

CHILD SUPPORT INCENTIVE ACT OF 1997

SEPTEMBER 26, 1997.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. ARCHER, from the Committee on Ways and Means,
submitted the following

R E P O R T

[To accompany H.R. 2487]

[Including cost estimate of the Congressional Budget Office]

The Committee on Ways and Means, to whom was referred the bill (H.R. 2487) to improve the effectiveness and efficiency of the child support enforcement program and thereby increase the financial stability of single parent families including those attempting to leave welfare, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

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The amendment is as follows:

Strike out all after the enacting clause and insert in lieu thereof the following:

SECTION 1. SHORT TITLE.

This Act may be cited as the “Child Support Incentive Act of 1997”.

SEC. 2. INCENTIVE PAYMENTS TO STATES.

(a) IN GENERAL.—Part D of title IV of the Social Security Act (42 U.S.C. 651–669) is amended by inserting after section 458 the following:

“SEC. 458A. INCENTIVE PAYMENTS TO STATES.

“(a) IN GENERAL.—In addition to any other payment under this part, the Secretary shall, subject to subsection (f), make an incentive payment to each State for each fiscal year in an amount determined under subsection (b).

“(b) AMOUNT OF INCENTIVE PAYMENT.—

“(1) IN GENERAL.—The incentive payment for a State for a fiscal year is equal to the sum of the applicable percentages (determined in accordance with paragraph (3)) of the maximum incentive amount for the State for the fiscal year, with respect to each of the following measures of State performance for the fiscal year:

“(A) The paternity establishment performance level.

“(B) The support order performance level.

“(C) The current payment performance level.

“(D) The arrearage payment performance level.

“(E) The cost-effectiveness performance level.

“(2) MAXIMUM INCENTIVE AMOUNT.—

“(A) IN GENERAL.—For purposes of paragraph (1), the maximum incentive amount for a State for a fiscal year is—

“(i) with respect to the performance measures described in subparagraphs (A), (B), and (C) of paragraph (1), 0.49 percent of the State collections base for the fiscal year; and

“(ii) with respect to the performance measures described in subparagraphs (D) and (E) of paragraph (1), 0.37 percent of the State collections base for the fiscal year.

“(B) DATA USED TO CALCULATE RATIOS REQUIRED TO BE COMPLETE AND RELIABLE.—Notwithstanding subparagraph (A), the maximum incentive amount for a State for a fiscal year with respect to a performance measure described in paragraph (1) is zero, unless the Secretary determines, on the basis of an audit performed under section 452(a)(4)(C)(i), that the data which the State submitted pursuant to section 454(15)(B) for the fiscal year

and which is used to determine the performance level involved is complete and reliable.

“(C) STATE COLLECTIONS BASE.—For purposes of subparagraph (A), the State collections base for a fiscal year is equal to the sum of—

“(i) 2 times the sum of—

“(I) the total amount of support collected during the fiscal year under the State plan approved under this part in cases in which the support obligation involved is required to be assigned to the State pursuant to part A or E of this title or title XIX; and

“(II) the total amount of support collected during the fiscal year under the State plan approved under this part in cases in which the support obligation involved was so assigned but, at the time of collection, is not required to be so assigned; and

“(ii) the total amount of support collected during the fiscal year under the State plan approved under this part in all other cases.

“(3) DETERMINATION OF APPLICABLE PERCENTAGES BASED ON PERFORMANCE LEVELS.—

“(A) PATERNITY ESTABLISHMENT.—

“(i) DETERMINATION OF PATERNITY ESTABLISHMENT PERFORMANCE LEVEL.—The paternity establishment performance level for a State for a fiscal year is, at the option of the State, the IV-D paternity establishment percentage determined under section 452(g)(2)(A) or the statewide paternity establishment percentage determined under section 452(g)(2)(B).

“(ii) DETERMINATION OF APPLICABLE PERCENTAGE.—The applicable percentage with respect to a State’s paternity establishment performance level is as follows:

“If the paternity establishment performance level is:		The applicable percentage is:
At least:	But less than:	
80% .....	.....	100
79%	80%	98
78%	79%	96
77%	78%	94
76%	77%	92
75%	76%	90
74%	75%	88
73%	74%	86
72%	73%	84
71%	72%	82
70%	71%	80
69%	70%	79
68%	69%	78
67%	68%	77
66%	67%	76
65%	66%	75
64%	65%	74
63%	64%	73
62%	63%	72
61%	62%	71
60%	61%	70
59%	60%	69
58%	59%	68
57%	58%	67
56%	57%	66
55%	56%	65
54%	55%	64
53%	54%	63

“If the paternity establishment performance level is:		The applicable percentage is:
At least:	But less than:	
52%	53%	62
51%	52%	61
50%	51%	60
0%	50%	0.

Notwithstanding the preceding sentence, if the paternity establishment performance level of a State for a fiscal year is less than 50 percent but exceeds by at least 10 percentage points the paternity establishment performance level of the State for the immediately preceding fiscal year, then the applicable percentage with respect to the State’s paternity establishment performance level is 50 percent.

“(B) ESTABLISHMENT OF CHILD SUPPORT ORDERS.—

“(i) DETERMINATION OF SUPPORT ORDER PERFORMANCE LEVEL.—The support order performance level for a State for a fiscal year is the percentage of the total number of cases under the State plan approved under this part in which there is a support order during the fiscal year.

“(ii) DETERMINATION OF APPLICABLE PERCENTAGE.—The applicable percentage with respect to a State’s support order performance level is as follows:

“If the support order performance level is:		The applicable percentage is:
At least:	But less than:	
80% .....	.....	100
79%	80%	98
78%	79%	96
77%	78%	94
76%	77%	92
75%	76%	90
74%	75%	88
73%	74%	86
72%	73%	84
71%	72%	82
70%	71%	80
69%	70%	79
68%	69%	78
67%	68%	77
66%	67%	76
65%	66%	75
64%	65%	74
63%	64%	73
62%	63%	72
61%	62%	71
60%	61%	70
59%	60%	69
58%	59%	68
57%	58%	67
56%	57%	66
55%	56%	65
54%	55%	64
53%	54%	63
52%	53%	62
51%	52%	61

“If the support order performance level is:		The applicable percentage is:
At least:	But less than:	
50%	51%	60
0%	50%	0.

Notwithstanding the preceding sentence, if the support order performance level of a State for a fiscal year is less than 50 percent but exceeds by at least 5 percentage points the support order performance level of the State for the immediately preceding fiscal year, then the applicable percentage with respect to the State’s support order performance level is 50 percent.

“(C) COLLECTIONS ON CURRENT CHILD SUPPORT DUE.—

“(i) DETERMINATION OF CURRENT PAYMENT PERFORMANCE LEVEL.—

The current payment performance level for a State for a fiscal year is equal to the total amount of current support collected during the fiscal year under the State plan approved under this part divided by the total amount of current support owed during the fiscal year in all cases under the State plan, expressed as a percentage.

“(ii) DETERMINATION OF APPLICABLE PERCENTAGE.—The applicable percentage with respect to a State’s current payment performance level is as follows:

“If the current payment performance level is:		The applicable percentage is:
At least:	But less than:	
80% .....	.....	100
79%	80%	98
78%	79%	96
77%	78%	94
76%	77%	92
75%	76%	90
74%	75%	88
73%	74%	86
72%	73%	84
71%	72%	82
70%	71%	80
69%	70%	79
68%	69%	78
67%	68%	77
66%	67%	76
65%	66%	75
64%	65%	74
63%	64%	73
62%	63%	72
61%	62%	71
60%	61%	70
59%	60%	69
58%	59%	68
57%	58%	67
56%	57%	66
55%	56%	65
54%	55%	64
53%	54%	63
52%	53%	62
51%	52%	61

“If the current payment performance level is:		The applicable percentage is:
At least:	But less than:	
50%	51%	60
49%	50%	59
48%	49%	58
47%	48%	57
46%	47%	56
45%	46%	55
44%	45%	54
43%	44%	53
42%	43%	52
41%	42%	51
40%	41%	50
0%	40%	0.

Notwithstanding the preceding sentence, if the current payment performance level of a State for a fiscal year is less than 40 percent but exceeds by at least 5 percentage points the current payment performance level of the State for the immediately preceding fiscal year, then the applicable percentage with respect to the State’s current payment performance level is 50 percent.

“(D) COLLECTIONS ON CHILD SUPPORT ARREARAGES.—

“(i) DETERMINATION OF ARREARAGE PAYMENT PERFORMANCE LEVEL.—The arrearage payment performance level for a State for a fiscal year is equal to the total number of cases under the State plan approved under this part in which payments of past-due child support were received during the fiscal year and part or all of the payments were distributed to the family to whom the past-due child support was owed (or, if all past-due child support owed to the family was, at the time of receipt, subject to an assignment to the State, part or all of the payments were retained by the State) divided by the total number of cases under the State plan in which there is past-due child support, expressed as a percentage.

