

Department of Planning and Budget 2007 Fiscal Impact Statement

1. Bill Number HB 700

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.

6a. Expenditure Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>Fund</i>
2008	-	-	-
2009	\$572,899	6.0	General*
	\$262,455	2.0	Federal
2010	\$514,130	6.0	General*
	\$148,373	2.0	Federal
2011	\$514,130	6.0	General*
	\$148,373	2.0	Federal
2012	\$514,130	6.0	General*
	\$148,373	2.0	Federal
2013	\$514,130	6.0	General*
	\$148,373	2.0	Federal
2014	\$514,130	6.0	General*
	\$148,373	2.0	Federal

6b. Revenue Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>Fund</i>
2008	-	-	-
2009	(437,695)	(5.0)	Special
2010	(437,695)	(5.0)	Special
2011	(437,695)	(5.0)	Special
2012	(437,695)	(5.0)	Special
2013	(437,695)	(5.0)	Special
2014	(437,695)	(5.0)	Special

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

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 2007 figures, there are approximately 8,491 cases with child support obligations for incarcerated non-custodial parents (NCP). Of this total, 6,321 cases have a current support obligation. The average child support order for an incarcerated NCP is \$142 per month. This bill 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 \$65 per month or less. The estimated average loss of child support entitlement to these families would amount to \$77 per month per case. The total projected loss of child support entitlements would be \$5,840,604 per year (6,321 NCPs x \$77 x 12 months). Based on the current collection rate of 10 percent, the potential lost collections subsequent to release would be \$584,060 per year.

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 \$10,311. The total arrearages owed by incarcerated NCPs amounted to \$65 million in 2007. 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 \$3.9 million (\$65 million x six percent). Based on the current two percent collection rate of accrued interest; however, with this segment of the population it is estimated that none of the interest will be collected since interest is paid last, after all arrearages have been satisfied on a case

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 2007 figures, the total amount of arrearages owed by incarcerated NCPs is \$65 million. A ten percent participation rate would equal \$6.5 million (\$65 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%	\$10,311	\$515	\$9,796	\$515	5.00%
12 months	10%	\$9,796	\$980	\$8,816	\$1495	14.50%
18 months	15%	\$8,816	\$1,322	\$7494	\$2817	27.33%
24 months	25%	\$7,494	\$1,874	\$5,620	\$4,691	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 \$1,500,200 (\$6.5 million x 23.08%) per year. The total estimated amount of potential collections lost would be:

\$ 584,060 – Reduction in support orders
\$1,500,200 – Arrears forgiven
 \$2,084,260 – Total Collections Lost*

*Note: Estimated figures are based on a projected collection rate of ten percent for obligated support orders.

Reduction of Revenue for Program Operations

Federal Law allows states to retain fifty percent of child support payments that are due to custodial parents who receive Temporary Assistance to Needy Families (TANF). After a disregard payment, these funds from the state share of TANF collections are retained by the state for use as match to the federal IV-D grant. The IV-D match rate is sixty-six percent federal funds and thirty-four percent state funds. Therefore, a decrease of \$1 in state revenue results in the loss of \$2 in federal revenue. TANF debts amount to approximately forty two percent of total debts owed by incarcerated NCPs, which is considerably higher than the normal average of TANF debts. The chart below calculates the two 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
Reduction in Support Orders	\$584,060	42%	\$245,305	\$122,653	\$238,091	\$360,744
Arrears Forgiven	\$1,500,200	42%	\$630,084	\$315,042	\$611,552	\$926,594
Totals	\$2,084,260		\$875,389	\$437,695	\$849,643	\$1,287,338

The loss of revenue is estimated at \$1,287,338 per year (\$437,695 special funds and \$849,643 federal funds). The amount of special funds lost will have to be replaced by general funds to continue to draw down the \$849,643 federal funds

Other Costs

The implementation of this bill will result in an increased number of requests for review and adjustment of child support orders. We project that at least one-third or 2107 of these cases will be reviewed each year. Normal time to review and process a request is two hours. Based on the 6,321 cases (2107 cases each year) that will need to be reviewed, the department will need three additional DCSE specialists (2107 cases x 2 hours divided by 1500 hours). Using a mid-range salary of \$47,850 in pay band 4 for Program Administration Specialists I, total salaries and benefits would be \$202,098 per year. Funds to cover the routine operating costs of postage, office, travel, supplies, telephone, and rent are estimated at \$22,710. One-time costs totaling \$19,500 are included in the first year for office furniture and equipment. Personnel, equipment, and support costs for the additional staff totals \$244,308 in FY 2009 and \$224,808 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 programming cost of \$153,351.

Summary of Cost:

	FY 2009	FY 2010
Salaries and Benefits	\$ 202,098	\$ 202,098
Operating Costs	\$ 22,710	\$ 22,710
One-time Equipment	\$ 19,500	\$ -
One-time Programming Cost	\$ 153,351	\$ -
Total Cost	\$ 397,659	\$ 224,808
Lost Revenue	\$ 437,695	\$ 437,695
Total Cost	\$ 835,354	\$ 662,503
Federal	\$ 262,455	\$ 148,373
General Funds	\$ 572,899	\$ 514,130

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

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cc: Secretary of Health and Human Resources