LEGISLATIVE FISCAL OFFICE
Fiscal Note

Louisiana Legislative Fiscal Office — Fiscal Notes

Fiscal Note On: **HB 629** HLS 13RS 439
Bill Text Version: **REENGROSSED**
Opp. Chamb. Action: **w/ #2 SEN COMM AMD**
Proposed Amd.:
Sub. Bill For.:

Date: June 1, 2013 9:38 AM
Author: BROADWATER
Dept./Agy.: Revenue
Subject: Centralized Debt Collection
Analyst: Deborah Vivien

REVENUE DEPARTMENT RE2 INCREASE GF RV See Note

Establishes the office of debt recovery at the Dept. of Revenue for the collection of delinquent debts owed to certain governmental entities

Proposed law directs all agencies (including a local option) under contract with the Attorney General (AG) for debt collection on 1/1/14 to transfer all non-final delinquent debt (including penalties and interest) requiring legal action to the AG after authentication. The AG will send proceeds back to the agencies or may send the final debt to the Office of Debt Recovery (ODR) created by this bill within the Department of Revenue (LDR). Agencies without AG contracts (including a local option) must transfer final debt to ODR for collection. The AG keeps the authority to retain a percentage of debt collected (25% for tax debt). ODR is authorized to charge up to an additional 25% of the total liability. Collections of the additional 25% fee are split between the AG and ODR, after the collection expenses of each are paid, as agreed by the two agencies. All collections of all liabilities referred to the AG or LDR are transferred back to the originating agencies. The bill also allocates $5M annually for 5 years for State Police Academies from SGF collected from final debt. ODR is authorized to use all available offset programs (including debt transferred to the AG), garnish bank accounts, and suspend permits, licenses (except law), certificates, etc., along with all existing authorizations. Certain fees are due to banks for a data match program allowing the garnishment of accounts for delinquent state debt. ODR operations and collections contracts are subject to review by the Cash Management Review Board. ODR will recommend uncollectible debt for sale.

EXPENDITURES	2013-14	2014-15	2015-16	2016-17	2017-18	5 -YEAR TOTAL
State Gen. Fd.	$0	$0	$0	$0	$0	**$0**
Agy. Self-Gen.	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total						

REVENUES	2013-14	2014-15	2015-16	2016-17	2017-18	5 -YEAR TOTAL
State Gen. Fd.	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Agy. Self-Gen.	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total						

EXPENDITURE EXPLANATION

Per testimony, LDR currently utilizes most of the tools allowed in this bill, though the bill allows a more highly automated use of them. A few new authorizations, such as garnishment of bank accounts, and license suspensions are expected to improve the agency's ability to collect debt. The bill allows LDR to continue to contract for collection services, though first with the AG, then with a third party.

LDR estimates that 23 additional positions may eventually be required to fulfill the duties of this bill, though early implementation will be accomplished with current resources. The AG indicates that its duties will be fulfilled without additional staff or resources necessary, though there appears to be the possibility of excess SGR available to pay for additional resources for either agency with an increased appropriation, if necessary.

There are two penalty/fee collections impacted by this bill. The AG may retain a fee from any collections of the non-final debt requiring judicial action which is mandated by this bill to be referred to the AG for finalization (for current tax debt, that fee is 25%). The proceeds of this fee pay the AG expenses, with the balance reverting to SGF at the end of the year. Due to the large amount of non-final debt in process, this amount could be substantial, possibly tens of millions more than currently collected by the AG but may actually be diverted from other agencies currently collecting in the same manner. Additionally, a levy of 25% of final debt, penalties and interest is added to the taxpayer's liability to pay collection expenses of the AG and LDR, with remaining proceeds split between the two agencies as SGR. LDR is allowed to retain all excess SGR, though any excess SGR with the AG will revert to the SGF at the end of the year. (Cont'd.)

REVENUE EXPLANATION

To the extent that these centralized collection points at AG and LDR and the new collection authority of LDR is more successful in collecting delinquent debt than the procedures currently practiced by the various agencies, delinquency collections, and presumably associated fees, will increase. Estimates provided by LDR anticipate an increase in collections of $22.6-$36.6 million annually from six initial agencies, but these amount of additional receipts is uncertain. It is difficult to attribute additional incremental collections solely to the provisions of this bill while removing the possibility that the collections would have still been made in the absence of this bill.

The bill contains an allocation of SGF revenue collected from final tax debt through the ODR of $5 M per year (five year allocation) for a State Police training academy class (subject to legislative appropriation). The balance of collections are referred back to their originating agencies, as is current practice. Presumably, additional final tax debt collected through ODR will be sufficient to finance the allocation in FY 14 and beyond, depending on when the ODR becomes operational and the amount of additional final tax debt collected through the office.

LDR is allowed to impose a fee of up to 25% of the tax liability (final debt, penalities and interest) upon the delinquent taxpayer. Any collections from the allowable fee will become self-generated revenue for ODR and AG, split after collection expenses of each are paid. To the extent that these fees are collected, costs of the program will be offset. It is also expected that consolidating the receivables into a standardized system will help ensure that all penalties and fines are being properly assessed, which may also help increase collections. These additional fees may also be a source of financing for the State Police allocation.

Senate	Dual Referral Rules	House
[x] 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}		[ ] 6.8(F) >= $500,000 Annual Fiscal Cost {S}
[x] 13.5.2 >= $500,000 Annual Tax or Fee Change {S&H}		[ ] 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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CONTINUED EXPLANATION from page one:

Expenditure Explanation (Continued)

It is expected that LDR will require extensive computer system reconfiguration and ongoing maintenance to capture and utilize debt data from all agencies. Cost estimates are roughly $2M in year 1 and $1M in subsequent years, depending on the extensiveness of enhanced capabilities and ongoing maintenance. Presumably, these costs will be funded with the surcharge of 25% on final debt collections (including owed amount, penalties and interest). It is not clear how the initial start-up will be funded prior to the mandated final debt transfer on January 1, 2014.

The state will also be liable for a participation fee paid to financial institutions for data match efforts as well as a levy of the debtor that presumably will be netted from the state portion prior to the transfer of the debtors' funds to the state. The amounts of these fees are not available but informal discussions indicate the participation fee will be minimal and the levy will be a fixed amount ($20-$30) per garnished account. It is not clear whether these expenses will be paid with proceeds from the 25% surcharge or from original liability collections.

There are currently no appropriations for administering this effort in the FY 14 budgets of the AG or LDR.

Revenue Explanation (Continued)

The AG may retain a fee (25% on tax debt) from collections, as in current law. With mandatory referrals of non-final debt that is currently being collected through means less stringent than those available through the AG, the amount available to the AG is expected to increase significantly from the current level.

Total penalties now imposed on final tax debt are LDR (15%), ODR (25% additional), third party (retained from collections; 15% - 25%).

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