“(ii) DETERMINATION OF APPLICABLE PERCENTAGE.—The applicable percentage with respect to a State’s arrearage payment performance level is as follows:

“If the arrearage payment performance level is:		The applicable percentage is:
At least:	But less than:	
80% .....	.....	100
79%	80%	98
78%	79%	96
77%	78%	94
76%	77%	92
75%	76%	90
74%	75%	88
73%	74%	86
72%	73%	84
71%	72%	82
70%	71%	80
69%	70%	79
68%	69%	78
67%	68%	77
66%	67%	76
65%	66%	75

“If the arrearage payment performance level is:		The applicable percentage is:
At least:	But less than:	
64%	65%	74
63%	64%	73
62%	63%	72
61%	62%	71
60%	61%	70
59%	60%	69
58%	59%	68
57%	58%	67
56%	57%	66
55%	56%	65
54%	55%	64
53%	54%	63
52%	53%	62
51%	52%	61
50%	51%	60
49%	50%	59
48%	49%	58
47%	48%	57
46%	47%	56
45%	46%	55
44%	45%	54
43%	44%	53
42%	43%	52
41%	42%	51
40%	41%	50
0%	40%	0.

Notwithstanding the preceding sentence, if the arrearage payment performance level of a State for a fiscal year is less than 40 percent but exceeds by at least 5 percentage points the arrearage payment performance level of the State for the immediately preceding fiscal year, then the applicable percentage with respect to the State’s arrearage payment performance level is 50 percent.

“(E) COST-EFFECTIVENESS.—

“(i) DETERMINATION OF COST-EFFECTIVENESS PERFORMANCE LEVEL.—

The cost-effectiveness performance level for a State for a fiscal year is equal to the total amount collected during the fiscal year under the State plan approved under this part divided by the total amount expended during the fiscal year under the State plan, expressed as a ratio.

“(ii) DETERMINATION OF APPLICABLE PERCENTAGE.—The applicable percentage with respect to a State’s cost-effectiveness performance level is as follows:

“If the cost effectiveness performance level is:		The applicable percentage is:
At least:	But less than:	
5.00 .....	.....	100
4.50	4.99	90
4.00	4.50	80
3.50	4.00	70
3.00	3.50	60
2.50	3.00	50

“If the cost effectiveness performance level is:		The applicable percentage is:
At least:	But less than:	
2.00	2.50	40
0.00	2.00	0.

“(c) TREATMENT OF INTERSTATE COLLECTIONS.—In computing incentive payments under this section, support which is collected by a State at the request of another State shall be treated as having been collected in full by both States, and any amounts expended by a State in carrying out a special project assisted under section 455(e) shall be excluded.

“(d) ADMINISTRATIVE PROVISIONS.—The amounts of the incentive payments to be made to the States under this section for a fiscal year shall be estimated by the Secretary at or before the beginning of the fiscal year on the basis of the best information available. The Secretary shall make the payments for the fiscal year, on a quarterly basis (with each quarterly payment being made no later than the beginning of the quarter involved), in the amounts so estimated, reduced or increased to the extent of any overpayments or underpayments which the Secretary determines were made under this section to the States involved for prior periods and with respect to which adjustment has not already been made under this subsection. Upon the making of any estimate by the Secretary under the preceding sentence, any appropriations available for payments under this section are deemed obligated.

“(e) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary governing the calculation of incentive payments under this section, including directions for excluding from the calculations certain closed cases and cases over which the States do not have jurisdiction.

“(f) REINVESTMENT.—A State to which a payment is made under this section shall expend the full amount of the payment—

“(1) to carry out the State plan approved under this part; or

“(2) for any activity (including cost-effective contracts with local agencies) approved by the Secretary, whether or not the expenditures for which are eligible for reimbursement under this part, which may contribute to improving the effectiveness or efficiency of the State program operated under this part.”.

(b) TRANSITION RULE.—Notwithstanding any other provision of law—

(1) for fiscal year 2000, the Secretary shall reduce by $\frac{1}{3}$ the amount otherwise payable to a State under section 458, and shall reduce by $\frac{2}{3}$ the amount otherwise payable to a State under section 458A; and

(2) for fiscal year 2001, the Secretary shall reduce by $\frac{2}{3}$ the amount otherwise payable to a State under section 458, and shall reduce by $\frac{1}{3}$ the amount otherwise payable to a State under section 458A.

(c) REGULATIONS.—Within 9 months after the date of the enactment of this section, the Secretary of Health and Human Services shall prescribe regulations governing the implementation of section 458A of the Social Security Act when such section takes effect and the implementation of subsection (b) of this section.

(d) STUDIES.—

(1) GENERAL REVIEW OF NEW INCENTIVE PAYMENT SYSTEM.—

(A) IN GENERAL.—The Secretary of Health and Human Services shall conduct a study of the implementation of the incentive payment system established by section 458A of the Social Security Act, in order to identify the problems and successes of the system.

(B) REPORTS TO THE CONGRESS.—

(i) REPORT ON VARIATIONS IN STATE PERFORMANCE ATTRIBUTABLE TO DEMOGRAPHIC VARIABLES.—Not later than October 1, 2000, the Secretary shall submit to the Congress a report that identifies any demographic or economic variables that account for differences in the performance levels achieved by the States with respect to the performance measures used in the system, and contains the recommendations of the Secretary for such adjustments to the system as may be necessary to ensure that the relative performance of States is measured from a baseline that takes account of any such variables.

(ii) INTERIM REPORT.—Not later than March 1, 2001, the Secretary shall submit to the Congress an interim report that contains the findings of the study required by subparagraph (A).

(iii) FINAL REPORT.—Not later than October 1, 2003, the Secretary shall submit to the Congress a final report that contains the final findings of the study required by subparagraph (A). The report shall in-

clude any recommendations for changes in the system that the Secretary determines would improve the operation of the child support enforcement program.

(2) DEVELOPMENT OF MEDICAL SUPPORT INCENTIVE.—

(A) IN GENERAL.—The Secretary of Health and Human Services, in consultation with State directors of programs operated under part D of title IV of the Social Security Act and representatives of children potentially eligible for medical support, shall develop a performance measure based on the effectiveness of States in establishing and enforcing medical support obligations, and shall make recommendations for the incorporation of the measure, in a revenue neutral manner, into the incentive payment system established by section 458A of the Social Security Act.

(B) REPORT.—Not later than October 1, 1999, the Secretary shall submit to the Congress a report that describes the performance measure and contains the recommendations required by subparagraph (A).

(e) TECHNICAL AMENDMENTS.—

(1) IN GENERAL.—Section 341 of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (42 U.S.C. 658 note) is amended—

(A) by striking subsection (a) and redesignating subsections (b), (c), and (d) as subsections (a), (b), and (c), respectively; and

(B) in subsection (c) (as so redesignated)—

(i) by striking paragraph (1) and inserting the following:

“(1) CONFORMING AMENDMENTS TO PRESENT SYSTEM.—The amendments made by subsection (a) of this section shall become effective with respect to a State as of the date the amendments made by section 103(a) (without regard to section 116(a)(2)) first apply to the State.”; and

(ii) in paragraph (2), by striking “(c)” and inserting “(b)”.

(2) EFFECTIVE DATE.—The amendments made by this section shall take effect as if included in the enactment of section 341 of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996.

(f) ELIMINATION OF PREDECESSOR INCENTIVE PAYMENT SYSTEM.—

(1) REPEAL.—Section 458 of the Social Security Act (42 U.S.C. 658) is repealed.

(2) CONFORMING AMENDMENTS.—

(A) Section 458A of the Social Security Act (42 U.S.C. 658a) is redesignated as section 458.

(B) Subsection (d)(1) of this section is amended by striking “458A” and inserting “458”.

(3) EFFECTIVE DATE.—The amendments made by this subsection shall take effect on October 1, 2001.

(g) GENERAL EFFECTIVE DATE.—Except as otherwise provided in this section, the amendments made by this section shall take effect on October 1, 1999.

I. INTRODUCTION

A. PURPOSE AND SUMMARY

The Committee proposal is designed to improve the current system used by the Federal government to reward States for good performance in conducting their child support enforcement program. Along with other child support reforms enacted in the 1996 welfare reform law, the new incentive system is expected to increase both the effectiveness and efficiency of the child support programs conducted by the States. Among other notable outcomes, the new system will help families leave welfare and maintain their independence from welfare.

B. BACKGROUND AND NEED FOR LEGISLATION

The current child support incentive system has two major shortcomings. First, incentive payments are based almost exclusively on collections without providing incentive payments for the program outcomes—such as paternity establishment—upon which collec-

tions are based. Second, States receive incentive payments that are guaranteed regardless of their efficiency in making collections.

In order to counteract these shortcomings, the Committee proposal would replace the current system with a new incentive program designed to increase the efficiency of State programs and ultimately child support collections made on behalf of families with children, including families struggling to get off or stay off welfare.

The following are the major features of the new child support incentive system that would be established under the Committee proposal:

Performance Measures. The new system is based on five performance measures that create strong incentives for States to operate efficient child support programs in keeping with the goals of the 1996 welfare reform law:

Paternity establishment. State performance on paternity establishment is calculated as a percentage either of all out-of-wedlock births in a given year for the entire State for which paternity is established or of all out-of-wedlock births in the State child support program for which paternity is established.

Support orders. State performance on support orders is calculated by dividing the number of cases in the child support program for which there is a support order by the total number of cases in the program.

Current payments. State performance on current payments is obtained by dividing the total payments on current support in cases in the child support program by the total amount owed on support in these cases which is not overdue.

