Fields of Opportunities

STATE OF IOWA

CHESTER J. CULVER, GOVERNOR
PATTY JUDGE, LT. GOVERNOR

DEPARTMENT OF HUMAN SERVICES
CHARLES J. KROGMEIER, DIRECTOR

December 3, 2009

Michael Marshall
Secretary of Senate
State Capitol
LOCAL

Mark Brandsgard
Chief Clerk of the House
State Capitol
LOCAL

Dear Mr. Marshall and Mr. Brandsgard:

Enclosed, please find a copy of the report to the General Assembly regarding the Child Support Recovery Unit's collection of the $25 annual fee mandated by the federal Deficit Reduction Act of 2005. This report was prepared in response to a directive in 2009 Iowa Acts, Senate File 319, section 18.

In SF 319, the General Assembly directed the Department to seek a federally-approved, cost-effective methodology to secure payment of the fee from the payor parent, rather than from the payee.

Please contact me if you have any questions.

Sincerely,

Julie A. Fleming
Legislative Liaison

Enclosure

cc: Governor Chet Culver
Legislative Service Agency
Kris Bell, Senate Majority Caucus
Peter Matthes, Senate Minority Caucus
Zeke Furlong, House Majority Caucus
Brad Trow, House Minority Caucus

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Report to the Iowa General Assembly
Filed under 2009 Iowa Acts, Senate File 319, section 18
Child Support Recovery Unit -- November 30, 2009

Report Summary:

The question: The General Assembly asked the Department of Human Services to seek a federally-approved, cost-effective methodology to secure payment of the annual $25 Deficit Reduction Act fee from the payor parent, rather than from the payee.[1]

Response: We were unable to obtain a federally-approved, cost effective methodology to charge this fee to the payor that would result in the state being able to collect at the same rate.

We learned, in the process, that there is significant interest in Congress in repealing this fee. See S. 335, H.R. 2783, H.R. 2979 section 106(e), and S. 1309 section 104, subsection (d)(1)(B). An unintended consequence of federal repeal of this fee would be loss of the state share of the fees collected. The state share was initially used to cover significant programming, parental notification, and customer service costs. It is now used to fund medical support changes that became effective July 1, 2009, as well as other unfunded federal mandates that were imposed on the child support program.

Background Information and Federal Requirements:

What: The $25 annual Deficit Reduction Act of 2005 (DRA) fee is due if it is a Child Support Recovery Unit (CSRU) case and:

- The family never received FIP, TANF or AFDC under Title IV-A of the federal Social Security Act.
- CSRU has collected and sent $500 to the family in that federal fiscal year.

When: After CSRU has collected and sent $500 to the family that federal fiscal year. The fee must be paid by the end of the federal fiscal year. (Iowa FFY2009: 36,823 cases owed DRA fee.)

Where do these federally-mandated fee payments go?

- 66% ($16.50) to the federal Office of Child Support Enforcement (OCSE).
- 34% ($8.50) to CSRU.

Who pays the fee? The federal government must be paid 66% of every fee that comes due that year, notwithstanding whether the fee was actually collected that year. The federal DRA leaves

[1] Sec. 18. CHILD SUPPORT COLLECTIONS FEE == METHODOLOGY. The department of human services shall seek a federally approved, cost=effective methodology to secure payment of the collections fee imposed pursuant to section 252B.5, subsection 13, paragraph "a", from the obligor. The department shall report options for such a methodology to the general assembly by December 15, 2009. -- 2009 Iowa Acts, SF 319, section 18

it up to the state to collect the fee from the payee parent or the payor parent. Or, the state may choose to pay the fee itself.

- However, if the state chooses to impose the fee on a parent, and the parent fails to pay the fee by the end of the federal fiscal year, the State must pay the fee itself. At the end of the FFY, the federal government must be paid 66% of every fee that came due that year.
- Therefore, if the state budgets for parents to pay the fee, the state must have a method of collecting the fee that is reliable and sure to collect the fee in order to avoid a demand on the general fund.

Method of collecting the fee: If a state chooses to have parents pay the fee, there are two basic federally-approved ways to collect the fees:

- Separate billing and payments (after $500 in child support has been sent to the family that year).
- Take or retain the fee from child support collections (after $500 in child support has been sent to the family that year). However, federal law has different rules on when the state can take a fee from child support collections, depending on whether the state chose the payee parent to pay the fee, or the payor parent:
  - Payee parent: The state can take the fee from any support collection.
  - Payor parent: The state may only take the fee from collections after both the current child support due that month, and any payment on arrearages for the month under a court or administrative order have been sent the family that month. (The payor parent must pay all the current & arrears due that month and pay an extra amount. Then, that extra money paid in the same month may be used to pay the fee.)
    - "If a State charges the noncustodial parent the annual $25 fee ... the State may retain the $25 fee from the support collected **after current support and any payment on arrearages for the month under a court or administrative order have been disbursed to the family**..."

45 CFR §302.51(a)(5)(ii)

Data from Iowa compared to other states:

- The federal Office of Child Support Enforcement (OCSE) assisted CSRU in identifying states that had imposed the annual $25 DRA fee only on payor parents. CSRU contacted the three states that imposed only this fee on the payor parents to determine which federally-approved collection methods they used. CSRU also requested information on the rate of success of collecting the fees from the payor parents to determine if the methods used were cost-effective.
- In all the states contacted, the state was not successful in collecting the fee from most payors in the federal fiscal year. The state itself had to pay the fees to the federal government in most cases at the end of each federal fiscal year.
- In Iowa, CSRU collects the fee in over 99% of the cases. This was so in 35,073 cases in FFY 08, and in 36,558 cases in FFY 09. Therefore, at the end of each federal fiscal year, Iowa paid the fee to the federal government in less than 1% of the cases. In FFY 2009, the total cost of these payments was $4,510.10.

Collection rates and methods currently used in Iowa and in other states:

State	Which parent pays?	Method of collection	Successful year-end collection rate
Iowa	Payee	Retaining from collections	Over 99%
ID	Payor	Combination monthly billing & retaining from collections	About 33%
MS	Payor	Once a year billing & payment to a separate PO box	About 24.3%
MO	Payor	Once a year billing & payment to a separate lockbox	About 24%

Using federally-approved collection methods, none of the states reported that their methods of collecting the annual fee from payors were cost effective.

Costs to Iowa if the fee were charged to the payor:
Iowa currently has over a 99% successful collection rate.

If Iowa had amended its law and imposed the fee on the payor in FFY 2009, the cost to the Iowa child support program would have been over $600,000:

Federally-approved Collection method from Payor	**Cases with fees due**	**Total fees due @ $25 each case**	**Fees paid by payor parent**	**Remaining unpaid fees (impact on the State)***
Separate billing	36,823	$920,575	*x* 24% = $220,938	$699,637
Separate billing and retain from collections	36,823	$920, 575	*x* 33% = $303,790	$616,785

* Although the federal government receives 66% of the fee income, the remaining 34% state share is eligible for 66% federal financial participation (FFP), resulting in a loss of revenue to the state equal to the unpaid portion of the fees.

Conclusion:
There are no options for a federally-approved, cost-effective methodology to secure payment of the federally-mandated annual $25 fee from the payor. There is strong support for repeal of the fee in Congress.