LEGISLATIVE FISCAL OFFICE
Fiscal Note

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

Date: April 24, 2013 3:06 PM
Author: BROADWATER
Dept./Agy.: Revenue
Subject: Centralized Debt Collection
Analyst: Deborah Vivien

REVENUE DEPARTMENT EG 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). LDR is authorized to use any means to collect that transferring 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, withhold or revoke permits, licenses, etc., and garnish gaming winnings. 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. 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.	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 or any level for this new program 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.

Per testimony, ODR will only be involved in collecting finalized debt. Referring agencies are responsible for finalizing the debt, which will require these agencies to perform debt related duties mostly in the same manner as current practice. Thus, any administrative savings as a result of consolidated efforts are expected to be minimal since final debt collection is typically already contracted out to third parties.

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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.

A study by CGI is used as the basis for anticipated collections due to this bill. The CGI study indicates that available collectible debt that is not currently under contract with the AG, net of federal and net of an anticipated statewide collection under current practice of $25 M per year, is 72% or $63.2 M within the Department of Revenue already, the agency with an extensive collection procedure already in place. By testimony and as indicated in the CGI report, LDR is currently undertaking most of the activities allowed in the bill, though possibly in a less automated fashion. Methodology behind the $25 M assumption of anticipated current collections is not clear. Regardless, it is very difficult, if not impossible, to attribute any collections solely to this bill while removing, with certainty, the possibility that the collections would have been made in the absence of this bill. Additionally, the receivables that are the basis of the analysis are corporate and personal receivables, though most of the peripheral changes to the LDR collection procedures affect only personal income tax. It is not clear if this impact is accommodated in the CGI estimates. (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)

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)

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, especially if the funds are subsequently dedicated to a fund, as may be planned according to testimony.

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 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. Testimony indicated that these funds may be swept into a fund for distribution in desired areas of the budget, which would divert the funds away from their original purpose to the extent that they are collected under current practice.

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