



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #1060

KIDS Computer System, Centralized Receipt and Disbursement Fee (DWD -- Child Support)

[LFB 2001-03 Budget Summary: Page 754, #1 and #2; Page 757, #4 and Page 758, #5]

CURRENT LAW

Federal law requires every state to have a certified statewide, automated child support system in place. The Kids Information Data System (KIDS) was developed to replace the previous automated child support system, which did not meet federal requirements. Since January, 1993, the state has contracted with IBM Global to develop and operate the KIDS system in Wisconsin.

The federal Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) imposed a number of new requirements on states relating to child support enforcement. Some of these requirements have necessitated changes in the KIDS system, particularly the creation of the centralized receipt and disbursement (CR&D) system and the new hire reporting system. Under the CR&D system, all child support payments are processed on a computerized basis through the support collections trust fund. A division of Lockheed-Martin has operated the computerized system under contract with the state since its inception.

Funding Sources for KIDS

Federal and GPR Funding. Operation of the KIDS system is generally funded at a 66/34 federal/state match. The state match is paid for with GPR funding.

CR&D Fees. In January, 1999, the state began operation of an automated system for processing the receipt and disbursement of child support, maintenance, health care expenses, birth expenses and other support-related expenses. This system is funded partially from an annual \$25 CR&D fee charged by the Department of Workforce Development (DWD) to support obligors. Amounts collected from the CR&D fee are accounted for as program revenue. Expenses of the CR&D function not covered by the \$25 fee or interest earnings in the support collections trust fund (described below) are funded with GPR and federal matching funds.

Prior to January, 1999, county clerks of court or a support collection designee collected and disbursed support payments and collected the \$25 annual fee for this service.

Interest on the Support Collections Trust Fund. Monies received from income withholding and other collections of child or family support, maintenance or spousal support, health care expenses or birth expenses are deposited to the segregated state support collections trust fund. Interest earned on balances in the fund during the delay between the time a collection is received and the time the payment is issued to the recipient is drawn ("float") is used to fund the CR&D function. Revenues from the CR&D fee and interest on the support collections fund cannot be used to obtain federal matching funds.

GOVERNOR

KIDS/CR&D Budget

The following table outlines the budgeted revenues and expenditures for the KIDS/CR&D system in the 2001-03 biennium, as recommended by the Governor.

TABLE 1

2001-03 KIDS/CR&D Budget

	<u>2001-02</u>	<u>2002-03</u>
Budgeted Expenditures		
System Maintenance and Change Orders	\$20,621,800	\$21,699,600
InfoTech Charges	12,791,600	12,921,500
State Staff and BITS Costs	4,031,300	3,261,900
Supplies and Services	3,062,200	3,110,700
Uncollectable Receivables	<u>170,000</u>	<u>170,000</u>
Total KIDS Budget	\$40,676,900	\$41,163,700
Revenues Available for KIDS and CR&D		
CR&D Fee (PR)	\$9,190,900	\$9,755,900
Support Collections Trust Fund		
Earnings (SEG)	1,300,000	1,300,000
Unclaimed Support (SEG)	1,500,000	1,500,000
GPR	9,770,300	9,770,300
FED Match	<u>18,965,900</u>	<u>18,965,900</u>
Total Available Revenues	\$40,727,100	\$41,292,100
Surplus	\$50,200	\$128,400

As the table indicates, expenditures for the system would total \$40.7 million in 2001-02 and \$41.2 million in 2002-03. The largest expenditure is for system maintenance and change orders (\$20.6 million in 2001-02 and \$21.7 million in 2002-03), which primarily reflects fees

paid to IBM Global and other contractors. The InfoTech budget (\$12.8 million in 2001-02 and \$12.9 million in 2002-03) includes monies paid to the Department of Administration (DOA) for mainframe services and connection to the consolidated data network. The remaining budget is for staff and supplies and services.

Estimated revenues for the system (including the Governor's proposed increase in the CR&D fee and unclaimed support, described below) total \$40.7 million in 2001-02 and \$41.3 million in 2002-03. Therefore, a small surplus is estimated in each year. Attachment 1 provides additional detail regarding the recommended KIDS/CR&D budget.

Other Provisions Related to KIDS

The Governor's biennial budget recommendation includes the following provisions that would impact the KIDS budget.