Arrearages payments. State performance on arrearages is obtained by dividing the total number of cases with payments on past-due child support (but including only those cases in which past-due support was distributed to the family) in the child support program by the total number of cases with past-due support. If collections on arrearages were made through the Federal income tax offset program, States can only count the case as a case with payment if the State shares a portion of the payment with the family.

Cost-effectiveness. State performance on cost-effectiveness is determined by dividing the total amount collected by the child support program by the total amount spent by the program to make these collections.

Weighting of Performance Measures. The performance measures are weighted as follows: paternity establishment, establishment of support orders, and payments on current support receive a maximum weight of 0.49 percent; performance on payment of arrearages and cost-effectiveness receive a maximum weight of 0.37 percent. These weights are called the "maximum incentive payment" and have been selected so that the Committee proposal will be judged by the Congressional Budget Office to be budget neutral.

Determining Performance Scores. State performance on each measure calculated as defined above is compared to a table (all tables are located at the end of this report) for each measure to determine the actual percentage score that is applied to the maximum incentive payment. This score is called the "applicable percentage". For example: a performance percentage of 77 percent on current payments yields an applicable percentage of 94 (see Table 3). Thus,

on the current payment performance measure, a State with a performance percentage of 77 would receive an applicable percentage of 94 which is then multiplied by the maximum incentive payment of 0.49 percent to yield the incentive payment amount of 0.46 percent. The State incentive payment for the year on the current payment performance measure is then calculated by multiplying 0.46 percent by the State collections base.

State Collections Base. The State collections base equals 2 times collections from families that are currently or were formerly receiving benefits from the Temporary Assistance for Needy Families (TANF) program (or its predecessor program Aid to Families with Dependent Children), from Medicaid under Title XIX, or from foster care under Title IV–E plus collections from families in the State child support program than were never in these welfare programs.

Low Performance on Performance Measures. In the case of each performance measure except cost-effectiveness, States with a performance level of less than either 40 or 50 percent depending on the measure can receive an applicable percentage of 50 percent only if they improve their performance over the previous year by at least 10 percentage points (in the case of paternity establishment) or 5 percentage points (in the cases of child support orders, current payments, and arrearages payments).

Total Incentive Payment. States receive total incentive payments equal to the sum of their payments on each performance measure. The maximum possible total incentive payment for a State would be 2.21 percent times the State collections base.

Treatment of Interstate Collections. Support collected by a State at the request of another State is treated as having been collected by both States.

Regulations. The Secretary of Health and Human Services must prescribe regulations for the incentive program within 9 months of the date of enactment.

Reinvestment. States must spend their child support incentive payments to carry out their child support enforcement programs, including by passing incentive funds through to local agencies, or to conduct activities approved by the Secretary which may contribute to improving the effectiveness or efficiency of the State child support enforcement program.

Transition Rule. The new incentive system is phased in over 3 years beginning in fiscal year 2000. In fiscal year 2000, 1/3rd of each State's incentive payment is based on the new incentive system and 2/3rds on the old system. In fiscal year 2001, 2/3rds of each State's incentive payment is based on the new incentive system and 1/3rd on the old system. The new system is fully operational in fiscal year 2002.

Data Quality. States cannot receive an incentive payment for any measure unless the Secretary has determined that the data submitted by the State for that measure are complete and reliable.

Review. The Secretary of Health and Human Services must conduct a review of the implementation of the new incentive system in order to identify problems and successes of the program. As part of these reports, the Secretary must analyze the impact of demographic or economic differences among the States that affect their incentive payments. An interim report must be presented to Con-

gress by March 1, 2001 and a final report by October 1, 2003. The final report should contain recommendations for legislative changes in the program if the Secretary determines that changes are needed.

Study. The Secretary, in consultation with State child support directors, national organizations that represent State child support and other welfare programs, and representatives of children potentially eligible for medical support, must develop a medical support incentive measure based on effective performance. A report on this incentive measure must be submitted to Congress not later than October 1, 1999.

C. LEGISLATIVE HISTORY

Committee bill

H.R. 2487 was introduced on September 17, 1997 by Chairman Shaw and Mr. Levin of the Subcommittee on Human Resources. The Subcommittee on Human Resources considered H.R. 2487 and ordered it favorably reported to the full Committee, as amended, on September 18, 1997 by voice vote. The full Committee on Ways and Means considered the Subcommittee reported bill on September 23, 1997 and ordered it favorably reported, as amended, on Tuesday, September 23, 1997, by voice vote.

The Chairman's amendment in the nature of a substitute, making technical and conforming changes to the introduced bill, was agreed to by voice vote. Also agreed to by voice vote were the Johnson amendment to reward States that share a portion of their child support collection with families, and the McCrery amendment to allow States to pass through incentive payments to local agencies under some circumstances.

Legislative hearings

The Subcommittee on Human Resources held a hearing on the child support incentive payment proposal on March 13, 1997 that included testimony from the Administration, national organizations of child support administrators, organizations representing non-custodial parents, child advocacy groups, and the Congressional Research Service. The Subcommittee also held a hearing on September 10, 1997, which included testimony from the Administration, State child support program directors, child advocacy groups, and private companies participating in child support enforcement programs.

II. EXPLANATION OF PROVISIONS

A. (SEC. 1) SHORT TITLE

Present law

No provision.

Explanation of provision

This Act may be cited as the "Child Support Incentive Act of 1997".

B. (SEC. 2(a)) INCENTIVE PAYMENTS TO STATES

*1. Amount of incentive payment**Present law*

Each State receives an incentive payment equal to at least 6 percent of the State's total amount of child support collected on behalf of TANF families for the year, plus at least 6 percent of the State's total amount of child support collected on behalf of non-TANF families for the year. The amount of non-TANF collections eligible for the incentive payment is capped at 115 percent of TANF collections. (Note: P.L. 98-378, the Child Support Enforcement Amendments of 1984, stipulates that political subdivisions of a State that participate in the costs of support enforcement must receive an appropriate share of any incentive payment given to the State. P.L. 98-378 also requires States to develop criteria for passing through incentives to localities, taking into account the efficiency and effectiveness of local programs.)

Explanation of provision

The incentive payment for a State equals the sum of the applicable percentages of the maximum incentive amount based on the five measures of State child support performance defined below.

Reason for Change

One of the major deficiencies of the incentive system in current law is that its rewards are based almost entirely on child support collections. The Committee believes that a better approach is to reward both collections and State performance on the underlying factors on which collections are based. Thus, the new system rewards paternity establishment and establishment of legal child support orders because these are the foundations of collections; without paternity and support order establishment, collections are impossible. The new system retains a measure of collections on current support (support that is not past due) but also adds collections on past due support as a performance measure. The Committee has received extensive testimony that States are sometimes reluctant to work arrearage cases because they are frequently difficult to bring to successful completion. Thus, by providing a separate performance measure of arrearage payments, we can encourage States not to ignore these important cases. Finally, because efficiency should be an ingredient of any incentive system, we include a measure of the efficiency with which States collect payments.

*2. Maximum incentive payment**Present law*

The maximum incentive payment for a State could reach a high of 10 percent of child support collected on behalf of TANF families plus 10 percent of child support collected on behalf of non-TANF families. There is a limit, however, on the incentive payment for non-TANF child support collections. The incentive payments for such collections may not exceed 115 percent of incentive payments for TANF child support collections.

Explanation of provision

The maximum incentive amount for a State is 0.49 percent of the collections base for performance on paternity establishment, support order establishment, and collections on current payments and 0.37 percent for performance on collections on arrearages and cost-effectiveness. The total maximum incentive payment for a State for a fiscal year is 2.21 percent of the collections base.

Reason for change

Perhaps the greatest shortcoming of the current incentive system is that States get a substantial portion of the incentive payments without regard to performance. Thus, the new system involves a two-step procedure to overcome this deficiency. First, the quality of State performance is calculated on each measure, usually by calculating a percentage that represents the fraction of perfect performance the State achieved. To take paternity establishment as an example, the calculation is simply the number of out-of-wedlock births in which paternity is established divided by the total number of out-of-wedlock births. This percentage is then located in a table that, based on previous performance by all States on this measure, converts this percentage to a second percentage called the “applicable percentage”. This step is necessary to convert the absolute percentage performance on each performance measure to a relative percentage reflecting quality of performance relative to previous performance on each measure by the States.

A notable feature of the tables (see below) is that for inferior performance (usually below about 50 percent), States would receive no incentive payments unless they substantially increase their performance from the previous year. This feature of the new system ensures that States that do not achieve at least a reasonable level of performance receive either very low incentive payments or no incentive payment at all.

The particular maximum incentive payments for the five performance payments (three of which are 0.49 percent and two of which are 0.37 percent) were selected primarily to make the new incentive system budget neutral. The values are based on estimates of how much States will earn in incentive payments based on their previous performance and on the requirement to assure that the bill is budget neutral.

3. *Data used to calculate ratios required to be complete and reliable*

Present law

No provision.

Explanation of provision

The payment on each of the five performance measures is zero unless the Secretary determines that the data submitted by the State for each measure are complete and reliable.

Reason for change

States sometimes report data to the Department of Health and Human Services that are incomplete and unreliable. Usually, there is little the Federal government can do about this problem. How-

ever, in the case of the incentive system, the Committee bill gives the Secretary the authority to refuse incentive payments if the data for the performance measures are not complete and reliable. The Secretary can refuse payments on one or more measures and award payments on the others. Given the substantial sums of money involved, this authority to refuse to make payments should ensure high quality data.

