

Department of Legislative Services
Maryland General Assembly
2010 Session

FISCAL AND POLICY NOTE
Revised

House Bill 1505

(Chair, Appropriations Committee)(By Request -
Departmental - Budget and Management)

Appropriations

Budget and Taxation

Central Collection Unit - Collection of Debts Owed to the State

This departmental bill authorizes the Central Collection Unit (CCU) to certify a debt or claim, and the responsible debtor, to the Comptroller for tax refund interception and the Maryland State Lottery Agency (Lottery) for State lottery prize interception.

The bill requires that if the debtor wins a lottery prize to be paid directly by the Lottery, the Lottery must notify the debtor that State law requires the Lottery to withhold the prize and pay it towards money owed to the State. The bill establishes an appeal process available to those receiving the notice. The Lottery must withhold the prize, up to the amount of the debt or claim, until CCU notifies the Lottery to whom the withheld prize money is to be paid. Licensed lottery agents may not pay a prize to an individual who is certified under provisions of the bill. The bill also updates the specified order in which the Lottery and the Comptroller must honor specified interception requests.

The bill takes effect July 1, 2010, and applies to every debt or claim owed to the State on or after the effective date of the bill.

Fiscal Summary

State Effect: General fund revenues increase by \$2.1 million and special fund revenues increase by \$342,000 in FY 2011 from collection of additional debts owed to the State. Future year revenues reflect increases in lottery prizes. CCU can process additional interceptions and implement the bill with existing budgeted resources.

(in dollars)	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
GF Revenue	\$2,099,400	\$2,162,400	\$2,227,200	\$2,294,100	\$2,362,900
SF Revenue	\$341,800	\$352,000	\$362,600	\$373,500	\$384,700
Expenditure	0	0	0	0	0
Net Effect	\$2,441,200	\$2,514,400	\$2,589,800	\$2,667,500	\$2,747,500

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: Community colleges, which are authorized to refer uncollectible outstanding debts to CCU, may realize minimal revenue increases.

Small Business Effect: The Department of Budget and Management (DBM) has determined that this bill has minimal or no impact on small business (attached). Legislative Services concurs with this assessment. (The attached assessment does not reflect amendments to the bill.)

Analysis

Bill Summary/Current Law: CCU, within DBM, is responsible for the collection of delinquent accounts and other debt owed to the State, its officials, or units and generally pays the net proceeds of collections into the State Treasury. Currently, CCU is authorized to certify criminal or delinquency restitution debts to the Lottery, and the Department of Human Resources is authorized to certify debts to the Lottery for child support collections. The bill would allow CCU to certify other debts to the State to the Lottery for collection.

Under current law, for prizes over \$600, licensed lottery agents must determine, prior to paying the prize, whether the holder of a winning lottery ticket has been certified as having a specified criminal or delinquent restitution debt or child support debt. If the individual is certified, the licensed agent may not pay the prize to the individual (the individual would have to report to a State Lottery office to claim the prize).

Under the bill, certification of a debt or claim to the Lottery must include the debtor's name and Social Security number, as well as the amount of the debt. If a debtor wins a lottery prize to be paid directly by the Lottery, the Lottery must notify the debtor that:

- the debtor has won a prize to be paid by the Lottery;
- the Lottery has received notice from CCU of the debtor's debt or claim owed to the State, and stating the amount;
- State law requires the Lottery to withhold the prize and to pay it toward the debt or claim;
- the debtor may appeal to CCU with any dispute regarding the existence or amount of the debt or claim; and

- if an appeal is not filed within 15 days after the date of the notice, the Lottery will transfer the prize or part of the prize equaling the amount of the debt or claim to CCU.

If an appeal is not filed within 15 days after the notice, the Lottery must transfer the amount of the prize withheld to CCU. If the debtor appeals the transfer, after a hearing, CCU shall notify the Lottery the withheld prize must be:

- paid to the debtor;
- transferred to CCU; or
- in specified amounts, partly paid to the debtor and partly transferred to CCU.

Under the bill, the Lottery must honor lottery prize interception requests in the following order:

1. those regarding child support payments that are in arrears;
2. those regarding restitution for delinquency or crime that are in arrears; and
3. those regarding debts or claims owed to the State (as added by the bill).

Under the bill, the Comptroller must honor income tax refund interception requests in the following order:

1. those to collect an unpaid State, county, or municipal tax;
2. those regarding child support payments that are in arrears;
3. those regarding reimbursing the Department of Mental Health and Hygiene for specified Medicaid costs;
4. a refund interception request made by CCU (as added by the bill);
5. any other refund interception request by the State, county, or other political subdivision of the State;
6. those made by a taxing official regarding refund of a tax, fee, or charge; and
7. those made by a federal official regarding refund of inheritance tax.

Background: CCU collects delinquent debts, claims, and accounts due to State government. Typical debts collected include student tuition and fees, restitution for damage to State property, reimbursement for institutional care, local health department fees, workers' compensation premiums, and State grant overpayments. It does not collect nontax debts, such as unpaid child support payments. Collections are deposited into the Central Collection Fund.

CCU currently intercepts payments and refunds using a variety of methods, including, but not limited to:

- the State Tax Refund Intercept Program;

- the Central Payroll Offset;
- the Federal Tax Interception;
- the State Vendor Offset; and
- the interception of unclaimed property.

Refund intercepts by the Comptroller's Office on behalf of CCU resulted in 103,000 interceptions, totaling \$45 million in tax year 2008.

Most provisions of the bill are similar to those in current law that relate to interception of child support arrearage by the Lottery for transfer to the Department of Human Resources.

State Fiscal Effect: DBM analyzed fiscal 2008 data comparing individuals that owed a debt to the State against those who won lottery prizes over \$600. This analysis indicated that such debtors had won approximately \$8 million in lottery prizes and owed over \$3.8 million to the State. DBM estimates revenue of approximately \$2.8 million in fiscal 2011 as a result of the bill. Based on the analysis performed by DBM, and assuming lottery prizes increase moderately, Legislative Services estimates that general fund revenues increase by \$2.1 million and special fund revenues increase by \$342,000 in fiscal 2011. The following facts and assumptions were used in this estimate:

- some lottery winners that have a debt to the State will win an amount that is less than the total amount owed to the State;
- total lottery prizes paid each year after fiscal 2008 increase by 6% in fiscal 2009 (actual) and by the same amount as estimated in the proposed fiscal 2011 State budget (1% in 2010 and 4% in 2011). Total lottery prizes paid in fiscal 2012 and thereafter increase by 3% annually;
- lottery prizes paid to individuals that owe a debt to the State increase by the same amount as total lottery prizes paid; and
- revenues to special funds equals 14% of the total amount of increased State revenues from intercepted lottery winnings each year.

This estimate also assumes that CCU can process newly authorized interceptions with existing resources.

Placing CCU refund interception requests ahead of counties and other political subdivisions will cause an increase in State revenues. The Comptroller's Office expects this increase will be negligible.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Budget and Management, Department of Human Resources, Comptroller's Office, Judiciary (Administrative Office of the Courts), Maryland State Lottery Agency, Department of Public Safety and Correctional Services, Department of Legislative Services

Fiscal Note History: First Reader - March 17, 2010
ncs/rhh Revised - House Third Reader/Other - March 30, 2010

Analysis by: Scott P. Gates

Direct Inquiries to:
(410) 946-5510
(301) 970-5510

ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Central Collection Unit – Collection of Debts Owed to the State

BILL NUMBER: HB 1505

PREPARED BY: Department of Budget and Management

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL BUSINESS

OR

WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS

The proposed legislation will have no impact on small business in Maryland.