LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 629** HLS 13RS 439

Bill Text Version: **REENGROSSED**

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

Date: May 17, 2013 4:51 PM
Author: BROADWATER

Dept./Agy.: Revenue

Subject: Centralized Debt Collection
Analyst: Deborah Vivien

REVENUE DEPARTMENT RE 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 (LDR) to which each agency will transfer receivables, including principle, interest, fees, and penalties, which are final then delinquent for 60 days. This does not include most federal funds or any debt collected under Title 47 (most state tax debt). Remaining debt appears to mostly be related to tuition payments. LDR is authorized to use any means to collect that transferring agencies can currently use, including bank account garnishment for a processing fee. 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, and split equally between LDR and the AG after placement in the Debt Recovery Fund created by this bill. Debt Recovery Fund holds all debt collected by ODR and is subject to legislative appropriation. (Continued on Page 2)

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.	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	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total						

EXPENDITURE EXPLANATION

With the removal of federal debt and most state tax debt, in this version of the bill, the Office of Debt Recovery is anticipated to have substantially less activity than originally believed. Administrative costs could potentially be absorbed in the current budgets of LDR and AG to collect a much smaller amount of debt. Under the provisions of this bill, the ODR is not allowed to collect LDR debt, which is where ODR is housed. Regardless, ODR and the AG will evenly split any proceeds of the additional penalties imposed by this bill.

Even with the scaled back current version of the bill, 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. It is not clear how much effort will be contracted out to third parties and how much will be conducted in-house. Determination of these considerations will have a strong influence on potential administrative costs.

This bill allows the ODR to collect a fee up to 25% of the outstanding tax liability being collected. Since the final 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. 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 (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. However, under this bill, delinquency collections that previously were attributed to the original use of the debt will now be swept into the Debt Recovery Fund for use in any area of the budget. Given bank garnishment capabilities on debt that is final by LDR standards 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 the firm 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 Title 47 and excluded by this bill. 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:

Bill Summary (continued)
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 must be offered first to the AG. ODR operations and collections contracts are subject to review by the Cash Management Review Board. ODR will recommend uncollectible debt for sale. Penalties above $5,000 may be waived by LDR.

Expenditure Explanation (continued)
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. 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 small since final debt collection is typically already contracted out to third parties.

The AG indicates that it could lose access to fee revenue 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 7/1/13 (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.

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

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 direct revenue to the state general fund, if any at all, even with an increase in collections, since the collections are subsequently dedicated to a new special fund created by this bill.

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 ODR and AG, split evenly. 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 ensure 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 is not clear whether the date of contracting with the AG that will provide the exemption is 7/1/13 or 1/1/14, the deadline for the start of the program.

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[x] 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}		[ ] 6.8(F) >= $500,000 Annual Fiscal Cost {S}
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