4. State collections base

Present law

Although the collections base terminology is not used, the incentive payment is based on total child support collected on behalf of TANF families (i.e., TANF collections) plus total child support collected on behalf of non-TANF families (i.e., non-TANF collections). Note: Collections made on behalf of Title IV–E foster care children are considered TANF collections for purposes of the incentive payment.

Explanation of provision

The collections base for a fiscal year is the sum of two categories of child support collections by the State. The first category is collections on cases in the State child support welfare caseload. This category includes families that are currently or were formerly receiving benefits from TANF (or its predecessor program Aid to Families with Dependent Children), from Medicaid under Title XIX, or from foster care under Title IV–E. Collections from this category are doubled in the State collections base calculation. The second category is collections from all other families receiving services from the State child support enforcement program.

Reason for change

Applying the sum of State incentive percentages to the collections base has the effect of retaining the most important outcome measure—the actual collection of payments—as the central and most highly rewarded feature of the new system. In effect, collections are counted twice, once under the collection performance measures for current support and for arrearages and again when the incentive percentages are applied to the State collections base. A second notable feature of the State collections base is that collections in welfare or former welfare cases are doubled. Thus, \$1 of collections in welfare cases is equivalent to \$2 of collections in non-welfare cases. The purpose of this approach is to encourage States to emphasize collections in cases of the most needy families and to avoid the temptation to concentrate their resources on cases with the highest potential payments.

5. Determination of applicable percentages for paternity establishment

Present law

No provision.

Explanation of provision

The paternity establishment performance level for a State for a fiscal year is, at the option of the State, either the paternity establishment percentage of cases in the child support program or the paternity establishment percentage of all out-of-wedlock births in the State. In both cases, the paternity establishment percentage is obtained by dividing the cases in which paternity is established by the total number of out-of-wedlock births. The applicable percentage of the maximum incentive amount for paternity establishment of 0.49 percent is then determined in accord with Table 1 (below).

Special rule for computing the applicable percentage for paternity establishment: If the paternity establishment performance level of a State is less than 50 percent but exceeds by at least 10 percentage points the paternity establishment performance level of the State for the immediately preceding fiscal year, then the applicable percentage for the State paternity establishment performance level is 50 percent.

Reason for change

As explained above, an important characteristic of the new incentive system is that State performance on several measures other than collections is rewarded. As one of the most important foundations of child support, paternity establishment is included as one of the new performance measures. The special rule for States operating at a very low performance level is included so that States that perform poorly can receive at least a minimum payment if they improve their performance substantially. This approach provides even the lowest-performing States with financial incentives to improve.

6. *Determination of applicable percentages for child support orders**Present law*

No provision.

Explanation of provision

The support order performance level for a State for a fiscal year is the percentage of cases in the child support program for which there is a support order. The applicable percentage of the maximum incentive amount for support orders of 0.49 percent is then determined in accord with Table 2 (below).

Special rule for computing the applicable percentage for child support orders: If the support order performance level of a State is less than 50 percent but exceeds by at least 5 percentage points the support order performance level of the State for the immediately preceding fiscal year, then the applicable percentage for the State's support order performance level is 50 percent.

Reason for change

Like paternity establishment, establishment of support orders is one of the foundations of a good child support enforcement system. Collections are virtually impossible in cases that do not have support orders. Thus, including establishment of support orders as a performance measure is well justified. As in the case of paternity

establishment, a special rule for very low performing States is included to maintain some incentive for these States to improve their performance.

7. Determination of applicable percentage for current payment performance level

Present law

No provision.

Explanation of provision

The current payment performance level for a State for a fiscal year is the total amount of current support collected during the fiscal year from all cases in the child support program (both welfare and non-welfare cases) divided by the total amount owed on support which is not past due. The applicable percentage of the maximum incentive amount for current payment of 0.49 percent is then determined in accord with Table 3 (below).

Special rule for computing the applicable percentage for current payments: If the current payment performance level is less than 40 percent but exceeds by at least 5 percentage points the current payment performance level of the State for the immediately preceding fiscal year, then the applicable percentage for the State's current payment performance level is 50 percent.

Reason for change

As the most important outcome measure, collections play a central role in the new incentive system. However, the new system distinguishes between collections on current support and collections on past-due support in order to maintain an incentive for States to collect on arrearage cases; arrearage cases are more difficult than cases involving current support because the parent owing money is often more difficult to locate, needed documents are more difficult to locate, and parents who owe arrearages are often those who are most reluctant to pay support. Again, a special rule is included to maintain an incentive for States that perform poorly if they substantially improve their performance.

8. Determination of arrearages payment performance level

Present Law

No provision.

Explanation of provision

The arrearages payment performance level for a State for a fiscal year is the total number of cases in the State child support program that received payments on past-due child support divided by the total number of cases in the State child support program in which a payment of child support is past-due. The applicable percentage of the maximum incentive amount for arrearages of 0.37 percent is then determined in accord with Table 4 (below). For purposes of determining the number of cases in which payments of past-due support were received, in the case of former welfare recipients to whom past-due support is owed, a State shall count only

those cases in which at least part of the past-due support was distributed to the family.

Special rule for computing the applicable percentage for arrearages: If the arrearages payment performance level of a State for a fiscal year is less than 40 percent but exceeds by at least 5 percentage points the arrearages payment performance level for the immediately preceding fiscal year, then the applicable percentage for the State's arrearages performance level is 50 percent.

Reason for change

As explained above, collections on past-due support are included as a performance measure in order to maintain an incentive for States to collect on arrearage cases. The Committee bill specifies, however, that States can earn this incentive only if they improve and pass on at least some of the collections to families, rather than retaining the entire amount of the collections at the State level. These cases are more difficult than cases involving current support because the parent owing money is often more difficult to locate, needed documents are more difficult to locate, and parents who owe arrearages are often those who are most reluctant to pay support. Again, a special rule is included to maintain an incentive for States that perform poorly if they substantially improve their performance.

9. Determination of cost-effectiveness performance level

Present law

Incentive payments are made according to the collection-to-cost ratios (ratio of TANF collections to total child support enforcement administrative costs and ratio of non-TANF collections to total child support enforcement administrative costs) shown below.

<i>Collection-to-cost ratio</i>	<i>Incentive payment received (in percent)</i>
Less than 1.4 to 1	6.0
At least 1.4 to 1	6.5
At least 1.6 to 1	7.0
At least 1.8 to 1	7.5
At least 2.0 to 1	8.0
At least 2.2 to 1	8.5
At least 2.4 to 1	9.0
At least 2.6 to 1	9.5
At least 2.8 to 1	10.0

For purposes of calculating these ratios, interstate collections are credited to both the initiating and responding States. In addition, at State option, laboratory costs (for blood testing, etc.) to establish paternity may be excluded from the State's administrative costs in calculating the State's collection-to-cost ratios for purposes of determining the incentive payment.

Explanation of provision

The cost-effectiveness performance level for a State for a fiscal year is the total amount collected during the fiscal year from all cases in the State child support program divided by the total amount expended during the fiscal year on the State child support program. The applicable percentage of the maximum incentive

amount for cost-effectiveness of 0.37 percent is then determined in accord with Table 5 (below).

Reason for change

The current incentive system is based in part on program efficiency. Thus, including an efficiency performance measure does not represent a change in the new system. Moreover, the calculation of efficiency is identical in both the current and the proposed incentive systems (total collections divided by total administrative expenditures).

10. Treatment of interstate collections

Present law

As noted above, in computing incentive payments, child support collected by one State at the request of another State (i.e., interstate collections) are credited to both the initiating State and the responding State. State expenditures on special interstate projects carried out under section 455(e) of the Social Security Act must be excluded from the incentive payment calculation.

Explanation of provision

In computing incentive payments, support collected by a State at the request of another State is treated as having been collected by both States. State expenditures on a special interstate project carried out under section 455(e) are excluded from incentive payment calculations.

Reason for change

The procedure of counting collections in interstate cases as collections in both the State collecting the money and the State receiving the money is identical to current law.

11. Administrative provision

Present law

The Secretary's incentive payments to States for any fiscal year are estimated at or before the beginning of such year based on the best information available. The Secretary makes such payments on a quarterly basis. Each quarterly payment must be reduced or increased to the extent of overpayments or underpayments for prior periods.

Explanation of provision

The Secretary's incentive payments to States are based on estimates computed from previous performance by the States. Each year, the Secretary must make quarterly payments based on these estimates. Each quarterly payment must be reduced or increased to the extent of overpayments or underpayments for prior periods.

Reason for change

The administrative provision in the new bill for payments to States is based on current law and represents no change in policy.

12. Regulations

Present law

Not applicable.

Explanation of provision

The Secretary of Health and Human Services must prescribe regulations necessary to implement the incentive payment program within 9 months of the date of enactment. These regulations may include directions for excluding certain closed cases and cases over which the State has no jurisdiction.

Reason for change

Most new legislation contains instructions for the Secretary to issue regulations. Thus, this provision is not a change in policy.

13. Reinvestment

Present law

No provision.

Explanation of provision

States must spend their child support incentive payments to carry out their child support enforcement program, including by passing through incentive funds to local agencies, or to conduct activities approved by the Secretary which may contribute to improving the effectiveness or efficiency of the State child support enforcement program.

