Senate Fiscal Agency
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BILL ANALYSIS

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Senate Bill 485 (as enrolled)
Sponsor: Senator Valde Garcia
Senate Committee: Families and Human Services
House Committee: Family and Children Services

PUBLIC ACT 276 of 2003

Date Completed: 2-20-04

RATIONALE

Until recently, parents with child support arrearages were assessed a surcharge at an 8% annual rate. For some, who were struggling to make the initial payments, the surcharge was an added burden that hindered their ability to continue paying support. Reportedly, several other states have reduced their child support surcharge by tying it to an adjusted prime rate. Some people believed that Michigan also should assess a similar rate in order to encourage parents to continue paying their past-due child support.

CONTENT

The bill amended the Support and Parenting Time Enforcement Act to revise the interest rate on child support arrearages. The bill took effect January 15, 2004.

Under the Act, as of January 1 and July 1 of each year, a surcharge must be added to support payments that are past due as of those dates. Previously, the surcharge was calculated at an 8% annual rate. Under the bill, the surcharge must be calculated at six-month intervals at an annual rate of interest equal to 1% plus the average interest rate paid at auctions of five-year United States Treasury notes during the six months immediately preceding July 1 and January 1, as certified by the State Treasurer. The amount of the surcharge must not compound.

MCL 552.603a

BACKGROUND

The following table shows the rate on 5-year treasury notes as of July 1 of each year between 1986 and 2003.

Year	Rate
1986	7.23%
1987	7.96
1988	8.38
1989	7.99
1990	8.35
1991	7.93
1992	6.27
1993	5.04
1994	6.95
1995	5.97
1996	6.49
1997	6.33
1998	5.43
1999	5.73
2000	6.12
2001	4.88
2002	4.08
2003	2.48

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

Sometimes a person has difficulty in meeting his or her child support obligations, which can be compounded by the surcharge that is added to the past-due amount. If this surcharge interferes with the person's ability to make further payments, he or she might not be able to pay at all. By tying the surcharge to five-year U.S. Treasury notes, the bill still will penalize parents for making late payments but will not make it so difficult that they stop paying. Since the interest rate on Treasury notes tends to reflect the state of the economy, the interest rate on support arrearages also will correspond generally to economic circumstances. During down times, when jobs might be scarce and incomes stagnant, the interest rate will be lower, as a rule, than it is during times of economic growth.

Legislative Analyst: Julie Koval

FISCAL IMPACT

The bill would have an indeterminate fiscal impact on State government. The amount of overdue child support payments was approximately $7.2 billion as of December 31, 2002. The surcharge for six months at the current rate is calculated to be approximately $288,000, or a 4% surcharge. The bill would require the use of an adjusted treasury note rate that would fluctuate every six months. The adjusted rate in July 2003 would have been approximately 3.48% annually, while the rate would have been 4.36% in January 2004. This fluctuation is tied to the market. For example, in calendar year 1994, the February rate was 6.4% annually but 10 months later 8.8% annually; therefore, the child support payments surcharge would have been 3.2% or 4.4%, respectively.

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