Restoration of \$2,000,000 GPR to the KIDS Base Budget. The bill would restore \$2,000,000 GPR annually to the KIDS budget. In the 1999-01 biennium, these funds were removed from DWD's budget and placed in the Joint Finance Committee's program supplements appropriation because GPR budgeted for the child support program had not been fully expended in prior years and because of the possibility that revenues from the annual CR&D fee would be higher than anticipated. These funds were transferred back to DWD by the Committee on a one-time basis in 1999-00 and 2000-01 in actions under s. 13.10, and are included in Table 1.

Centralized Receipt and Disbursement Fee Provisions. The bill would provide \$2,290,900 in 2001-02 and \$2,855,900 in 2002-03 for anticipated increases in vendor charges associated with the centralized receipt and disbursement system. As mentioned, operation of the system is conducted primarily by Lockheed-Martin under contract with DWD. The base contract will expire on December 31, 2001, and the Department believes that vendor costs will be significantly higher under the new contract.

As Table 2 shows, the CR&D fee revenues would come from three sources: (a) a reestimate of revenues under current law; (b) a \$10 increase in the fee, effective January 1, 2002; and (c) a modification to a provision of 1999 Wisconsin Act 9 regarding income withholding for arrearages of the CR&D fee.

TABLE 2

**Sources of Additional CR&D Fee Revenue
As Proposed by the Administration**

	<u>2001-02</u>	<u>2002-03</u>
Reestimate of CR&D Fee Revenues, Current Law	\$600,000	\$600,000
Increase of \$10 in the CR&D Fee	1,575,000	2,100,000
Modification Regarding Income Withholding		
For CR&D Fee Arrearages	<u>115,900</u>	<u>155,900</u>
Total	\$2,290,900	\$2,855,900

Regarding the last of the three items, 1999 Wisconsin Act 9 specified that income assignments for delinquent CR&D fees remain in effect even if the individual's current obligation to pay the fee has terminated. However, this provision applied only to CR&D fees ordered on or after January 1, 2000. The bill would eliminate the Act 9 initial applicability date so that income withholding could be used for CR&D fee arrearages arising from orders that were in effect prior to January 1, 2000.

The bill contains several other provisions that are intended to improve collection of the CR&D fee. These items are described in Attachment 2.

Use of Unclaimed Support. The bill would authorize DWD to retain and use unclaimed child support payments for administration of the child support enforcement program. An estimated \$1,500,000 SEG would be appropriated to DWD in each year under this provision, which would be used for the KIDS/CR&D system. For a more complete description of this proposal, refer to Attachment 2.

DISCUSSION POINTS

1. The KIDS/CR&D budget was most recently reviewed and adjusted by the Committee at its December 19, 2000, meeting under s. 13.10. At that time, it was estimated that expenditures for the system would total \$39.8 million in 2000-01. As shown in Table 1, under the Governor's bill, expenditures in the 2001-03 biennium are estimated at \$40.7 million in 2001-02 and \$41.2 million in 2002-03. These amounts are higher than the 2000-01 funding level by \$0.9 million in the first year and \$1.4 million in the second year. These increases are approximately 2.2% in 2001-02 and 3.5% in 2002-03.

2. In general terms, the KIDS/CR&D budget submitted by the Governor was structured to cover anticipated increases in the cost of the CR&D contract with Lockheed-Martin (\$2.5 million in 2001-02 and \$4.6 million in 2002-03) with the amount of GPR currently

appropriated for the system (including the \$2 million that was placed in the Committee's appropriation during the 1999-01 biennium). This was to be accomplished by: (a) increasing other funding sources for the system through the higher CR&D fee and allowing DWD to use unclaimed support; and (b) directing DWD to make unspecified spending reductions.

CR&D Vendor Contract

3. According to the administration, when Lockheed bid for the current CR&D contract, it incorporated rates that would not necessarily cover its costs in order to win the state's business for operation of the CR&D system. Subsequently, in July, 2000, Lockheed notified DWD that it was projecting a \$1.7 million loss on its Wisconsin CR&D operations in calendar year 2000 and indicated that, without an increase in the base per-transaction reimbursement rate, it would not exercise the contract extension option at the expiration date of January 1, 2002.

