



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

May 13, 2003

Joint Committee on Finance

Paper #867

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

[LFB 2003-05 Budget Summary: Page 510, #1 and #2; and Page 511, #3 and #4]

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. Affiliated Computer Systems (ACS) operates the computerized system under contract with the state.

The KIDS/CR&D system is funded with the following revenue sources:

CR&D Fee. 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 with program revenue from an annual \$35 CR&D fee charged by the Department of Workforce Development (DWD) to support obligors. The fee was increased from \$25 to \$35 on January 1, 2002, under 2001 Wisconsin Act 16 (the 2001-03 biennial budget act). 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, and 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 issued to the recipient is drawn ("float") is used to fund the KIDS/CR&D system.

Unclaimed Support. Abandoned child support checks and amounts of child support that are not distributable to the payee (unclaimed support) are credited to a sum sufficient appropriation in the segregated support collections trust fund and used by DWD for the KIDS/CR&D system.

GPR and Federal Matching Funds. The costs of the KIDS/CR&D system that are not covered by the three funding sources outlined above are funded with GPR and federal child support matching funds. The matching rate is 66% (that is, each dollar of expenditures is \$0.34 GPR and \$0.66 FED). Revenues from the CR&D fee, interest on the support collections fund, and unclaimed support cannot be used to obtain federal matching funds.

The cost of operating the KIDS/CR&D system is currently estimated at \$34.9 million in 2002-03. The funding sources for the system include \$8.2 million PR from the CR&D fee, \$0.4 million SEG in interest earnings on the support collections trust fund, \$1.0 million SEG in unclaimed support, \$8.7 million GPR, and \$16.6 million in FED matching funds.

GOVERNOR

The following table outlines the budgeted revenues and expenditures for the KIDS/CR&D system in the 2003-05 biennium, as recommended by the Governor. These estimates were prepared by DWD prior to introduction of the budget bill.

TABLE 1

2003-05 KIDS/CR&D Budget -- Senate Bill 44

	<u>2003-04</u>	<u>2004-05</u>
Expenditures		
System Maintenance	\$17,589,400	\$18,613,800
InfoTech Charges	11,400,000	11,400,000
State Staff and BITS Costs	2,715,200	2,830,600
Supplies and Services	3,800,000	3,800,000
Uncollectable Receivables	<u>170,000</u>	<u>170,000</u>
Total Expenditures	\$35,674,600	\$36,814,400
Revenues		
CR&D Fee (PR)	\$8,500,000	\$8,300,000
Support Collections Trust Fund Earnings (SEG)	600,000	600,000
Unclaimed Support (SEG)	1,500,000	1,500,000
GPR	8,637,600	9,093,100
FED Match	<u>16,437,000</u>	<u>17,321,300</u>
Total Revenues	\$35,674,600	\$36,814,400

As the table indicates, under the bill, estimated expenditures for the system would total \$35.7 million in 2003-04 and \$36.8 million in 2004-05. The largest expenditure is for system maintenance (\$17.6 million in 2003-04 and \$18.6 million in 2004-05), which primarily reflects contractor fees and other costs of the CR&D system. The InfoTech budget (\$11.4 million in each year) includes monies paid to the Department of Administration (DOA) for mainframe services and connection to the consolidated data network. Most of the remaining budget is for state staff in DWD's Bureau of Information Technology Services (BITS) and supplies and services.

The \$170,000 per year to write off uncollectable receivables is funded entirely with GPR because these expenditures are not eligible for federal child support matching funds. These write-offs occur when DWD determines that it will be unable to recover amounts disbursed from the support collections trust fund due to misapplied payments, amended returns being filed in tax-intercept cases, and other situations.

DISCUSSION POINTS

1. This paper primarily addresses the KIDS/CR&D portion of DWD's child support enforcement budget. However, in order to put the KIDS budget in context, information on the overall child support enforcement budget is provided toward the end of this paper. The portion of the child support budget that is distributed to county child support agencies (federal incentive payments and matching funds) is addressed in a separate paper (Paper #866).