Reason for change

Unlike current law, the incentive system proposed by the Committee bill requires States to spend all their incentive payments on the child support enforcement program. Three considerations justify this change. First, it makes little sense for Congress to design a child support program that provides States with money to build bridges and roads. Second, given the modest performance of most States in conducting their child support program, there is a great need for States to spend more money on building the infrastructure and hiring the personnel necessary to improve performance. Third, the agency that must carry the burden in improving State child support performance is the child support agency. Allowing incentive money to be spent by other agencies (other than local agencies that share the same mission of improving the State child support program), as is often done under the current system, can be expected to greatly reduce the impact of performance incentive payments.

C. (SEC. 2(b)) TRANSITION RULE

Present law

Not applicable.

Explanation of provision

The new incentive system is phased in over 3 years beginning in fiscal year 2000. In fiscal year 2000, 1/3rd of each State's incentive

payment is based on the new incentive system and 2/3rds on the old system. In fiscal year 2001, 2/3rds of each State's incentive payment is based on the new incentive system and 1/3rd on the old system. The new system is fully operational in fiscal year 2002.

Reason for change

Several States will lose money under the new incentive system unless they improve their performance. In order to give these States time to make the program adjustments and improvements necessary to increase their performance as measured under the new system, the Committee wanted to be certain that several years elapsed before the new system was fully implemented. After discussion, the Committee decided to wait until October 1, 1999 to implement the program and then to spread the implementation over a three-year period. In effect, this approach will provide States with up to 4 years to adjust to the new system.

D. (SEC. 2(d)) STUDIES

1. *General review of new incentive payment system*

Present law

No provision.

Explanation of provision

The Secretary of Health and Human Services must conduct a study of the implementation of the incentive payment program in order to identify problems and successes of the program. As part of her reports, the Secretary must analyze the impact of demographic or economic differences among the States that affect their incentive payments. An interim report must be presented to Congress not later than March 1, 2001. By October 1, 2003, the Secretary must submit a final report. Recommendations for changes that the Secretary determines would improve program operation should be included in the final report.

Reason for change

As is the case with any new program, problems with implementation are to be expected. Some of these will be solved at the State or local level. Others, however, may be due to flaws in the way the program was conceived by Congress or in the way the statute is written. Given these potential problems, it is wise to have the Secretary conduct an unbiased study of the new program both during its early stages and after it is fully implemented. If there are problems that require Congressional action, legislators will have timely information to use in taking remedial steps. The Committee included a provision requiring the Secretary to study the impact of demographic and economic factors on State incentive payments because of the striking demographic and economic differences between States, especially in factors such as poverty rates, rates of out-of-wedlock births, and per capita income, that might be expected to play a major role in the potential for collecting child support payments. At some point, Congress may want to contemplate designing an incentive system that adjusts for these demographic and economic differences.

2. *Development of medical support incentive*

Present law

No provision.

Explanation of provision

The Secretary, in consultation with State child support directors, national organizations that represent State child support and other welfare programs, and representatives of children potentially eligible for medical support, must develop a new medical support incentive measure based on effective performance, to enhance the incentives established under this bill. A report on this incentive must be submitted to Congress not later than October 1, 1999.

Reason for change

Several witnesses who appeared before the Committee recommended that we consider including medical child support as a performance measure. After discussion, the Committee decided not to include this measure because of the lack of information about the reliability of State data on medical support as well as historical information about State performance on the measure that could be used to estimate payments. However, because medical support is of central importance to a good child support system, the Committee decided to ask the Secretary to study the feasibility of using medical support as a performance measure and to report her findings to Congress.

E. (SEC. 2(e)) ELIMINATION OF CURRENT INCENTIVE PROGRAM

Present law

No provision. (The current incentive payment system is a permanent provision of law.)

Explanation of provision

The current incentive program under section 458 of the Social Security Act is repealed on October 1, 2001. On that date, section 458A is redesignated as section 458.

Reason for change

Once the new system is fully implemented in fiscal year 2002, the old system is repealed and the statute is rearranged so that the number of the old system (section 458) becomes the number of the new system (section 458) and the number used for the new system (section 458A) during the transition period is discontinued.

F. (SEC. 2(f)) GENERAL EFFECTIVE DATE

Present law

The current incentive payment system took effect on October 1, 1985.

Explanation of provision

Except for the elimination of the current incentive program (see item E), the amendments made by this legislation take effect on October 1, 1999.

Reason for change

As explained previously, the Committee intended to allow ample time for States to adjust to the new incentive system and to improve their collection and reporting of the data on which the new system is based. For this reason, the Committee delayed the effective date until October 1, 1999 and gave States 3 years to implement the new system.

Table 1

If the paternity establishment performance level is:

At least:	But less than:	The applicable percentage is:
80%		100
79%	80%	98
78%	79%	96
77%	78%	94
76%	77%	92
75%	76%	90
74%	75%	88
73%	74%	86
72%	73%	84
71%	72%	82
70%	71%	80
69%	70%	79
68%	69%	78
67%	68%	77
66%	67%	76
65%	66%	75
64%	65%	74
63%	64%	73
62%	63%	72
61%	62%	71
60%	61%	70
59%	60%	69
58%	59%	68
57%	58%	67
56%	57%	66
55%	56%	65
54%	55%	64
53%	54%	63
52%	53%	62
51%	52%	61
50%	51%	60
0%	50%	0

Table 2

If the support order establishment performance level is:

At least:	But less than:	The applicable percentage is:
80%		100
79%	80%	98
78%	79%	96
77%	78%	94
76%	77%	92
75%	76%	90
74%	75%	88
73%	74%	86
72%	73%	84
71%	72%	82
70%	71%	80
69%	70%	79
68%	69%	78
67%	68%	77
66%	67%	76
65%	66%	75
64%	65%	74
63%	64%	73
62%	63%	72
61%	62%	71
60%	61%	70
59%	60%	69
58%	59%	68
57%	58%	67
56%	57%	66
55%	56%	65
54%	55%	64
53%	54%	63
52%	53%	62
51%	52%	61
50%	51%	60
0%	50%	0

Table 3

<u>If the current payment performance level is:</u>		
At least:	But less than:	The applicable percentage is:
80%		100
79%	80%	98
78%	79%	96
77%	78%	94
76%	77%	92
75%	76%	90
74%	75%	88
73%	74%	86
72%	73%	84
71%	72%	82
70%	71%	80
69%	70%	79
68%	69%	78
67%	68%	77
66%	67%	76
65%	66%	75
64%	65%	74
63%	64%	73
62%	63%	72
61%	62%	71
60%	61%	70
59%	60%	69
58%	59%	68
57%	58%	67
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54%	55%	64
53%	54%	63
52%	53%	62
51%	52%	61
50%	51%	60
49%	50%	59
48%	49%	58
47%	48%	57
46%	47%	56
45%	46%	55
44%	45%	54
43%	44%	53
42%	43%	52
41%	42%	51
40%	41%	50
0%	40%	0

Table 4

<u>If the arrearage payment performance level is:</u>		
At least:	But less than:	The applicable percentage is:
80%		100
79%	80%	98
78%	79%	96
77%	78%	94
76%	77%	92
75%	76%	90
74%	75%	88
73%	74%	86
72%	73%	84
71%	72%	82
70%	71%	80
69%	70%	79
68%	69%	78
67%	68%	77
66%	67%	76
65%	66%	75
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51%	52%	61
50%	51%	60
49%	50%	59
48%	49%	58
47%	48%	57
46%	47%	56
45%	46%	55
44%	45%	54
43%	44%	53
42%	43%	52
41%	42%	51
40%	41%	50
0%	40%	0

Table 5

If the cost effectiveness performance level is:

At least:	But less than:	The applicable percentage is:
5.00		100
4.50	4.99	90
4.00	4.50	80
3.50	4.00	70
3.00	3.50	60
2.50	3.00	50
2.00	2.50	40
0.00	2.00	0

III. VOTES OF THE COMMITTEE

In compliance with clause 2(1)(2)(B) of rule XI of the Rules of the House of Representatives, the following statements are made concerning the votes of the Committee in its consideration of the bill, H.R. 2487:

MOTION TO REPORT THE BILL

The bill, H.R. 2487, was ordered favorably reported, as amended, by voice vote on September 23, 1997, with a quorum present.

VOTES ON AMENDMENTS

A rollcall vote was conducted on the following amendment to the Chairman's amendment in the nature of a substitute.

An amendment by Mr. Thomas to extend the transition period for shifting from current law to the bill's incentive payment system from three years to four years was defeated by a rollcall vote of 12 yeas to 24 nays. The vote was as follows:

Representatives	Yea	Nay	Present	Representatives	Yea	Nay	Present
Mr. Archer		X		Mr. Rangel	X		
Mr. Crane		X		Mr. Stark	X		
Mr. Thomas	X			Mr. Matsui	X		
Mr. Shaw		X		Mrs. Kennelly		X	
Mrs. Johnson		X		Mr. Coyne			
Mr. Bunning				Mr. Levin		X	
Mr. Houghton	X			Mr. Cardin	X		
Mr. Herger	X			Mr. McDermott		X	
Mr. McCrery		X		Mr. Kleczka	X		
Mr. Camp		X		Mr. Lewis	X		
Mr. Ramstad		X		Mr. Neal		X	
Mr. Nussle		X		Mr. McNulty	X		
Mr. Johnson		X		Mr. Jefferson		X	
Ms. Dunn				Mr. Tanner		X	
Mr. Collins		X		Mr. Becerra	X		
Mr. Portman		X		Mrs. Thurman		X	
Mr. English		X		.....		
Mr. Ensign		X		.....		
Mr. Christensen		X		.....		
Mr. Watkins	X			.....		
Mr. Hayworth		X		.....		
Mr. Weller		X		.....		
Mr. Hulshof		X		.....		