4. Because Wisconsin was believed to be paying a lower rate than other states, DWD concluded that re-bidding the contract likely would not have attracted competitors with lower rates. As an alternative to utilizing the services of an outside vendor, one option would be to operate the CR&D system internally. This option was rejected by the administration because reliable cost estimates for a state-operated system were not available, and the current contract will terminate within a relatively short period of time. However, as introduced, the bill would have required DWD to study the cost of operating the system in-house, with a report to the Secretary of the Department of Administration due by December 31, 2001. This provision was removed from the bill as a non-fiscal policy item, but DWD could conduct this study without legislation directing them to do so.

5. As discussed below, costs of the new CR&D vendor contract are now estimated to be lower than the amounts anticipated by the administration.

Expenditure Reductions Proposed by the Administration

6. Because DWD submitted a budget in which projected expenditures exceeded available revenues (due primarily to higher CR&D costs), the Governor recommended a series of expenditure reductions across several categories of the KIDS budget. These cuts, which total \$1.9 million in 2001-02 and \$3.7 million in 2002-03, are identified in Attachment 1 and summarized in Table 3.

TABLE 3

KIDS Expenditure Reductions Recommended by the Administration

	2001-02			2002-03		
	<u>GPR</u>	<u>FED</u>	<u>Total</u>	<u>GPR</u>	<u>FED</u>	<u>Total</u>
System Maintenance and Change Orders	\$377,100	\$731,900	\$1,109,000	\$732,700	\$1,422,300	\$2,155,000
State Staff and BITS Costs	33,000	64,000	97,000	298,500	579,500	878,000
InfoTech Charges	<u>228,900</u>	<u>444,300</u>	<u>673,200</u>	<u>230,500</u>	<u>447,500</u>	<u>678,000</u>
Total	\$639,000	\$1,240,200	\$1,879,200	\$1,261,700	\$2,449,300	\$3,711,000

7. The administration forwarded its recommendations as a broad framework by which the KIDS budget could be balanced, with substantial flexibility to be retained by DWD to make modifications as circumstances would warrant. Specific reductions were not delineated by the Governor, and DWD has not indicated how the cuts would be implemented.

Revised Revenue and Expenditure Estimates

8. At this time, it appears that two significant areas of the KIDS/CR&D budget should be reestimated. First, since the bill was introduced, DWD has largely completed negotiations with Lockheed-Martin for a new contract. Costs will increase under terms of the new agreement, but not as much as originally anticipated. The revised contract costs are estimated at \$8.4 million in each year of the biennium, which is a reduction of \$0.5 million in 2001-02 and \$2.6 million in 2002-03, compared to the Governor's estimates. Although these amounts are lower than the Governor's estimates, they exceed the current cost of the contract by \$2.1 million in each year.

9. Second, based on a review of collections data and information regarding the number of cases in the KIDS system, it is now estimated that collections of the CR&D fee would be \$8.7 million in 2001-02 and \$9.2 million in 2002-03 under the bill. These amounts are lower than the administration's estimates by about \$0.5 million in each year. The primary reason for the decrease is a lower base going into the biennium than had been anticipated, due to a leveling off of collections attributable to withholding of prior-year amounts owed.

10. Table 4 shows the KIDS/CR&D budget with these revised estimates.

TABLE 4

Revised 2001-03 KIDS/CR&D Budget

	<u>2001-02</u>	<u>2002-03</u>
Expenditures		
System Maintenance and Change Orders	\$20,112,700	\$19,132,800
InfoTech Charges	12,791,600	12,921,500
State Staff and BITS Costs	4,031,300	3,261,900
Supplies and Services	3,062,200	3,110,700
Uncollectable Receivables	<u>170,000</u>	<u>170,000</u>
Total Expenditures	\$40,167,800	\$38,596,900
Revenues Available for KIDS and CR&D		
CR&D Fee (PR)	\$8,706,900	\$9,243,900
Support Collections Trust Fund		
Earnings (SEG)	1,300,000	1,300,000
Unclaimed Support (SEG)	1,500,000	1,500,000
GPR	9,770,300	9,770,300
FED Match	<u>18,965,900</u>	<u>18,965,900</u>
Total Available Revenues	\$40,243,100	\$40,780,100
Surplus	\$75,300	\$2,183,200

11. As shown in Table 4, with the revised CR&D fee estimates on the revenue side and lower Lockheed-Martin costs on the expenditure side, the KIDS budget would have a surplus of \$75,300 in 2001-02 and \$2,183,200 in 2002-03. These figures assume that the \$10 increase in the fee recommended by the Governor would be adopted, as well as the provisions allowing DWD to use unclaimed support.

