

FISCAL IMPACT OF PROPOSED LEGISLATION

Measure: SB 259 - A

Seventy-Seventh Oregon Legislative Assembly – 2013 Regular Session
Legislative Fiscal Office

*Only Impacts on Original or Engrossed
Versions are Considered Official*

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Measure Description:

Authorizes Director of Employment Department to enter into intergovernmental agreement with federal government to offset against state debt moneys owed to debtor by federal government.

Government Unit(s) Affected:

Employment Department

Summary of Expenditure Impact:

Please see analysis

Local Government Mandate:

This bill does not affect local governments' service levels or shared revenues sufficient to trigger Section 15, Article XI of the Oregon Constitution.

Analysis:

This measure allows for The Oregon Employment Department (OED) to enter into an agreement with the US Department of the Treasury, Internal Revenue Service (IRS) for the diversion of federal tax refunds to the OED that would otherwise be issued to a taxpayer if that taxpayer owed money to the OED and the OED requested the diversion of those funds from the IRS. The primary reason for a request of this type by the OED would be for the recovery of unemployment insurance benefits that were overpaid to a beneficiary and have not be repaid to the OED. Currently the OED holds over 14,000 accounts totaling approximately \$55 million. During the 2012 legislative session, a Federal Funds expenditure limitation of \$447,958 was provided to the OED for the initial implementation and testing of the proposed Treasury Offset Program (TOP). All of the implementation work has been completed. The IRS requires that OED give at least a 60 day notice via a letter of intent prior to being able to divert a claimant's federal return. The measure requires that this notice not be sent out before the effective date and the debtor be notified of how to obtain administrative review.

The net fiscal impact of this measure is indeterminate because there are a number of factors that have dependent variables which can only be estimated.

The OED currently participates in the state program operated by the Department of Revenue (DOR) for capturing those amounts owed by claimants from their state tax refund. The DOR charges a fee for the collection of those funds which on average is about 10% of the total collected. Under current state statute, these fees are deducted from the amount that is forwarded on to the OED creating a collection expense for the ODE. This measure allows for that same process to be extended to federal tax return offsets as well, with the OED receiving amounts net of collection fees from both the DOR and the IRS. In 2012 the DOR collected \$1.9 million for ODE and \$184,000 in fees were paid by ODE. Although the bill does not explicitly allow the ODE to pass the cost of collection on to the debtor, the ODE believes that if the collection costs being taken by the DOR and the IRS result in a net amount that is less than the total owed by the debtor, the ODE has the right to collect the difference through traditional collection methods.

The OED anticipates a significant increase in collections due to participation in the Treasury Offset Program. The department reports an average recovery rate of about 11% of the annual debts referred to

the program from the twenty states already using TOP to recover unemployment insurance program debts. Using this average, the OED estimates recovery amounts totaling \$14.8 million over the next two biennia. However, this average may not reflect the actual rate of recovery for OED.

Certain public entities, state and local governments are “reimbursing employers” meaning that instead of paying the unemployment insurance tax expressed as a percentage of their total payroll to the OED, those public entities pay the actual cost of benefits paid to claimants. When an overpayment is recovered by the OED, those employers are reimbursed. There may be a savings to the state as a result.

The ongoing activities related to the TOP include annual submission of accounts to the IRS and weekly updates between the IRS and the OED to manage collections. There will also be staff time involved with ensuring notification requirements are met and to respond to complaint and general inquiry calls. These activities would be performed by existing staff. The OED anticipates that this staff time will come, in part, from a reduction in the workload due to not individually processing an estimated 3,000 garnishment actions as a result of the TOP. However, that savings in staff time may not be realized due to the processing of individual accounts to recover the difference between the gross debt amount and the net received by the OED, (after collection costs from the IRS and DOR are removed). There may also be some significant increase in expenditures related to writing-off the cost of collection as the OED does currently with DOR collections if the residual balance is not collected from debtors.

The measure explicitly requires the OED to notify the debtor of their right to administrative review. The number of debtors that may request review is unknown, but may produce additional workload for the agency.