KIDS/CR&D Budget Under the Governor's Bill

2. The Governor's recommendation assumed that the cost of the CR&D vendor contract would increase from the base year estimate of \$8.4 million to \$9.9 million in 2003-04 and \$11.6 million in 2004-05. [As noted, these costs are included under "System Maintenance" in Table 1.] The current CR&D contract with Affiliated Computer Systems will terminate on December 31, 2003. The Governor's estimates were based on the rates paid by the State of Michigan for a similar contract, which were higher than the rates currently being paid by Wisconsin. The Governor's bill also assumed that revenues from the CR&D fee and trust fund interest would decrease from the base funding amounts by \$1.4 million in 2003-04 (-\$743,900 from the CR&D fee and -\$700,000 in interest) and \$1.6 million in 2004-05 (-\$943,900 from the CR&D fee and -\$700,000 in interest).

2. In order to address these cost increases and revenue decreases, the Governor proposed reducing the number of IBM Global contractors working on operation of the KIDS system from 31 in 2002-03 to 16 in 2003-04 and to zero in 2004-05. These contract positions would be replaced with state employees, at an estimated savings of \$2.0 million in the first year and \$2.6 million in the second year. The Governor's budget also estimated that mainframe charges by the Department of Administration for data processing (under "InfoTech Charges") would decrease from the base year estimate of \$12.7 million to \$11.4 million in each year of the 2003-05 biennium.

Revised KIDS/CR&D Estimates

3. Since the budget bill was introduced, DWD has prepared revised estimates of the costs of the KIDS/CR&D system, and the revenues available to fund the system, in the 2003-05 biennium. Table 2 shows the Department's revised estimates. Attachment 1 provides additional detail regarding these estimates. As with the Governor's estimates in Table 1, the anticipated savings from replacing IBM contractors with state staff have been factored into the Department's revised projections.

TABLE 2**2003-05 KIDS/CR&D Budget--DWD Revised Estimates**

	<u>2003-04</u>	<u>2004-05</u>
Expenditures		
System Maintenance	\$14,047,800	\$11,516,700
InfoTech Charges	11,000,000	11,000,000
State Staff and BITS Costs	5,253,800	7,279,200
Supplies and Services	2,500,000	2,500,000
Bank Fees	573,800	600,000
Uncollectable Receivables	<u>170,000</u>	<u>170,000</u>
Total Expenditures	\$33,545,400	\$33,065,900
Revenues		
CR&D Fee (PR)	\$7,400,000	\$7,400,000
Support Collections Trust Fund Earnings (SEG)	356,400	356,400
Unclaimed Support (SEG)	1,052,000	989,900
GPR	8,522,800	8,380,800
FED Match	<u>16,214,200</u>	<u>15,938,800</u>
Total Revenues	\$33,545,400	\$33,065,900

4. On the spending side, the revised KIDS budget is lower than the Governor's estimates by \$2.1 million in 2003-04 and \$3.7 million in 2004-05. These reductions are primarily due to decreases in the CR&D vendor contract of \$1.2 million in the first year and \$2.9 million in the second year. Following a competitive bid process, a new, six-year contract was awarded to ACS. The contract calls for lower rates than anticipated in the Governor's bill and will cover calendar years 2004 through 2009. Less significant savings are expected in InfoTech charges and other areas of the KIDS/CR&D budget.

5. DWD now estimates that revenues from the CR&D fee, interest earnings, and unclaimed support will all be lower than the amounts assumed in the Governor's budget. In total, these revenue reductions are estimated at \$1.8 million in the first year (-\$1,100,000 from the CR&D fee, -\$243,600 in interest, and -\$448,000 in unclaimed support) and \$1.7 million in the second year (-\$900,000 from the CR&D fee, -\$243,600 in interest, and -\$510,100 in unclaimed support). These decreases are based on more recent data and appear to be reasonable. The appropriation schedule should be adjusted to account for the revised estimates for these revenue sources.

6. With DWD's revised estimates, the amount of GPR necessary to fund the KIDS/CR&D system is lower than the Governor's budget by \$114,800 in 2003-04 and \$712,300 in 2004-05. The Committee could consider removing these funds from DWD's budget. This would leave DWD with the same amount of funding for its other child support enforcement activities as recommended by the Governor.

