LEGISLATIVE FISCAL OFFICE
Fiscal Note

Louisiana Legislative Fiscal Office Fiscal Notes

Fiscal Note On: **HB 629** HLS 13RS 439
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: April 23, 2013 8:12 AM **Author:** BROADWATER
Dept./Agy.: Revenue
Subject: Centralized Debt Collection **Analyst:** Deborah Vivien

REVENUE DEPARTMENT OR INCREASE SG EX See Note

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

Current law: Each agency finalizes and attempts to collect delinquent accounts receivables in the manner the agency deems most efficient. Proposed law creates the Office of Debt Recovery (ODR) within the Department of Revenue to which each agency will transfer receivables, including principle, interest, fees, and penalties, more than 60 days delinquent to the Department of Revenue (LDR). The statutory collection authority of each agency to collect the debt is transferred to LDR, which is authorized to use any means to collect that agencies can currently use, including bank account garnishment as authorized for child support collections. LDR may also offset state tax refunds or other accounts payable for all debt they are responsible for collecting. LDR is authorized to charge and retain a fee of up to 25% of the money collected, which will be paid by the delinquent taxpayer. LDR is responsible for data maintenance and rules. LDR is also allowed to enter into a reciprocal agreement with the federal government to offset debt against any available accounts payable. Any agencies contracted with the Attorney General for debt collection are exempt from the mandate to transfer debt to ODR, and third party contracting by LDR for debt collection may include the AG.

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.	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
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.	$0	$0	$0	$0	$0	**$0**
Agy. Self-Gen.	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
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

LDR anticipates establishing a program with 23 new positions and related salaries and benefits of $1.7 M per year. Additional anticipated overhead expenses are estimated at $3 M per year. Initial setup costs are $2M per year for the first two years and maintenance of the system is expected to cost $900,000 per year thereafter. Total estimated administrative costs are $4.4 M in FY 14 (half year impact), $7.6 M in FY 15, and $5.6 M per year thereafter. These expenses are not currently included in the LDR proposed budget.
This bill allows the ODR to collect a fee up to 25% of the outstanding tax liability being collected. Since the debt is only 60 days old when ODR acquires it, the collection rate is expected to be substantial, though may be similar to what is experienced in agencies currently collecting debt over the long run. The potential for redirection of resources from these other agencies to LDR may increase the resources available to LDR but could decrease the resources available for agencies currently collecting debt. To the extent that LDR is able to collect fees and debt in excess of what is collected now, fees will increase. The added fees may fund expenses related to centralized debt or any other agency needs.

If 60 day debt is to be transferred, it is not clear which agency, the transferer or ODR, will be responsible for finalizing the debt. The bill appears to allow ODR to begin collection proceedings immediately, even if the debt is not final, and agencies seem directed to refrain from collection duties once the debt is transferred to ODR. The cost estimates from LDR assume the debt is finalized with the sending agency. If agencies must work the debt until it is final, it is questionable whether administrative savings will be realized in agencies outside of ODR,
(Continued on Page 2)

REVENUE EXPLANATION

The impact on delinquency collections is indeterminable due to the uncertainty of the success of the Debt Recovery program relative to the current efforts across agencies. To the extent that this centralized collection point and the authority of the Department of Revenue (LDR) is more successful in collecting delinquent debt than the procedures currently practiced by the various agencies, delinquency collections will increase. Given bank garnishment capabilities on debt that is not necessarily final could increase collections beyond that which is currently experienced. Estimates provided by LDR anticipate an increase in collections of $22.6-$36.6 million annually from six initial agencies, but these returns are not assured under the parameters of the bill. In addition, the means-of-finance classification of the increase in collections will depend on the type of debt collected. Though this program could help collect delinquent accounts and will provide a centralized debt collection unit, it may provide only limited additional revenue to the state general fund, if any at all, even with an increase in collections. The types of delinquencies associated with the six agencies initializing this program appear to be primarily fiduciary in nature or reimbursements to the federal government of overpayments of primarily federal funds.

LDR is allowed to impose a fee of up to 25% upon the delinquent payer in addition to any delinquent receivables. Any collections from the allowable fee will become self-generated revenue for LDR. To the extent that these fees are collected, costs of the in-house portion of the program will be offset. It is also expected that consolidating the receivables into a
(Continued on Page 2)

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}
[ ] 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)
who may be without a source of funding to finalize the debt if the agency was previously generating fee revenue that is now directed to LDR.

The Department of Children and Family Services, which is not contracted with the AG, indicates that this mandate could jeopardize over $200 M in federal funding due to noncompliance within the Child Support Enforcement Program including Title IV-D and TANF funding.

The AG indicates that it could lose access to SGR because it currently collects some of the debt required to be transerred to LDR and is able to retain a percentage of collections. Agencies contracting with the AG on 1/1/13 (or possibly 1/1/14) for debt collection are exempt from the requirements of this bill. Most agencies with significant SGF outstanding debt are already contracted with the AG and appear to be exempt from the mandates concerning the transfer of delinquent debt to LDR. To the extent that the collection procedures for these agencies remain constant, additional collections are not anticipated.

Revenue Explanation (continued)
standardized system will help insure that all penalties and fines are being properly assessed, which may also help increase collections.

Agencies currently under contract with the AG are exempt from the mandate to transfer all debt to ODR. It not clear whether the date of contracting with the AG that will provide the exemption is 1/1/13 or 1/1/14, the deadline for the start of the program.

Note: HB 452 of this session, the Funds Bill, transfers $10 M in relation to this centralized debt effort into the Overcollections Fund that is currently budgeted in Higher Education. However, this bill does not direct any collections to that fund, but sends them back to the originating agency.

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