12. DWD believes that the cuts recommended by the Governor would be difficult to manage and that the funding recommended by the Governor should be retained. This would allow the Department to use the surplus revenues shown in Table 4 to fund some items that would otherwise be cut, particularly for system maintenance and change orders.

13. Given the KIDS budget surpluses, several options are available to the Committee. First, the Committee could leave the surpluses intact if it concluded, as DWD asserts, that the Department needs the monies. Alternatively, the Committee could remove the 34% GPR share of the identified surpluses (\$25,600 in 2001-02 and \$742,300 in 2002-03) and make these dollars available for other uses.

14. The Committee could also elect to not increase the CR&D fee or not allow DWD to use unclaimed support for the system. However, these options would necessitate appropriating additional GPR and federal matching funds. On the other hand, if the Committee wishes to increase the fee more than the Governor's recommendation, additional GPR could be

removed from the KIDS budget or the bill provision allowing DWD to use unclaimed support could be eliminated.

15. The remaining sections of this paper provide additional detail regarding potential increases in the CR&D fee and the provision that would permit DWD to use unclaimed support. Also, information regarding the system's mainframe costs is presented and a technical modification regarding the child support federal tax intercept program is discussed.

Additional CR&D Fee Increases

16. The following table shows the estimated revenues, compared to the revised estimates, that would be generated by additional CR&D fee increases. As with the Governor's proposal, the figures in Table 5 assume an effective date of January 1, 2002.

TABLE 5
Estimated Revenues from Potential CR&D Fee Increases

<u>Increase</u>	<u>New Fee Level</u>	<u>Additional PR (Change to Bill as Reestimated)</u>		
		<u>2001-02</u>	<u>2002-03</u>	<u>2001-03 Biennium</u>
\$15	\$40	\$852,000	\$1,136,000	\$1,988,000
20	45	1,661,400	2,215,200	3,876,600
25	50	2,470,800	3,294,400	5,765,200

17. In considering additional CR&D fee increases the Committee should note that it could not reduce GPR funding on a dollar-for-dollar basis, because the federal match associated with the GPR funds would also be foregone. For example, if the fee were increased to \$45, the additional program revenue would allow for a GPR reduction of \$564,900 in 2001-02 and \$753,200 in 2002-03 (34% of the additional fee revenue). Federal matching funds would be reduced by \$1,096,500 in the first year and \$1,462,000 in the second year. This would not be a concern if a fee increase were adopted in order to replace revenues from unclaimed support. Because unclaimed support cannot be used to claim federal matching funds, these monies could be replaced with CR&D fee revenues dollar-for-dollar.

18. There are several arguments against additional fee increases. First, the \$35 fee proposed by the Governor would be 40% more than the current \$25 fee. The fee was last raised in 1991. Had the fee been adjusted for estimated inflation since that time it would be approximately \$33 on January 1, 2002, or slightly less than the Governor's recommendation. Second, further increases to the fee would likely lead to additional noncompliance. Finally, fee revenues cannot be used as a match for federal funds. Therefore, GPR represents a more efficient state funding source, since it can be used to leverage 66% federal funding.

Use of Unclaimed Support for Child Support Enforcement

19. Federal child support provisions treat unclaimed support as program revenue available to the state for its child support enforcement program, even though these funds are not appropriated to DWD under current law. Because the federal government will not provide reimbursement for child support expenses funded with program revenue, the current provisions result in DWD foregoing some federal matching funds.

20. The bill would allow DWD to retain unclaimed support and use these revenues for the KIDS/CR&D budget. Unclaimed support is currently treated like other abandoned property and deposited in the state common school fund. Interest earnings from the fund are used to provide categorical aids to public schools for libraries. In addition, balances in the fund may be loaned to school districts, counties and municipalities. Such loans may be used for any purpose for which municipal debt may be issued.

21. The Legislative Reference Bureau (LRB) has noted that there may be a state constitutional roadblock to using unclaimed support dollars to help fund the KIDS/CR&D system or general child support enforcement efforts. Article X, section 2 of Wisconsin's constitution requires all money that accrues to the state by forfeiture or escheat (the reversion of property to the state in the absence of legal heirs or claimants), a provision that encompasses unclaimed property, to be deposited into the common school fund. Although it may be possible to argue that unclaimed support would not have to be treated according to the provisions of Article X, section 2 because it may be reclaimed by the owner, analysis by the LRB indicates that it is at least as likely that a court would hold to the contrary.

