planning and Budget

2007 Fiscal Impact Statement

1. Bill Number HB 3163

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

2. Patron BaCote

3. Committee Courts of Justice

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

5. Summary/Purpose: This bill would allow any party sentenced to a term of incarceration, during the period obligated to pay support, to have the amount of the child support obligation recalculated from the date the party is sentenced to a term of incarceration. This bill charges the Department of Social Services, Division of Child Support Enforcement with the responsibility of initiating the review of the support order if it determines that an obligor has been sentenced to a term of incarceration. This bill prohibits charging interest on any child support arrearage during the period of incarceration and also prohibits assessing attorneys' fees and genetic testing fees to a prisoner or a minor obligor. Additionally, this bill mandates a reduction in the total amount of arrearages due on child support obligations in the case of a minor obligor after the period of his minority and imprisoned obligors after the period of incarceration for timely payments. Preference for placement in work programs will be given to qualified prisoners who have child support obligations.

6. Fiscal impact estimates are preliminary.

Expenditure Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>Fund</i>
2007	-	-	-
	\$1,346,010	3.0	General Fund
2008	(\$1,055,392)	-	Special Funds
	\$564,141	6.0	Federal Funds
	\$1,273,981	3.0	General Fund
2009	(\$1,055,392)	-	Special Funds
	\$424,319	6.0	Federal Funds
	\$1,273,981	3.0	General Fund
2010	(\$1,055,392)	-	Special Funds
	\$424,319	6.0	Federal Funds
	\$1,273,981	3.0	General Fund
2011	(\$1,055,392)	-	Special Funds
	\$424,319	6.0	Federal Funds
	\$1,273,981	3.0	General Fund
2012	(\$1,055,392)	-	Special Funds
	\$424,319	6.0	Federal Funds
	\$1,273,981	3.0	General Fund
2013	(\$1,055,392)	-	Special Funds
	\$424,319	6.0	Nongeneral Funds

Revenue Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2007	-	-
2008	(\$1,055,392) \$564,141	Nongeneral Funds
2009	(\$1,055,392) \$424,319	Nongeneral Funds
2010	(\$1,055,392) \$424,319	Nongeneral Funds
2011	(\$1,055,392) \$424,319	Nongeneral Funds
2012	(\$1,055,392) \$424,319	Nongeneral Funds
2013	(\$1,055,392) \$424,319	Nongeneral Funds

7. Budget amendment necessary: Yes. Item 336**8. Fiscal implications:** This bill has the following fiscal components:

- 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 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 process the additional work.

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. The average child support order for an incarcerated NCP is \$148 per month. HB 3163 would give preference for placement in work programs to qualified prisoners who have child support obligations. There is no way to determine the number of NCPs that would have the necessary skills and abilities and meet the security prerequisites to be eligible for a work assignment. Therefore it is assumed that the support 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 six 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 six 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 two 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	\$1,421	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 Temporary Assistance to Needy Families (TANF). The state of Virginia disregards the first \$50 of those payments which are sent to the custodial parent. DCSE 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	TANF Dollars	Retained 50%	Federal Share 66%	Total Lost Revenue
Reduction in Support Orders	\$2,792,316	42%	\$1,172,773	\$586,386	\$1,138,279	\$1,724,665
Accrued Interest	\$110,000	42%	\$46,200	\$23,100	\$44,841	\$67,941
Arrears Forgiven	\$2,123,360	42%	\$891,811	\$445,906	\$865,582	\$1,311,488
Totals	\$5,025,676		\$2,110,784	\$1,055,392	\$2,048,702	\$3,104,094

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.

Operational Costs

The department maintains that 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 APECS system will require modifications if this bill is implemented to:

- Develop and automate an application form for arrears forgiveness
- Add data fields in APECS 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.

Cost Summary

	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	\$ -
<i>Operational Total</i>	\$ 854,759	\$ 642,908
Lost Revenue	\$ 1,055,392	\$ 1,055,392
Total Cost	\$ 1,910,151	\$ 1,698,300
Federal	\$ 564,141	\$ 424,319
General Fund	\$ 1,346,010	\$ 1,273,981

9. Specific agency or political subdivisions affected:

Department of Social Services

10. Technical amendment necessary: No**11. Other comments:** None

Date: 01/30/07

Document: G:\2007 Fiscal Year\2007 Ga Session\Efis 2007\Hb3163.Doc

cc: Secretary of Health and Human Resources