IV. BUDGET EFFECTS OF THE BILL

A. COMMITTEE ESTIMATE OF BUDGETARY EFFECTS

In compliance with clause 7(a) of rule XIII of the Rules of the House of Representatives, the following statement is made: The Committee agrees with the estimate prepared by the Congressional Budget Office (CBO) which is included below.

B. STATEMENT REGARDING NEW BUDGET AUTHORITY AND TAX EXPENDITURES

In compliance with clause 2(1)(3)(B) of rule XI of the Rules of the House of Representatives, the Committee states that the Commit-

tee bill results in no new budget authority and no new tax expenditures.

C. COST ESTIMATE PREPARED BY THE CONGRESSIONAL BUDGET OFFICE

In compliance with clause 2(1)(3)(C) of rule XI of the Rules of the House of Representatives requiring a cost estimate prepared by the Congressional Budget Office (CBO), the following report prepared by CBO is provided.

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, September 26, 1997.

Hon. BILL ARCHER,
*Chairman, Committee on Ways and Means,
House of Representatives, Washington, DC.*

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for H.R. 2487, the Child Support Incentive Act of 1997.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Sheila Dacey.

Sincerely,

JUNE E. O'NEILL, *Director.*

Enclosure.

H.R. 2487—Child Support Incentive Act of 1997

Summary: H.R. 2487 would change the formula used to grant incentive payments to states based on the performance of their child support programs. The new formula would base payments on a broader set of performance criteria and would increase the weight given to states' success in collecting support for non-welfare recipients. CBO estimates that the bill would lower federal costs in 2000 and 2001, by \$14 million and \$7 million respectively, and raise costs in 2002 by \$4 million. After 2002 the cost of the legislation would grow, reaching \$147 million by 2007 and totaling \$439 million over the 1998–2007 period.

Because it would change the formula for entitlement grant awards in the Child Support Enforcement program, H.R. 2487 may impose a mandate, as defined in the Unfunded Mandates Reform Act of 1995 (UMRA), on some states. However, the costs of this potential mandate would fall well below the threshold established in the act (\$50 million in 1996, adjusted annually for inflation).

Estimated cost to the Federal Government: The estimated budgetary impact of H.R. 2487 is shown in the following table.

TABLE 1.—ESTIMATED IMPACT ON FEDERAL SPENDING
[By fiscal years, in millions of dollars]

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Child Support Incentives Under Current Law:										
Estimated Budget Authority	415	436	439	446	468	479	473	465	478	490
Estimated Outlays	415	436	439	446	468	479	473	465	478	490
Proposed Changes:										
Estimated Budget Authority	0	0	-14	-7	4	24	61	101	123	147
Estimated Outlays	0	0	-14	-7	4	24	61	101	123	147

TABLE 1.—ESTIMATED IMPACT ON FEDERAL SPENDING—Continued

[By fiscal years, in millions of dollars]

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Child Support Inventives under H.R. 2487:										
Estimated Budget Authority	415	436	425	439	472	503	534	566	601	637
Estimated Outlays	415	436	425	439	472	503	534	566	601	637

The costs of this legislation fall within budget function 600 (Income Security).

Basis of estimate

Current incentive formula

Currently, the federal government allows states to retain as incentive payments a portion of the amount of child support they collect from non-custodial parents. The formula gives each state at least 6 percent of its Temporary Assistance for Needy Families¹ (TANF) collections plus 6 percent of its non-TANF collections, up to a cap of 115 percent of the incentive payment earned for TANF collections. TANF collections are collections of child support on behalf of recipients of aid under the TANF program that the government retains to reimburse itself for past assistance payments. They include collections of past-due support on behalf of families that formerly received TANF. Non-TANF collections, which are paid directly to families, include all other child support collected.

A state that runs a very cost-effective program (measured by dollars collected per dollar of administrative spending) can earn federal incentive payments equal to more than 6 percent of collections, but only about half a dozen states have qualified for higher incentives in recent years. Most states have non-TANF collections that would qualify for incentives significantly higher than the 115 percent cap, so increases in non-TANF collections do not affect the amount of incentive payments states receive. In 1996, states earned a total of \$409 million in incentive payments.

Proposed Incentive Formula

The new formula would change both the components of the collection base and the percent of the collection base that states could receive. The new collection base would equal twice the sum of TANF collections and non-TANF collections on behalf of former TANF recipients, plus all other non-TANF collections:

$$2 \times (\text{TANF Collections} + \text{Non-TANF Collections on behalf of former TANF recipients}) + \text{all other Non-TANF collections}$$

While the current formula distinguishes only between TANF and non-TANF collections, the new formula would give extra weight to non-TANF collections on behalf of former TANF recipients. Also, the new formula would remove the 115 percent cap on non-TANF collections. Based on historical growth rates and expected changes in the TANF programs, CBO projects that non-TANF collections will grow faster than TANF collections over the next ten years.

¹ TANF will be used throughout to refer to both the Temporary Assistance for Needy Families program and its predecessor program, Aid to Families with Dependent Children (AFDC).

Therefore, we expect that incentive payments under the new formula would grow more quickly than under the current formula.

The estimate assumes that collections on behalf of former TANF recipients are 47 percent of non-TANF collections. This percentage is based on data from fourteen states representing 30 percent of all non-TANF collections.

While the percent of collections a state can receive under current law varies only with its cost effectiveness, the proposed formula would vary the percent based on five performance criteria:

1. Paternity establishment.—The state could use several alternative measures of paternity establishment. CBO expects most states would use the number of children who have been born out-of-wedlock and for whom paternity was established or acknowledged during the year, divided by the total number of children born out-of-wedlock during the preceding fiscal year.

2. Support order establishment.—The percentage of child support cases in which there is a support order during the fiscal year.

3. Current support collection.—The percentage of the total support owed during the fiscal year that is collected during the fiscal year.

4. Arrearage collection.—The percentage of child support cases in which there is past-due support that is collected during the fiscal year and, the case of former recipients of TANF, is paid to the family.

5. Cost-effectiveness.—The total amount of child support collected during the fiscal year divided by the total administrative expenditures during the fiscal year.

A state could receive a maximum incentive of 2.21 percent of its collection base—a maximum of 0.49 percent of the collection base for performance on each of the first three criteria and up to 0.37 percent for performance on the latter two criteria, depending on its level of performance and rate of improvement. For example, if 80 percent or more of a state's cases have support orders, then the state would earn the maximum incentive of .49 percent for that performance criterion. If less than 50 percent of a state's cases have orders, then the state would generally earn no incentive for that criterion. However, if that low-performing state improved its support order establishment by at least 5 percentage points, then it could earn the minimum incentive of 60 percent of the maximum, or 0.294 percent (0.60 times 0.49).

Nationally, performance on four of the five proposed criteria has been steady over the last five years. The paternity establishment percentage is the only measure that has shown a clear trend. In 1991 states established paternity for about 42 percent of out-of-wedlock births. By 1995 the rate has grown to 55 percent.

Nevertheless, CBO expects that states' performance on these five indicators will improve in the coming years. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 provided states with new enforcement tools to improve collection, by creating a new hire registry (designed to speed the receipt of earning information on non-custodial parents) and by requiring states to expedite the process by which they seize the assets of non-custodial parents who are delinquent in their child support payments. Also, states are now beginning to operate new computer systems that

will allow for more consistent and accurate reporting of their performance on these indicators. Several directors of state child support enforcement programs and other child support experts surveyed by CBO generally agreed that implementation of the new enforcement tools and better data reporting would lead the states to report moderately improved performance. However, some child support directors expected that standardized reporting rules would lead their states to report worse performance.

V. OTHER MATTERS REQUIRED TO BE DISCUSSED UNDER THE RULES OF THE HOUSE

A. COMMITTEE OVERSIGHT FINDINGS AND RECOMMENDATIONS

In compliance with clause 2(1)(3)(A) of rule XI of the Rules of the House of Representatives, the Committee reports that the need for this legislation was confirmed by oversight hearings of the Subcommittee on Human Resources. The Subcommittee on Human Resources held a hearing on the child support incentive payment proposal on March 13, 1997 and the Subcommittee also held a hearing on September 10, 1997 on child support system improvements.

B. SUMMARY OF FINDINGS AND RECOMMENDATIONS OF THE GOVERNMENT REFORM AND OVERSIGHT COMMITTEE

In compliance with clause 2(1)(3)(D) of rule XI of the Rules of the House of Representatives, the Committee states that no oversight findings or recommendations have been submitted to the Committee on Government Reform and Oversight regarding the subject of the bill.

C. CONSTITUTIONAL AUTHORITY STATEMENT

With respect to clause 2(1)(4) of rule XI of the Rules of the House of Representatives, relating to Constitutional Authority, the Committee states that the Committee's action in reporting the bill is derived from Article I of the Constitution, Section 8 ("The Congress shall have power to lay and collect taxes, duties, imposts and excises, to pay the debts and to provide for * * * the general Welfare of the United States * * *").

