CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

October 5, 1998

H.R. 4243
Government Waste, Fraud, and Error Reduction Act of 1998

As ordered reported by the House Committee on Government Reform and Oversight on July 23, 1998

SUMMARY

H.R. 4243 would amend the Debt Collection Improvement Act (DCIA) of 1996. The bill would bar delinquent debtors from obtaining certain federal benefits, authorize the Financial Management Service (FMS) of the Department of the Treasury to offset certain benefit payments to collect past-due child support, require federal agencies to sell certain assets and to report annually to the Congress on debts over $1 million, and create a Federal Benefit Verification and Integrity Board to approve, oversee, and report on agency test projects.

Enacting H.R. 4243 would affect both direct spending and governmental receipts. Therefore, pay-as-you-go procedures would apply to the bill. Specifically, CBO estimates that offsetting Social Security payments to collect past-due child support would increase federal collections by less than $500,000 in fiscal year 1999, by $2 million in fiscal year 2000, and by $4 million each year thereafter. CBO estimates that the increase in governmental receipts from additional criminal fines would not be significant.

In addition, subject to the availability of appropriated funds, CBO estimates that implementing H.R. 4243 would cost about $2 million in fiscal year 1999 and about $1 million in each of fiscal years 2000 through 2003. Those discretionary costs would cover the costs for agencies to report annually on nontax debts greater than $1 million, for FMS to revise the regulations implementing the DCIA, for the Departments of Justice (DOJ) and the Treasury to determine minimum compensation levels for employees of private collection agencies, and for the benefit verification board to oversee and report on the agency test projects.

H.R. 4243 contains an intergovernmental mandate as defined in the Unfunded Mandates Reform Act (UMRA), but CBO estimates that complying with the mandate would result in no cost to state, local, or tribal governments. The bill would impose no new private-sector mandates as defined in UMRA.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 4243 is shown in the following table. The costs of this legislation fall within several budget functions.

	By Fiscal Year, in Millions of Dollars				
	1999	2000	2001	2002	2003
CHANGES IN DIRECT SPENDING[a]					
Estimated Budget Authority	b	-2	-4	-4	-4
Estimated Outlays	b	-2	-4	-4	-4
CHANGES IN SPENDING SUBJECT TO APPROPRIATION[a]					
Estimated Authorization Level	2	1	1	1	1
Estimated Outlays	2	1	1	1	1

a. Implementing the bill could also affect governmental receipts, but CBO estimates that any changes would not be significant.
b. Less than $500,000.

BASIS OF ESTIMATE

Direct Spending

While much of H.R. 4243 would codify current practice, a few provisions would affect collections of the federal government from both past-due child support and delinquent nontax debt. In total, CBO estimates that implementing these provisions would decrease direct spending by $14 million over the 1999-2003 period.

Increasing the Federal Share of Collections from Past-Due Child Support. H.R. 4243 would allow states to collect past-due child support by withholding Social Security, Black Lung, and Railroad Retirement Board (RRB) payments. CBO estimates that adding past-due child support to the list of debts that can be administratively offset from those payments would result in $10 million more in annual child support collections, of which the federal government would, on average, retain $4 million. We expect those levels to apply beginning in fiscal year 2001, with smaller effects in earlier years.

The Social Security Administration can withhold past-due child support payments from monthly checks under current law, but the process is not used much and an insignificant amount is collected annually. H.R. 4243 would make the process easier to administer and would thus result in higher child support collections.

Based on data from the Survey of Income and Program Participation (SIPP) and calculations by the Urban Institute, CBO estimates that 25,000 noncustodial parents both receive Social Security benefits and have unpaid child support. Because parents affected by the legislation are generally younger than 62, we assume that most of them receive Social Security benefits under the Disability Insurance (DI) program rather than the retirement program. (As with the collection of delinquent federal debt, we assume that payments made under the Supplemental Security Income program would be exempt from the administrative offset.) The DCIA limits the amount that can be withheld annually from an individual's Social Security checks to the lesser of any amount over $9,000 or 15 percent of the benefits. Only one-half of the noncustodial parents are assumed to receive benefits high enough to allow FMS to offset their payments. On average, those offsets could amount to about $1,600 annually and could yield $20 million in collections for child support from Social Security payments. (CBO expects that the annual increase in collections from RRB and Black Lung payments would be insignificant.)

