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BILL ANALYSIS

Senate Fiscal Agency

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Senate Bill 14 (as passed by the Senate)

Sponsor: Senator Jack Welborn

Committee: Regulatory Affairs

Date Completed: 3-22-89

RATIONALE

Under current law, the Department of Treasury can intercept lottery prizes and apply them to winners' liabilities to the State or unpaid child support, but only prizes over \$5,000 are intercepted. It has been suggested that if the \$5,000 threshold were lowered, more lottery winnings could be applied to support arrearages or liabilities owed to the State.

Unpaid child support is a common problem. The State Court Administrative Office reports that in tax year 1988 there were 71,009 cases of families receiving Aid to Families with Dependent Children (AFDC) in which child support was owed but not paid, for a combined child support arrearage of \$233.5 million; there were 16,959 non-AFDC cases reported with a combined arrearage of \$72.2 million. It is probable, however, that the total arrearage figure reported for non-AFDC cases is much lower than the amount that is actually owed: while AFDC cases are automatically reported by a local Friend of the Court when an arrearage occurs, non-AFDC arrearages are reported only when a person who has not received a support payment requests the Friend of the Court to submit an arrearage notice to the Office of Child Support; and, total non-AFDC cases (with or without an arrearage) outnumber AFDC cases by three-to-one. Moreover, in both AFDC and non-AFDC cases, the figures include accumulations of arrearages that may not have been paid for many years, but remain on the records as money owed.

Many people believe that the State should make every effort to see to it that persons who own child support make those payments, not only as a legal but as a moral obligation. Currently,

under the revenue Act, the Department of Treasury can intercept tax refunds and apply them to any liability to the State, including child support arrearages. To see if a person has any liability to the State, the Department checks for any unpaid taxes, an order of garnishment from a court to satisfy a tax liability, a levy of the Internal Revenue Service, or a tax refund offset request. A tax refund offset request comes to the Department from the Office of Child Support, which compiles a master list of persons who owe child support arrearages, as submitted to the office by local Friend of the Court offices. The master list is used by the Department to intercept tax refunds of persons who have unpaid child support. Likewise, some lottery winnings are intercepted to apply to child support arrearages. Under the Lottery Act the Lottery Bureau must check with the Department of Treasury to see if a winner of a prize over \$5,000 has any liability to the State. If a liability exists, the prize is first used to pay the liability before the excess, if any, is given to the prizewinner.

CONTENT

The bill would amend the Lottery Act to require the State Lottery Bureau, before awarding a prize of \$1,000 or more or merchandise valued at \$1,000 or more, to determine if the records of the Department of Treasury show that the lottery winner has a current liability to the State, or a child support arrearage, and to apply the prize to any such liability or arrearage before paying the excess to the winner. A prize would be applied first to a liability to the State, and next to a support arrearage.

The bill would require the Treasury Department to provide the Bureau with a list, or computer access to a compilation, of persons known by the Department to have a current liability to the State or a support arrearage. The information would have to be updated at least monthly. The Bureau would be subject to the confidentiality and penalty provisions of the revenue Act for information it received from the Treasury Department.

The bill would define "support arrearage" as unpaid child support payments as determined by the Office of the Friend of the Court under the Friend of the Court Act. An amount applied to pay a support arrearage would have to be paid to the Office of the Friend of the Court for the appropriate judicial circuit in the same manner, and subject to the same interest liability, as prescribed for payments pursuant to an order of income withholding under the Support and Visitation Enforcement Act.

MCL 432.32

FISCAL IMPACT

According to the Bureau of State Lottery, the bill would require the hiring of two additional full-time employees at an approximate total cost of \$60,000 per year.

Currently, the Department of Treasury maintains a computer file of people who are in arrears for child support payments of \$400 or more, for the purpose of matching those names and Social Security numbers with those qualifying for income tax refunds. According to the Department, the costs of maintaining an additional file for the purpose of matching lottery winners with those in arrears for child support payments would be minimal. Estimates are that a maximum of \$10,000 would be required as a one-time set-up cost, and \$5,000 per year would be needed for maintenance costs. A sufficient number of inquiry (one-way) terminals may currently exist within the Department to supply the eight regional Lottery Bureau offices with the capability of running checks on winners as would be required by the bill.