7. There are a number of reasons for allowing DWD to retain these GPR funds, however. First, the other state monies used for the KIDS/CR&D system (the \$35 annual CR&D

fee, interest, and unclaimed support) are uncertain revenue sources, and recent collections have failed to reach the budget estimates. In addition, the Governor's bill would use \$1,590,000 of federal incentive payments to fund a portion of DWD's child support operations in the 2003-05 biennium. [A separate budget paper addresses this issue and presents alternatives to increase the amount of incentive funding appropriated to DWD, with a corresponding decrease in GPR funding.] Because the federal incentive payments are dependent upon the performance of county child support agencies, DWD, and other states in establishing paternity and support obligations and collecting support, this revenue source is also more uncertain than GPR.

8. It should also be noted that the Department's child support budget has absorbed significant reductions in recent years. For example, in the 2001-03 budget, funding for the KIDS/CR&D system was reduced by \$1.9 million in 2001-02 and \$3.7 million in 2002-03. The Bureau of Child Support has also taken some of the Department's recent across-the-board GPR cuts (along with the associated 66% FED match).

9. In evaluating whether to remove GPR funding from the KIDS/CR&D budget, the condition of the overall child support budget should also be considered. Information on DWD's total revenues and expenditures for child support enforcement is provided below.

Overall Child Support Enforcement Budget

10. DWD's overall child support enforcement budget includes approximately \$33 million annually for the KIDS/CR&D system, other state operations expenditures of about \$7 million per year, and approximately \$43 million annually that is provided to county child support agencies. Under the budget bill introduced by the Governor (prior to DWD's revised KIDS/CR&D estimates), the amount of funding for child support enforcement would have been less than planned expenditures by approximately \$2 million annually. The Department would have had to make unspecified expenditure reductions in these amounts in order to make the overall child support enforcement budget balance.

11. Since the bill was introduced, the administration has requested that additional GPR funding reductions of \$630,000 in 2003-04 and \$507,600 in 2004-05 be reallocated to DWD's appropriation for TANF and child support state operations. The proposed reallocations were addressed in Paper #830 and have been approved by the Committee. It is likely that most or all of these additional reductions would be taken from the child support budget, which would also result in reduced federal matching funds of up to \$1,222,900 in the first year and \$985,300 in the second year.

12. If the revised KIDS/CR&D projections and the requested reallocation of GPR reductions are accounted for, it appears that the overall child support budget would have deficits of about \$3.3 million in 2003-04 and \$1.4 million in 2004-05 (\$4.7 million over the biennium), even if the KIDS/CR&D savings identified above were retained by DWD. As noted, DWD would have to make additional, unspecified spending reductions in order to bring the budget into balance. These figures are shown in Attachment 2. [These deficits assume that all of the reallocation of GPR spending cuts would be taken from the child support budget. The child support shortfalls would be lower if some of the reallocated GPR cuts were taken from the

TANF budget or subsequently reallocated to another program through the s. 13.10 process.] Further spending cuts would be necessary if the "surplus" GPR funding from the KIDS/CR&D budget was deleted.

13. If, instead, the Committee wished to provide additional funding to eliminate the estimated child support enforcement deficits shown in Attachment 2, it could appropriate increased GPR funding of \$1,138,600 in 2003-04 and \$478,200 in 2004-05, which would generate additional federal matching funds of \$2,210,200 in the first year and \$928,300 in the second year. [The GPR funding amount needed in 2004-05 would be lower by \$700,000 if the Committee chooses to provide funding to expedite the percentage-expressed order reconciliation process (Alternative 2 in Paper #866).]

ALTERNATIVES

1. Adopt the Governor's recommendation with reestimates to: (a) decrease funding from the CR&D fee by \$1,100,000 PR in 2003-04 and \$900,000 PR in 2004-05; (b) reduce funding from interest earned on balances in the support collections trust fund by \$243,600 SEG in 2003-04 and 2004-05; and (c) decrease funding from unclaimed support by \$448,000 SEG in 2003-04 and \$510,100 SEG in 2004-05. These figures reflect revised estimates for these revenue sources under current law.

<u>Alternative 1</u>	<u>PR</u>	<u>SEG</u>	<u>TOTAL</u>
2003-05 FUNDING (Change to Bill)	- \$2,000,000	- \$1,445,300	- \$3,445,300

2. Reestimate the PR and SEG funding sources as described in Alternative 1. In addition, decrease funding by \$114,800 GPR and \$222,800 FED in 2003-04 and by \$712,300 GPR and \$1,382,700 FED in 2004-05, based on DWD's revised estimates of the costs of the KIDS/CR&D system.