CBO estimates that the additional collections under H.R. 4243 would be only about one-half of the potential $20 million because of several factors. First, noncustodial parents are younger than average DI recipients and younger men receive lower DI benefits than older men. Second, children of DI recipients are entitled to a benefit from Social Security that averages more than $2,000 annually. Some states consider these benefits in determining the amount of the child support owed by the noncustodial parent. Consequently, those children probably have lower-than-average child support awards and the Social Security offset would be lower than average. Finally, CBO assumes that a small percentage of all noncustodial parents owing past-due child support would slip through the administrative offset process.

The estimated $10 million in additional child support collections each year would result in a net increase in federal offsetting receipts of $4 million annually. The estimate assumes that 70 percent of new collections would be on behalf of families that receive or formerly received cash assistance from the federal government's Temporary Assistance to Needy Families (TANF) program or its predecessors. Such collections are retained by federal and state governments as reimbursements for past cash assistance paid to families. The federal share of TANF collections is 53 percent.

CBO assumes that states would not fully participate in the program until 2001. Increases in DI benefit levels and the amounts required for child support under court orders would result in higher federal receipts over time, but new rules affecting how much of the child support payments the federal government can retain would have an opposite effect. CBO estimates that those two effects would offset each other.

Decreasing the Collection of Delinquent Nontax Debt. Allowing FMS to offset Social Security, Black Lung, and RRB payments to collect past-due child support payments would decrease the collection of delinquent nontax debt. CBO estimates, however, that this change would increase direct spending by less than $500,000 annually.

Under existing law, the collection of child support on behalf of a family that receives or formerly received TANF benefits takes precedence over the collection of delinquent federal debt in the payment offset process. That is, if before making a federal salary or pension payment, FMS discovers that the payee owes past-due child support, received TANF benefits, and is delinquent on a federal loan, then FMS must first offset the salary or pension payment to collect the child support. Once the child support is collected, FMS can then further offset the payment to collect the delinquent debt, provided that sufficient funds remain. CBO assumes that same order of priority would apply to collections involving Social Security and the other payments.

The DCIA allows the use of offsets against Social Security payments to collect delinquent nontax debt; FMS expects to implement that authority by the spring of 1999. According to the Department of the Treasury and Price Waterhouse, which conducted a test matching a month's worth of Social Security payments against the database of debts referred to FMS, between $37 million and $61 million in delinquent federal debts could eventually be collected from Social Security payments each year. Based on information from that test and CBO’s estimate of the increased collection of past-due child support, CBO estimates that the collection of federal debt—primarily for loan repayments and recoveries for defaults on loan guarantees—would decline by less than $500,000 a year.

The Federal Credit Reform Act of 1990 requires that legislation altering the estimated subsidy cost for direct loans and loan guarantees be scored on a present-value basis. For existing loans and guarantees, the amount of an estimated change in the present value of credit cash flows is recorded in the budget in the year in which the legislation is enacted—in this case, in fiscal year 1999. Based on CBO’s estimate of the cash value of the forgone collections, we estimate that the provision’s effect on delinquent nontax debt would increase direct spending by less than $500,000.

Authorizing Private Collection Agencies to Verify Employment Information. H.R. 4243 could increase the collection of federal debt by clarifying that private collection agencies can verify the employment information of a federal debtor for the purpose of garnishing the individual's wages. FMS only recently issued the final regulations to implement the authority provided under the DCIA; thus, private collection agencies have yet to use wage garnishment to collect delinquent federal debts assigned to them. In addition, the DCIA authorizes collection agencies to verify a debtor's employment information, although other laws may restrict this authority. CBO estimates that any increase in collections from enacting the provision would be negligible.

Barring Delinquent Nontax Debtors from Obtaining Federal Benefits. Finally, the bill would amend the provision in the DCIA banning delinquent nontax debtors from obtaining certain federal benefits. Specifically, the bill would limit the ban to those who owe more than $1 million and broaden the definition of benefits to include federal licenses and fees. The bill would allow the Secretary of the Treasury to exempt certain debts and would allow agencies that issue permits and licenses to exempt those items from the ban. Limiting the ban to only high-value debts could decrease collections of delinquent debt, while adding federal licenses and fees to the definition of benefits could increase such collections. In addition, to the extent that a delinquent high-value debtor does not obtain a license or permit, the provision would decrease the collection of fees from the benefits. CBO estimates that the effect on direct spending of the changes would probably be negligible.

Spending Subject to Appropriation

H.R. 4243 also would affect the discretionary costs for collecting debts, for verifying certain income information provided by applicants for federal assistance, and for managing federal travel. In total, CBO estimates that, subject to the availability of appropriated funds, implementing H.R. 4243 would increase federal costs by $6 million over the 1999-2003 period. In addition, requiring that agencies sell certain debts and allowing them to recoup more of their costs from the proceeds from such sales could further affect discretionary costs, but we have no basis for estimating the impact from any potential sales that might arise under the bill.