22. The LRB further notes that, although there is no Wisconsin case addressing the specific issue presented here, an Attorney General's opinion from April, 1972, indicates that a statute requiring certain unclaimed money to be distributed to the Department of Employee Trust Funds would violate the above-referenced constitutional provisions. Given these issues, unclaimed support may not represent a reliable source of dollars with which to fund the CR&D function or other child support enforcement efforts. As noted in Table 1, the administration's budget includes \$1.5 million in anticipated revenues each fiscal year from unclaimed support.

23. Should the Committee choose not to adopt the Governor's recommendation to use unclaimed support to fund child support enforcement efforts, it would have to reduce the KIDS/CR&D budget by \$3 million over the 2001-03 biennium or appropriate the same amount from other revenue sources. Alternative revenue sources include monies raised from the CR&D fee or a combination of 34% GPR and 66% FED.

Mainframe Charges

24. Another significant component of the KIDS/CR&D budget are mainframe charges. The KIDS system utilizes a mainframe computer housed within DOA to process transactions. Mainframe costs are incurred for two primary purposes: (a) usage of space, and (b) time used in

processing transactions. Costs of utilizing the mainframe have grown significantly in recent years. In state fiscal year 1998-99, mainframe charges were relatively stable at about \$774,000 per month. Early in fiscal year 1999-00, these costs began to rise, averaging in excess of \$1 million per month over the year, and have continued to be high in fiscal year 2000-01.

25. In state fiscal year 1999-00, KIDS mainframe costs accounted for 27.1% of the KIDS budget; in the 2001-03 biennium they will account for over 30%--nearly one-third--of the budget.

26. Concern over the rising mainframe costs prompted the Finance Committee at last December's 13.10 meeting, to direct DWD to prepare a report, due by the end of March, 2001, outlining the factors contributing to the mainframe cost increases as well as steps the Department anticipated taking to reduce future costs. DWD issued its findings to the Committee in a memorandum dated March 31, 2001. The primary factors cited by DWD in this memorandum as driving the cost increases included: (a) a growing number of support-related records entered and maintained in KIDS; (b) enhancements to the KIDS software to add new functions, such as added account history and improvements to the interactive voice system that parents can use to obtain account information; and (c) addition of functions required by federal law.

27. In its memorandum, DWD also cited a number of measures it has taken as well as a number it intends to take to reduce mainframe time usage. Among the measures DWD anticipates implementing in the future to reduce mainframe use time include additional partitioning (breaking up and indexing large amounts of information stored); creating a method by which old documents automatically would be stored offline as they age; modifying computer code so that programs run more efficiently; and reducing the size of testing environments (using environments that constitute a subset of cases and data rather than a replication of the entire database).

28. Following the December meeting, DWD and DOA entered into discussions regarding mainframe rates charged by DOA. One outcome of the meetings was a decision by DOA to reduce processing-time rates by 8% and storage rates by 20%, retroactive to July 1, 2000. As noted in Table 3, the budget reductions recommended by the Governor assume that Infotech charges will be cut by approximately \$0.7 million annually.

Technical Corrections to Federal Tax Intercept

29. Both current law and the bill indicate that both state and federal tax intercept collections must be sent by the Department of Revenue to DWD to be deposited to the support collections trust fund. In practice, however, the Department of Revenue does not handle federal tax intercept collections. Instead, they are transmitted directly to the Department of Administration by the IRS for deposit to the general fund. As a result, the proposed change would not accomplish the intended goal of processing federal tax intercept collections through the support collections trust fund so that unclaimed dollars could be retained by DWD for child support enforcement efforts.

30. To solve this problem, those portions of statute that relate to federal tax intercept procedures in cases involving delinquent support, s. 49.855, could be amended to correct all references to the Department of Revenue processing federal tax intercept collections. The same section of statute could be amended to direct the Department of Administration to send federal tax intercept collections received for delinquent support to DWD for deposit to the support collections trust fund. Finally, the section of state statute that relates to the support collections trust fund, s. 25.68, could be amended to include federal tax intercept collections received from DOA in the list of monies that constitute the trust fund.