<u>Alternative 2</u>	<u>GPR</u>	<u>FED</u>	<u>PR</u>	<u>SEG</u>	<u>TOTAL</u>
2003-05 FUNDING (Change to Bill)	- \$827,100	- \$1,605,500	- \$2,000,000	- \$1,445,300	- \$5,877,900

3. Reestimate the PR and SEG funding sources as described in Alternative 1. In addition, provide \$1,138,600 GPR and \$2,210,200 FED in 2003-04 and \$478,200 GPR and \$928,300 FED in 2004-05 to address the estimated deficit in the child support enforcement budget.

<u>Alternative 3</u>	<u>GPR</u>	<u>FED</u>	<u>PR</u>	<u>SEG</u>	<u>TOTAL</u>
2003-05 FUNDING (Change to Bill)	\$1,616,800	\$3,138,500	- \$2,000,000	- \$1,445,300	\$1,310,000

Prepared by: Rob Reinhardt
Attachments

ATTACHMENT 1

2003-05 KIDS/CR&D Budget--Revised Estimates by DWD

	<u>2003-04</u>	<u>2004-05</u>
EXPENDITURES		
System Maintenance		
Ongoing System Maintenance (IBM Contract)	\$967,700	\$0
Contractor Fixed Costs (IBM)	1,994,900	247,500
Centralized Receipt & Disbursement Contract	8,681,300	8,748,700
Postage	1,911,900	2,028,500
New Hire Reporting System	<u>492,000</u>	<u>492,000</u>
Subtotal	\$14,047,800	\$11,516,700
State Staff and BITS Costs		
State Staff and BITS Costs	\$1,929,700	\$4,227,200
Supplemental Staff	2,024,100	1,752,000
Capital/Installation/Infrastructure	100,000	100,000
DWD System Fee	<u>1,200,000</u>	<u>1,200,000</u>
Subtotal	\$5,253,800	\$7,279,200
InfoTech Charges		
Mainframe	\$10,000,000	10,000,000
Telecommunications	<u>1,000,000</u>	<u>1,000,000</u>
Subtotal	\$11,000,000	\$11,000,000
Miscellaneous		
Supplies and Services	\$2,500,000	\$2,500,000
Write-Off of Uncollectable Receivables*	170,000	170,000
Bank Fees	<u>573,800</u>	<u>600,000</u>
Subtotal	\$3,243,800	\$3,270,000
Total Expenditures	\$33,545,400	\$33,065,900
REVENUES		
CR&D Fee (PR)	\$7,400,000	\$7,400,000
Support Collections Trust Fund Interest (SEG)	356,400	356,400
Unclaimed Support (SEG)	1,052,000	989,900
GPR*	8,522,800	8,380,800
Federal Match	<u>16,214,200</u>	<u>15,938,800</u>
Total Revenues	\$33,545,400	\$33,065,900

*Write-offs of uncollectable receivables are funded entirely with GPR because federal matching funds cannot be claimed for these expenditures.

ATTACHMENT 2

Projected Child Support Enforcement Revenues and Expenditures

	<u>2003-04</u>	<u>2004-05</u>
Revenues		
State GPR*	\$8,516,200	\$8,397,400
CR&D Fee (PR)	7,400,000	7,400,000
Other Fees (PR)	600,000	600,000
Interest in the Support Collections Trust Fund (SEG)	356,400	356,400
Unclaimed Support (SEG)	1,052,000	989,900
State Share of Federal Incentives (FED)	472,900	1,117,500
Federal Matching Funds for State Operations (FED)	18,853,100	19,873,800
County Share of Federal Incentives (FED)	13,085,000	13,185,000
Federal Matching Funds for County Operations (FED)	<u>29,865,000</u>	<u>30,059,100</u>
Total Revenues	\$80,200,600	\$81,979,100
Planned Expenditures		
KIDS/CR&D System	\$33,545,500	\$33,065,900
Other BCS Expenditures and Reserves	7,053,900	7,075,500
Distribution to Counties	<u>42,950,000</u>	<u>43,244,100</u>
Total Planned Expenditures	\$83,549,400	\$83,385,500
Surplus/(Deficit)	-\$3,348,800	-\$1,406,400

*The GPR funding amounts assume that additional across-the-board cuts of \$630,000 GPR in 2003-04 and \$507,600 GPR in 2004-05 (addressed in Paper #830) would be allocated to the child support budget.