The bill also could result in additional revenue to the State Treasury, to an indeterminate

degree, based on whatever State liabilities were collected due to the lowering of the level of prize winnings subject to interception.

ARGUMENTS

Supporting Argument

Sound management demands that the State retain what is due it before disbursing payments of lottery winnings. The bill would ensure that substantial lottery prizes over \$1,000 were first applied to debts owed the State before a prizewinner received a State-funded windfall. Further, the bill would see to it that persons who win such lottery prizes but have unpaid child support were not allowed to walk away with the prize. Unpaid child support is a vexing problem, not only for the individuals who are directly affected, but for society in general. Unpaid child support, for both AFDC recipients and non-AFDC recipients, totals in the hundreds of millions of dollars. The taxpayers of the State may eventually end up paying for most of these unpaid sums. If a parent who is not receiving public assistance does not receive child support payments that are due, it could cause the family to go on AFDC. If a parent who is already receiving AFDC experiences a child support arrearage, the State is not reimbursed for the arrearage until, or if, payment is made. (When a recipient receives AFDC, he or she must assign all child support payments to the State, up to the level of assistance provided.) Parents have a moral and legal obligation to support their children. The bill would prevent a person who owes child support from collecting and blowing a large lottery prize without paying arrearages first.

Opposing Argument

While few persons would favor the awarding of lottery prizes to persons who owe child support or other liabilities to the State, the bill would cause problems for the Lottery Bureau. The Bureau is not equipped to match all persons who win prizes over \$1,000 to those who owe child support arrearages or other State liabilities. According to the Bureau, in FY 1986-87 over 30,000 prizes of \$1,000 or more were awarded. This would require the Bureau to do a great deal of checking of lists for which it does not now have the staff. Further, the bill's requirements would likely result in the

delaying of lottery prize payments, and this could have a negative impact on lottery ticket sales because the Bureau's advertising and promotion emphasize that prizewinners can claim their prizes immediately.

The Bureau's mission is to sell and market the lottery to generate revenue for the State. While solving the problems of child support arrearages is an admirable goal, using the Bureau to achieve that goal would be misdirected. Requiring the Bureau to withhold prize money from persons who have won prizes and expect payment would only anger lottery customers and hurt sales.

Response: The bill wouldn't ask the Bureau to solve the problems of child support arrearages, it would only ask the Bureau's help. The checking of names and winners against the list kept by the Department of Treasury may not be as big of a problem as it appears. The Department computerizes the list of persons who have liabilities to the State and child support arrearages. Though the Bureau currently doesn't have the computer capability to cross-check this list, the Bureau could find some way to use the Department's computers or eventually develop its own computer capability for the required check.

While the intercepting of prizes could anger prizewinners who owed child support or had liabilities to the State, it is doubtful that the individual lottery purchasing habits of a relatively few individuals would have a noticeable impact on the millions of tickets sold over a year's time.

Opposing Argument:

The bill should provide for intercepting prizes of less than \$1,000, and thereby ensure that more liabilities to the State were paid. It should be a relatively simple matter to use existing data systems, along with terminals at district lottery offices, to do as the bill originally proposed to do: intercept all lottery prizes of over \$600.

Response: The bill represents a reasonable compromise between intercepting all lottery winnings and accommodating the needs of the lottery program. The original proposal could have slowed the process of awarding prizes to the point of damaging the program. Lottery players are attracted by the prospect of immediate payment, and the State lottery

therefore offers quick payment and promotes this feature of the game. If payments were delayed, many potential lottery winners would spend their dollars elsewhere, including on the illegal numbers games. Once the bill's program was implemented, its value could be assessed, and the State would be in a better position to determine whether it would be worth intercepting lottery prizes of less than \$1,000.

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