Summary of Alternatives

31. The following section identifies a number of alternatives the Committee could consider regarding the KIDS/CR&D budget. Because the \$2,000,000 GPR provided under the bill would leverage \$3,882,400 in federal matching funds, each of the alternatives assumes that some or all of the GPR would be provided to DWD.

- The first option would reestimate the Governor's proposal to account for the reduced CR&D vendor contract and the lower CR&D fee revenues, and retain the excess funding in DWD. The Department could use these funds to offset a portion of the expenditure reductions recommended by the Governor.

- The second alternative would also incorporate the reestimates, but would remove excess GPR (and federal matching funds) from DWD's budget.

- The next several options consider the level of the CR&D fee and whether DWD should be permitted to use unclaimed support as a funding source for the KIDS/CR&D budget. These options assume that any additional increases in the fee would be used to reduce GPR and FED budgeted for the system and, conversely, that additional GPR and federal matching funds would be appropriated if the Committee elects to not increase the fee or to not allow DWD to use revenues from unclaimed support.

- The final alternative is a technical modification regarding the federal tax intercept program.

Because there are multiple funding sources and expenditures involved in the KIDS/CR&D budget, any number of other alternatives could be constructed.

ALTERNATIVES TO BILL

1. Adopt the Governor's recommendation with reestimates to: (a) reduce PR funding for the centralized receipt and disbursement system by \$484,000 in 2001-02 and \$512,000 in 2002-03 to reflect a lower estimate of the amount of revenue generated by the CR&D fee under the provisions of the bill; and (b) decrease estimated expenditures for the CR&D vendor contract by \$509,100 in 2001-02 and \$2,566,800 in 2002-03. Under this option, the KIDS/CR&D budget

would have an estimated surplus of \$75,300 in 2001-02 and \$2,183,200 in 2002-03. These excess funds would be available to DWD to partially offset the expenditure reductions recommended by the Governor.

Alternative 1	PR
2001-03 FUNDING (Change to Bill)	- \$996,000

2. Reestimate the Governor's proposal as described in Alternative 1. Reduce funding by \$25,600 GPR and \$49,700 FED in 2001-02 and by \$742,300 GPR and \$1,440,900 FED in 2002-03.

Alternative 2	GPR	FED	PR	TOTAL
2001-03 FUNDING (Change to Bill)	- \$767,900	- \$1,490,600	- \$996,000	- \$3,254,500

3. Increase the annual CR&D fee by \$15, \$20 or \$25 over the current level of \$25. The fee increase would raise additional PR as indicated in the table below. Depending upon the level of fee increase, the additional revenues could be used to: (a) provide additional funds to DWD to offset the spending reductions recommended by the Governor; (b) reduce GPR and FED matching funds appropriated for the system; or (c) eliminate the provision of the bill that would allow DWD to use unclaimed support for the system. This alternative assumes that the additional funds would be used to reduce GPR and FED appropriated for the KIDS/CR&D system.

<u>Increase</u>	<u>New Fee Level</u>	<u>Additional PR (Change to Bill, as Reestimated)</u>		
		<u>2001-02</u>	<u>2002-03</u>	<u>2001-03 Biennium</u>
a. \$15	\$40	\$852,000	\$1,136,000	\$1,988,000
b. 20	45	1,661,400	2,215,200	3,876,600
c. 25	50	2,470,800	3,294,400	5,765,200

Alternative 3a	GPR	FED	PR	TOTAL
2001-03 FUNDING (Change to Bill)	- \$675,900	- \$1,312,100	\$1,988,000	\$0

Alternative 3b	GPR	FED	PR	TOTAL
2001-03 FUNDING (Change to Bill)	- \$1,318,000	- \$2,558,600	\$3,876,600	\$0

Alternative 3c	GPR	FED	PR	TOTAL
2001-03 FUNDING (Change to Bill)	- \$1,960,200	- \$3,805,000	\$5,765,200	\$0

4. Deny the Governor's recommended increase in the CR&D fee and provide \$506,900 GPR and \$984,100 FED in 2001-02 and \$675,900 GPR and \$1,312,100 FED in 2002-03 to replace the foregone fee revenue. Program revenue from the fee would be reduced by \$1,491,000 in 2001-02 and \$1,988,000 in 2002-03, compared to the revised estimates.