VI. CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3 of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italics, existing law in which no change is proposed is shown in roman):

SOCIAL SECURITY ACT

* * * * *

PART D—CHILD SUPPORT AND ESTABLISHMENT OF PATERNITY

* * * * *

[INCENTIVE PAYMENTS TO STATES

[SEC. 458. (a) In order to encourage and reward State child support enforcement programs which perform in a cost-effective and efficient manner to secure support for all children who have sought assistance in securing support, whether such children reside within the State or elsewhere and whether or not they are eligible for aid to families with dependent children under a State plan approved under part A of this title, and regardless of the economic circumstances of their parents, the Secretary shall, from support collected which would otherwise represent the Federal share of assistance to families of noncustodial parents, pay to each State for each fiscal year, on a quarterly basis (as described in subsection (e)) beginning with the quarter commencing October 1, 1985, an incentive payment in an amount determined under subsection (b).

[(b)(1) Except as provided in paragraphs (2), (3), and (4), the incentive payment shall be equal to—

[(A) 6 percent of the total amount of support collected under the plan during the fiscal year in cases in which the support obligation involved is assigned to the State pursuant to section 402(a)(26) or section 471(a)(17) (with such total amount for any fiscal year being hereafter referred to in this section as the State's "AFDC collections" for that year), plus

[(B) 6 percent of the total amount of support collected during the fiscal year in all other cases under this part (with such total amount for any fiscal year being hereafter referred to in this section as the State's "non-AFDC collections" for that year).

[(2) If subsection (c) applies with respect to a State's AFDC collections or non-AFDC collections for any fiscal year, the percent specified in paragraph (1)(A) or (B) (with respect to such collections) shall be increased to the higher percent determined under such subsection (with respect to such collections) in determining the State's incentive payment under this subsection for that year.

[(3) The dollar amount of the portion of the State's incentive payment for any fiscal year which is determined on the basis of its non-AFDC collections under paragraph (1)(B) (after adjustment under subsection (c) if applicable) shall in no case exceed—

[(A) the dollar amount of the portion of such payment which is determined on the basis of its AFDC collections under paragraph (1)(A) (after adjustment under subsection (c) if applicable) in the case of fiscal year 1986 or 1987;

[(B) 105 percent of such dollar amount in the case of fiscal year 1988;

[(C) 110 percent of such dollar amount in the case of fiscal year 1989; or

[(D) 115 percent of such dollar amount in the case of fiscal year 1990 or any fiscal year thereafter.

[(4) The Secretary shall make such additional payments to the State under this part, for fiscal year 1986 or 1987, as may be necessary to assure that the total amount of payments under this sec-

tion and section 455(a)(1)(A) for such fiscal year is no less than 80 percent of the amount that would have been payable to that State and its political subdivisions for such fiscal year under this section and section 455(a)(1)(A) if those sections (including the amendment made by section 5(c)(2)(A) of the Child Support Enforcement Amendments of 1984) had remained in effect as they were in effect for fiscal year 1985.

[(c) If the total amount of a State's AFDC collections or non-AFDC collections for any fiscal year bears a ratio to the total amount expended by the State in that year for the operation of its plan approved under section 454 for which payment may be made under section 455 (with the total amount so expended in any fiscal year being hereafter referred to in this section as the State's "combined AFDC/non-AFDC administrative costs" for that year) which is equal to or greater than 1.4, the relevant percent specified in subparagraph (A) or (B) of subsection (b)(1) (with respect to such collections) shall be increased to—

[(1) 6.5 percent, plus

[(2) one-half of 1 percent for each full two-tenths by which such ratio exceeds 1.4;

except that the percent so specified shall in no event be increased (for either AFDC collections or non-AFDC collections) to more than 10 percent. For purposes of the preceding sentence, laboratory costs incurred in determining paternity in any fiscal year may at the option of the State be excluded from the State's combined AFDC/non-AFDC administrative costs for that year.

[(d) In computing incentive payments under this section, support which is collected by one State at the request of another State, including amounts collected under section 466(a)(14), shall be treated as having been collected in full by each such State, and any amounts expended by the State in carrying out a special project assisted under section 455(e) shall be excluded.

[(e) The amounts of the incentive payments to be made to the various States under this section for any fiscal year shall be estimated by the Secretary at or before the beginning of such year on the basis of the best information available. The Secretary shall make such payments for such year, on a quarterly basis (with each quarterly payment being made no later than the beginning of the quarter involved), in the amounts so estimated, reduced or increased to the extent of any overpayments or underpayments which the Secretary determines were made under this section to the States involved for prior periods and with respect to which adjustment has not already been made under this subsection. Upon the making of any estimate by the Secretary under the preceding sentence, any appropriations available for payments under this section shall be deemed obligated.]

SEC. 458A.¹ INCENTIVE PAYMENTS TO STATES.

(a) *IN GENERAL.*—*In addition to any other payment under this part, the Secretary shall, subject to subsection (f), make an incentive payment to each State for each fiscal year in an amount determined under subsection (b).*

(b) *AMOUNT OF INCENTIVE PAYMENT.*—

¹ Effective October 1, 2001, this section is redesignated as section 458.

(1) *IN GENERAL.*—The incentive payment for a State for a fiscal year is equal to the sum of the applicable percentages (determined in accordance with paragraph (3)) of the maximum incentive amount for the State for the fiscal year, with respect to each of the following measures of State performance for the fiscal year:

- (A) The paternity establishment performance level.
- (B) The support order performance level.
- (C) The current payment performance level.
- (D) The arrearage payment performance level.
- (E) The cost-effectiveness performance level.

(2) *MAXIMUM INCENTIVE AMOUNT.*—

(A) *IN GENERAL.*—For purposes of paragraph (1), the maximum incentive amount for a State for a fiscal year is—

(i) with respect to the performance measures described in subparagraphs (A), (B), and (C) of paragraph (1), 0.49 percent of the State collections base for the fiscal year; and

(ii) with respect to the performance measures described in subparagraphs (D) and (E) of paragraph (1), 0.37 percent of the State collections base for the fiscal year.

(B) *DATA USED TO CALCULATE RATIOS REQUIRED TO BE COMPLETE AND RELIABLE.*—Notwithstanding subparagraph (A), the maximum incentive amount for a State for a fiscal year with respect to a performance measure described in paragraph (1) is zero, unless the Secretary determines, on the basis of an audit performed under section 452(a)(4)(C)(i), that the data which the State submitted pursuant to section 454(15)(B) for the fiscal year and which is used to determine the performance level involved is complete and reliable.

(C) *STATE COLLECTIONS BASE.*—For purposes of subparagraph (A), the State collections base for a fiscal year is equal to the sum of—

(i) 2 times the sum of—

(I) the total amount of support collected during the fiscal year under the State plan approved under this part in cases in which the support obligation involved is required to be assigned to the State pursuant to part A or E of this title or title XIX; and

(II) the total amount of support collected during the fiscal year under the State plan approved under this part in cases in which the support obligation involved was so assigned but, at the time of collection, is not required to be so assigned; and

(ii) the total amount of support collected during the fiscal year under the State plan approved under this part in all other cases.

(3) *DETERMINATION OF APPLICABLE PERCENTAGES BASED ON PERFORMANCE LEVELS.*—

(A) *PATERNITY ESTABLISHMENT.*—

(i) **DETERMINATION OF PATERNITY ESTABLISHMENT PERFORMANCE LEVEL.**—The paternity establishment performance level for a State for a fiscal year is, at the option of the State, the IV-D paternity establishment percentage determined under section 452(g)(2)(A) or the statewide paternity establishment percentage determined under section 452(g)(2)(B).

(ii) **DETERMINATION OF APPLICABLE PERCENTAGE.**—The applicable percentage with respect to a State's paternity establishment performance level is as follows:

If the paternity establishment performance level is:		The applicable percentage is:
At least:	But less than:	
80% .....	.....	100
79%	80%	98
78%	79%	96
77%	78%	94
76%	77%	92
75%	76%	90
74%	75%	88
73%	74%	86
72%	73%	84
71%	72%	82
70%	71%	80
69%	70%	79
68%	69%	78
67%	68%	77
66%	67%	76
65%	66%	75
64%	65%	74
63%	64%	73
62%	63%	72
61%	62%	71
60%	61%	70
59%	60%	69
58%	59%	68
57%	58%	67
56%	57%	66
55%	56%	65
54%	55%	64
53%	54%	63
52%	53%	62
51%	52%	61
50%	51%	60
0%	50%	0.

Notwithstanding the preceding sentence, if the paternity establishment performance level of a State for a fiscal year is less than 50 percent but exceeds by at least 10 percentage points the paternity establishment performance level of the State for the immediately preceding fiscal year, then the applicable percentage with

respect to the State's paternity establishment performance level is 50 percent.

(B) ESTABLISHMENT OF CHILD SUPPORT ORDERS.—

(i) **DETERMINATION OF SUPPORT ORDER PERFORMANCE LEVEL.**—The support order performance level for a State for a fiscal year is the percentage of the total number of cases under the State plan approved under this part in which there is a support order during the fiscal year.