Reports and Regulations. H.R. 4243 would require (1) GSA to write regulations and file both a plan and a report with the Congress by March 31, 1999, on improving the management of federal travel; (2) FMS to revise several of the regulations it has issued for implementing provisions of the DCIA; (3) agencies to report to the Congress each year nontax debts of more than $1 million; and (4) the inspectors general at such agencies to review and report on any compromise, default, or final resolution in bankruptcy of such debts. In total, CBO estimates that implementing these provisions would increase administrative costs at agencies by less than $1 million in fiscal year 1999 and by less than $500,000 each year thereafter. Based on information provided by GSA, CBO estimates that any savings in federal travel costs from the new regulations would be small.

Developing Minimum Compensation Levels for Employees of Private Collection Agencies. H.R. 4243 would transfer responsibility for establishing and monitoring minimum levels of compensation in contracts with private collection agencies from the Department of Labor (DOL) to the Departments of Justice and the Treasury, which contract for such services. CBO expects that the annual costs incurred by DOJ and Treasury would be comparable to that of DOL and would, on average, total less than $500,000.

Federal Benefit Verification and Payment Integrity Board. The bill would establish a board to review, monitor, and report annually on agency proposals to test new methods for improving the verification of income reported by applicants for benefits. The board would consist of federal and state officials involved in the administration of federal benefit programs. CBO estimates that this provision would increase annual federal costs by less than $500,000.

Notification to Applicants for Federal Assistance. H.R. 4243 would require agencies to include on application forms a statement that the agencies may verify the accuracy of information provided by the applicants. The bill would allow agencies to wait until they normally modify and reissue forms to add the notification, so long as the change is made by the end of calendar year 2000. Agencies would be required to keep a record of the applicant's acknowledgment. CBO estimates that implementing this provision would increase recordkeeping costs at agencies by less than $500,000 a year.

Security Clearances. The bill would clarify that private collection agencies are responsible for all administrative costs related to their servicing of federal debts. The federal government is currently paying the cost to obtain special security clearances for certain, high-level employees at collection agencies. Because the clearances are a one-time requirement for a few employees at each collection agency, CBO estimates that the savings from enacting this provision would be negligible.

Asset Sales. H.R. 4243 could further affect discretionary costs because it would amend the existing authority for agencies to sell assets. Specifically, subject to appropriation, it would allow agencies to sell any nontax debt and would, in general, require that agencies sell any loan that is more than one year delinquent and any new loan within six months of its disbursement. The bill would provide broad authority for agencies to exempt loans from the requirement. Currently, agencies can sell debts that are more than 90 days delinquent and are generally required to sell debts for which they have terminated their collection efforts. In addition, H.R. 4243 would expand considerably the types of expenses for which agencies can retain a portion of the proceeds from such sales, including the costs of computers, furniture, employee training and travel, private collection contracts, and general administrative costs. CBO has no basis for predicting how these changes would affect agencies' asset sales and related spending.

Governmental Receipts

H.R. 4243 would raise the maximum penalty for certain violations of the Privacy Act from $5,000 to $10,000. Collections of criminal fines, which are recorded in the budget as governmental receipts, are deposited in the Crime Victims Fund and spent in the following year. CBO estimates that the annual increase in such receipts would not be significant.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays and receipts that are subject to pay-as-you-go procedures are shown in the following table. (CBO estimates that the changes in receipts would be less than $500,000 a year.) For the purposes of enforcing pay-as-you-go procedures, only the effects in the budget year and the succeeding four years are counted.

	By Fiscal Year, in Millions of Dollars									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Changes in outlays	0	-2	-4	-4	-4	-4	-4	-4	-4	-4
Changes in receipts	0	0	0	0	0	0	0	0	0	0

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

H.R. 4243 contains an intergovernmental mandate as defined in UMRA, because it would, in certain circumstances, preempt state laws regulating debt collection agencies. Specifically, the bill would prevent states from limiting the amount collection agencies are allowed to charge for their services when they are collecting debts owed to the United States. Because such preemptions simply limit the application of state law, CBO estimates that this mandate would result in no cost to state, local, or tribal governments. Provisions in the bill that would allow states to collect past-due child support from certain types of payments would result in net additional state collections totaling about $3 million annually.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

H.R. 4243 would impose no new private-sector mandates as defined in UMRA.

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