<u>Alternative 4</u>	<u>GPR</u>	<u>FED</u>	<u>PR</u>	<u>TOTAL</u>
2001-03 FUNDING (Change to Bill)	\$1,182,800	\$2,296,200	- \$3,479,000	\$0

5. Deny the Governor's recommendation to allow DWD to use unclaimed support and provide \$510,000 GPR and \$990,000 FED in each year to replace the foregone revenue.

<u>Alternative 5</u>	<u>GPR</u>	<u>FED</u>	<u>SEG</u>	<u>TOTAL</u>
2001-03 FUNDING (Change to Bill)	\$1,020,000	\$1,980,000	- \$3,000,000	\$0

6. Modify statutory provisions relating to federal tax intercept of child support and the support collections trust fund to delete incorrect references to the Department of Revenue.

Prepared by: Drew B. Larson
 Attachments

ATTACHMENT 1

2001-03 KIDS/CR&D Budget Recommended by the Governor

	<u>2001-02</u>	<u>2002-03</u>
EXPENDITURES		
System Maintenance and Change Orders		
Ongoing System Maintenance	\$6,588,000	\$6,588,000
Contractor Fixed Costs	2,636,400	2,636,400
Centralized Receipt & Disbursement	11,511,100	13,634,900
New Hire Reporting System	995,300	995,300
County Priority Requests	0	0
Cuts	<u>-1,109,000</u>	<u>-2,155,000</u>
Subtotal	\$20,621,800	\$21,699,600
State Staff and BITS Costs		
State Staff and BITS Costs	\$1,739,100	\$1,739,100
Supplemental Staff	1,005,000	1,005,000
Capital/Installation/Infrastructure	100,000	100,000
Local Area Network Service	123,600	123,600
DWD System Fee	1,160,600	1,172,200
Cuts	<u>-97,000</u>	<u>-878,000</u>
Subtotal	\$4,031,300	\$3,261,900
InfoTech Charges		
Mainframe	\$12,579,000	12,704,800
Cuts	-673,200	-678,000
Telecommunications	<u>885,800</u>	<u>894,700</u>
Subtotal	\$12,791,600	\$12,921,500
Supplies and Services		
Centralized Mailing	\$987,300	\$997,100
Supplies and Services	<u>2,074,900</u>	<u>2,113,600</u>
Subtotal	\$3,062,200	\$3,110,700
Write-off Uncollectable Receivables	<u>\$170,000</u>	<u>\$170,000</u>
Total Expenditures	\$40,676,900	\$41,163,700
REVENUES		
CR&D Fee (PR)	\$9,190,900	\$9,755,900
Support Collections Trust Fund Interest (SEG)	1,300,000	1,300,000
Unclaimed Support (SEG)	1,500,000	1,500,000
GPR	9,770,300	9,770,300
Federal Match	<u>18,965,900</u>	<u>18,965,900</u>
Total Revenues	\$40,727,100	\$41,292,100
KIDS/CR&D Surplus	\$50,200	\$128,400

ATTACHMENT 2

Governor's Recommendations Relating to Collections of the CR&D Fee and the Use of Unclaimed Support

This attachment provides greater detail regarding provisions of the bill that would enhance DWD's ability to collect the CR&D fee and allow the Department to use unclaimed support to fund child support enforcement activities.

CR&D Fee-Related Provisions

Withholding from Tax Credits and Refunds. Under current law, if a person is delinquent in making court-ordered child support, family support or maintenance, or owes an outstanding amount that has been ordered by the court for past support, medical expenses or birth expenses, DWD must certify the delinquent payment or outstanding amount to the Department of Revenue. A certification of unpaid support from DWD to DOR constitutes a lien against any state tax refunds or credits owed to the obligor equal to the amount certified. DOR must notify the obligor that it intends to reduce any state tax refund or credit by the amount owed. The notice must provide that within 20 days the obligor may request a hearing before the circuit court rendering the order. A hearing date must be set by the court within 10 days after receiving such a request.

Under the bill, these provisions would also apply to delinquent CR&D fee payments. Amounts withheld by DOR for delinquent CR&D fees would be sent to DWD for deposit in its PR appropriation for child support state operations--fees, and would be used for vendor charges and other expenses associated with the centralized receipt and disbursement system.

The bill would also require amounts withheld by DOR for unpaid support to be sent to DWD for deposit in the support collections trust fund. These moneys would then be distributed to the obligee or, in the case of support assigned to the state by public assistance recipients, used for county incentive payments and costs of the W-2 program. Under current law, the statutes specify that unpaid support withheld by DOR must be sent to DWD for distribution to the obligee. However, these funds are currently deposited in DWD's appropriation for delinquent support and maintenance payments to be distributed in accordance with state law and federal regulations, which do not always provide for distribution to the obligee.