(ii) **DETERMINATION OF APPLICABLE PERCENTAGE.**—The applicable percentage with respect to a State's support order performance level is as follows:

If the support order performance level is:		The applicable percentage is:
At least:	But less than:	
80% .....	.....	100
79%	80%	98
78%	79%	96
77%	78%	94
76%	77%	92
75%	76%	90
74%	75%	88
73%	74%	86
72%	73%	84
71%	72%	82
70%	71%	80
69%	70%	79
68%	69%	78
67%	68%	77
66%	67%	76
65%	66%	75
64%	65%	74
63%	64%	73
62%	63%	72
61%	62%	71
60%	61%	70
59%	60%	69
58%	59%	68
57%	58%	67
56%	57%	66
55%	56%	65
54%	55%	64
53%	54%	63
52%	53%	62
51%	52%	61
50%	51%	60
0%	50%	0.

Notwithstanding the preceding sentence, if the support order performance level of a State for a fiscal year is less than 50 percent but exceeds by at least 5 percentage points the support order performance level of the State for the immediately preceding fiscal year, then

the applicable percentage with respect to the State's support order performance level is 50 percent.

(C) COLLECTIONS ON CURRENT CHILD SUPPORT DUE.—

(i) DETERMINATION OF CURRENT PAYMENT PERFORMANCE LEVEL.—The current payment performance level for a State for a fiscal year is equal to the total amount of current support collected during the fiscal year under the State plan approved under this part divided by the total amount of current support owed during the fiscal year in all cases under the State plan, expressed as a percentage.

(ii) DETERMINATION OF APPLICABLE PERCENTAGE.—The applicable percentage with respect to a State's current payment performance level is as follows:

<i>If the current payment performance level is:</i>		<i>The applicable percentage is:</i>
<i>At least:</i>	<i>But less than:</i>	
80% .....	.....	100
79%	80%	98
78%	79%	96
77%	78%	94
76%	77%	92
75%	76%	90
74%	75%	88
73%	74%	86
72%	73%	84
71%	72%	82
70%	71%	80
69%	70%	79
68%	69%	78
67%	68%	77
66%	67%	76
65%	66%	75
64%	65%	74
63%	64%	73
62%	63%	72
61%	62%	71
60%	61%	70
59%	60%	69
58%	59%	68
57%	58%	67
56%	57%	66
55%	56%	65
54%	55%	64
53%	54%	63
52%	53%	62
51%	52%	61
50%	51%	60
49%	50%	59
48%	49%	58
47%	48%	57
46%	47%	56
45%	46%	55

<i>If the current payment performance level is:</i>		<i>The applicable percentage is:</i>
<i>At least:</i>	<i>But less than:</i>	
44%	45%	54
43%	44%	53
42%	43%	52
41%	42%	51
40%	41%	50
0%	40%	0.

Notwithstanding the preceding sentence, if the current payment performance level of a State for a fiscal year is less than 40 percent but exceeds by at least 5 percentage points the current payment performance level of the State for the immediately preceding fiscal year, then the applicable percentage with respect to the State's current payment performance level is 50 percent.

(D) COLLECTIONS ON CHILD SUPPORT ARREARAGES.—

(i) DETERMINATION OF ARREARAGE PAYMENT PERFORMANCE LEVEL.—The arrearage payment performance level for a State for a fiscal year is equal to the total number of cases under the State plan approved under this part in which payments of past-due child support were received during the fiscal year and part or all of the payments were distributed to the family to whom the past-due child support was owed (or, if all past-due child support owed to the family was, at the time of receipt, subject to an assignment to the State, part or all of the payments were retained by the State) divided by the total number of cases under the State plan in which there is past-due child support, expressed as a percentage.

(ii) DETERMINATION OF APPLICABLE PERCENTAGE.—The applicable percentage with respect to a State's arrearage payment performance level is as follows:

<i>If the arrearage payment performance level is:</i>		<i>The applicable percentage is:</i>
<i>At least:</i>	<i>But less than:</i>	
80% .....	.....	100
79%	80%	98
78%	79%	96
77%	78%	94
76%	77%	92
75%	76%	90
74%	75%	88
73%	74%	86
72%	73%	84
71%	72%	82
70%	71%	80
69%	70%	79
68%	69%	78

<i>If the arrearage payment performance level is:</i>		<i>The applicable percentage is:</i>
<i>At least:</i>	<i>But less than:</i>	
67%	68%	77
66%	67%	76
65%	66%	75
64%	65%	74
63%	64%	73
62%	63%	72
61%	62%	71
60%	61%	70
59%	60%	69
58%	59%	68
57%	58%	67
56%	57%	66
55%	56%	65
54%	55%	64
53%	54%	63
52%	53%	62
51%	52%	61
50%	51%	60
49%	50%	59
48%	49%	58
47%	48%	57
46%	47%	56
45%	46%	55
44%	45%	54
43%	44%	53
42%	43%	52
41%	42%	51
40%	41%	50
0%	40%	0.

Notwithstanding the preceding sentence, if the arrearage payment performance level of a State for a fiscal year is less than 40 percent but exceeds by at least 5 percentage points the arrearage payment performance level of the State for the immediately preceding fiscal year, then the applicable percentage with respect to the State's arrearage payment performance level is 50 percent.

(E) COST-EFFECTIVENESS.—

(i) DETERMINATION OF COST-EFFECTIVENESS PERFORMANCE LEVEL.—The cost-effectiveness performance level for a State for a fiscal year is equal to the total amount collected during the fiscal year under the State plan approved under this part divided by the total amount expended during the fiscal year under the State plan, expressed as a ratio.

(ii) DETERMINATION OF APPLICABLE PERCENTAGE.—The applicable percentage with respect to a State's cost-effectiveness performance level is as follows:

<i>If the cost effectiveness performance level is:</i>		<i>The applicable percentage is:</i>
<i>At least:</i>	<i>But less than:</i>	
5.00 .....	.....	100
4.50	4.99	90
4.00	4.50	80
3.50	4.00	70
3.00	3.50	60
2.50	3.00	50
2.00	2.50	40
0.00	2.00	0.

(c) *TREATMENT OF INTERSTATE COLLECTIONS.*—*In computing incentive payments under this section, support which is collected by a State at the request of another State shall be treated as having been collected in full by both States, and any amounts expended by a State in carrying out a special project assisted under section 455(e) shall be excluded.*

(d) *ADMINISTRATIVE PROVISIONS.*—*The amounts of the incentive payments to be made to the States under this section for a fiscal year shall be estimated by the Secretary at or before the beginning of the fiscal year on the basis of the best information available. The Secretary shall make the payments for the fiscal year, on a quarterly basis (with each quarterly payment being made no later than the beginning of the quarter involved), in the amounts so estimated, reduced or increased to the extent of any overpayments or underpayments which the Secretary determines were made under this section to the States involved for prior periods and with respect to which adjustment has not already been made under this subsection. Upon the making of any estimate by the Secretary under the preceding sentence, any appropriations available for payments under this section are deemed obligated.*

(e) *REGULATIONS.*—*The Secretary shall prescribe such regulations as may be necessary governing the calculation of incentive payments under this section, including directions for excluding from the calculations certain closed cases and cases over which the States do not have jurisdiction.*

(f) *REINVESTMENT.*—*A State to which a payment is made under this section shall expend the full amount of the payment—*

- (1) *to carry out the State plan approved under this part; or*
- (2) *for any activity (including cost-effective contracts with local agencies) approved by the Secretary, whether or not the expenditures for which are eligible for reimbursement under this part, which may contribute to improving the effectiveness or efficiency of the State program operated under this part.*

* * * * *

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**SECTION 341 OF THE PERSONAL RESPONSIBILITY AND
WORK OPPORTUNITY RECONCILIATION ACT OF 1996**

SEC. 341. PERFORMANCE-BASED INCENTIVES AND PENALTIES.

[(a) DEVELOPMENT OF NEW SYSTEM.—The Secretary of Health and Human Services, in consultation with State directors of programs under part D of title IV of the Social Security Act, shall develop a new incentive system to replace, in a revenue neutral manner, the system under section 458 of such Act. The new system shall provide additional payments to any State based on such State's performance under such a program. Not later than March 1, 1997, the Secretary shall report on the new system to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate.]

[(b) (a) CONFORMING AMENDMENTS TO PRESENT SYSTEM.—Section 458 (42 U.S.C. 658) is amended—

(1) * * *

* * * * *

[(c) (b) CALCULATION OF PATERNITY ESTABLISHMENT PERCENTAGE.—

(1) * * *

* * * * *

[(d) (c) EFFECTIVE DATES.—

[(1) INCENTIVE ADJUSTMENTS.—

[(A) IN GENERAL.—The system developed under subsection (a) and the amendments made by subsection (b) shall become effective on October 1, 1999, except to the extent provided in subparagraph (B).

[(B) APPLICATION OF SECTION 458.—Section 458 of the Social Security Act, as in effect on the day before the date of the enactment of this section, shall be effective for purposes of incentive payments to States for fiscal years before fiscal year 2000.]

(1) CONFORMING AMENDMENTS TO PRESENT SYSTEM.—The amendments made by subsection (a) of this section shall become effective with respect to a State as of the date the amendments made by section 103(a) (without regard to section 116(a)(2)) first apply to the State.

(2) PENALTY REDUCTIONS.—The amendments made by subsection **[(c) (b)]** shall become effective with respect to calendar quarters beginning on or after the date of the enactment of this Act.