Income Withholding. Under the bill, each order for or obligation to pay the annual CR&D fee would be subject to income withholding. This currently applies only to orders for the fee (as opposed to other obligations to pay). Arrearages of the fee would continue to be subject to income withholding until the arrearage is paid in full.

Withholding from Vendor Payments and Other Payments. Under current law, DOR may provide a certification it receives from DWD for unpaid support to the Department of

Administration, which must begin to withhold any vendor payments or certain other payments from the state and notify the obligor that the unpaid support is being withheld. As with withheld tax refunds and credits, the notice must provide that within 20 days the obligor may request a hearing before the circuit court rendering the order. A hearing date must be set by the court within 10 days after receiving such a request. Under the bill, these provisions would also apply to delinquent CR&D fees.

Unpaid support and CR&D fees withheld under this provision would be transferred from DOA to DWD and deposited into its PR appropriation for delinquent support, maintenance and fee payments, to be distributed in accordance with state law and federal regulations. Under current law, the statutes specify that unpaid support withheld by DOA must be sent to DWD for distribution to the obligee. However, these funds are currently deposited in the delinquent support and maintenance appropriation and distributed in accordance with state law and federal regulations, which do not always provide for distribution to the obligee.

Imposition of the Fee for Years in which a Support Arrearage is Due. Under the bill, the CR&D fee would be imposed for any year in which an arrearage of support is owed. Currently, the fee is imposed for each year in which support payments are ordered.

Unpaid County CR&D Fees. Under current law, DWD is permitted to retain unpaid CR&D fees that were due counties prior to state implementation of the CR&D system. DWD may not deduct the fee from any support or maintenance payment. The bill would disallow DWD from deducting the fee from any arrearage payments as well.

Use of Unclaimed Support

Under current law, DWD is responsible for collecting and disbursing all moneys received for child and family support and maintenance (support). Amounts of support that cannot be distributed by DWD (such as when the payee has not notified the Department of a new address) or support checks that have not been cashed within one year are considered abandoned property, and are subject to the general requirements of the state unclaimed property act. Under that law, by May 1 of each even-numbered year, DWD must file a report regarding unclaimed support with the State Treasurer that covers the previous two calendar years. For amounts of \$50 or more, DWD must notify the obligee at his or her last-known address at least 120 days prior to submitting the report that the Department is holding unclaimed support.

The State Treasurer is required to provide public notice of all reported abandoned property. If unpaid support remains unclaimed on the December 1 following this public notice, DWD must deliver the funds to the State Treasurer for deposit in the school fund. Claims for unpaid support and other abandoned property may be filed with the State Treasurer.

Under the bill, abandoned child support checks and amounts of child support that are not distributable to the payee (unclaimed support) would be credited to a new sum sufficient appropriation in the segregated support collections trust fund. These funds would be used by

DWD for administering the child support program and reimbursing the State Treasurer for subsequent claims for the unclaimed support. DWD would still be required to report unclaimed support amounts to the State Treasurer.

Any person, except another state, claiming interest in unclaimed support that has been reported to the State Treasurer could file a claim with the State Treasurer after December 1 following the report, on a form prescribed by the State Treasurer and verified by the claimant. Another state could recover unclaimed support under circumstances that are allowed under current law any time after December 31 following the reporting of unclaimed support to the State Treasurer. The State Treasurer would pay any approved claims from its current PR and GPR appropriations.

DWD would be required to reimburse the State Treasurer, at least quarterly, for any claims paid since the last reimbursement with respect to unclaimed support and any administrative expenses incurred since the last reimbursement with respect to such property. The State Treasurer would be required to deposit these moneys in the general fund.

The new provisions would first apply to uncashed support checks credited to the support collections trust fund (checks that have not been cashed within one year after issuance) or amounts determined not to be distributable from the fund by DWD on January 1, 1999.

Federal child support provisions treat unclaimed support as program revenue available to the state for its child support enforcement program, even though these funds are not appropriated to DWD under current law. Because the federal government will not provide reimbursement for child support expenses funded with program revenue, the current provisions result in DWD foregoing some federal matching funds.