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Mr. Bob Maddox  
Administrative Office of Courts  
300 Dexter Avenue  
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Mr. Maddox:

It has been a pleasure conducting research for the Alabama Administrative Office of the Courts on Alabama's child support guidelines. Attached is my final report which includes the requested Basic Child Support Obligation schedules based on adjusting the PSI 2004 schedule for second household costs in Alabama and a Cost Shares BCSO schedule along with related analysis.

I appreciate the opportunity for further feedback from the Committee members. Child support issues can be complex and it is difficult to address all issues and even many issues at the appropriate level of detail. The attached report will be followed by a PowerPoint presentation at the end of March. The PowerPoint presentation will be somewhat more pictorial and more condensed. The attached report is a little more on the technical side as it is appropriate to fully document how what is considered for a legal presumption is derived. I hope the combination of the two will achieve the proper balance of information for the Committee.

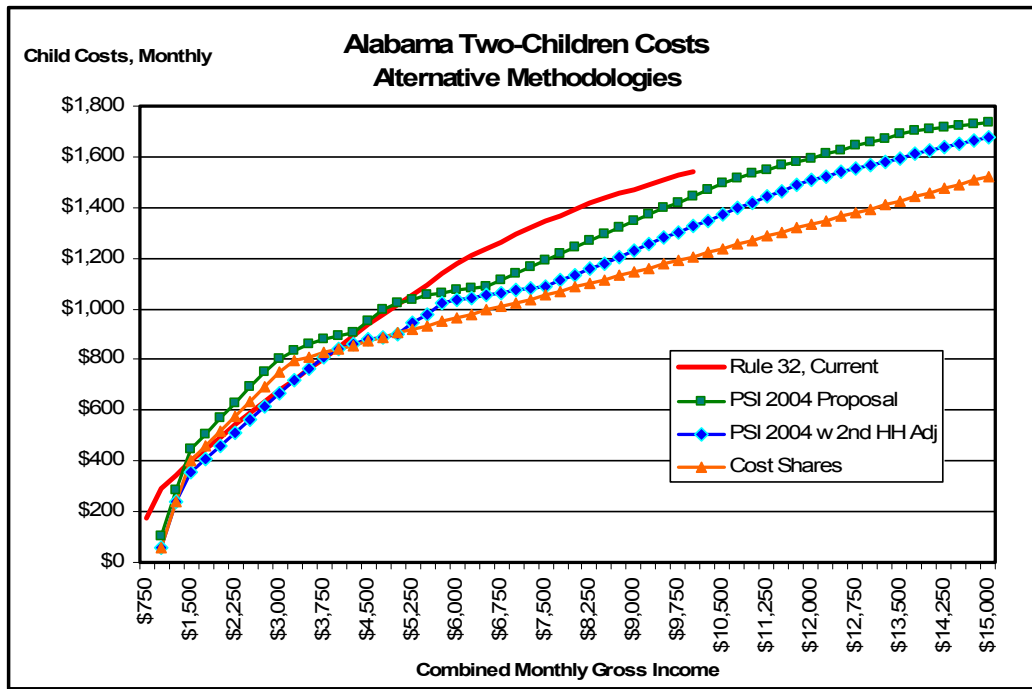
In the mean time, I would appreciate any comments or questions from the Committee members regarding the content of the attached report—including clarifications, expanded explanations, or requests for touching on separate subjects. I would be happy to respond to as many of these as possible under the contract. It would be helpful to receive such requests by March 15 (or sooner) to allow some preparation time. Follow up to some requests may occur after the March 31 presentation should time constraints require such.

The following are key points from the study:

#### BCSO Schedule Values

The current Rule 32 BCSO schedule and the PSI 2004 proposed schedules are based on intact family data and do not take into account additional "adult overhead" for costs of a second household. BCSO schedules were developed to take into account the reduced available income due to maintaining two households. One is a modified 2004 PSI schedule and the other, Cost Shares, is based on USDA and Department of the Interior data and assumes two separate households. For one child costs, all four schedules (current Rule 32, PSI 2004, PSI 2004 with adjustments for second households, and Cost Shares) are similar but the PSI 2004 with second household adjustments is slightly lower than the standard PSI 2004 and the Cost Shares schedule

is slightly lower than that. For two and more children, the schedules do not differ dramatically at low income levels. At middle incomes and higher, the current Rule 32 schedules are significantly higher than the other three alternatives. Cost Shares is the lowest schedule at higher incomes while PSI 2004 adjusted for second households falls in between standard PSI 2004 and Cost Shares.



### Standard of Living Analysis

Traditional standard of living impact analysis was conducted for all four cost schedules for one, two, and three-child scenarios up through \$6,000 in monthly gross income for the obligor and with 50 percent less to 100 percent more gross income being earned by the custodial parent. The standard of living outcomes generally did not conform to standards of equity. For example, when gross incomes of the custodial parent and non-custodial parent are equal, the custodial parent had a sharply higher standard of living on an after-tax, after-child support transfer basis. This is due to lack of parenting time adjustments and due to not sharing child-related tax benefits. This effect is greatest with Rule 32 cost schedules but also occurs even with the Cost Shares BCSO (but to a lesser degree) when used with the Rule 32 worksheet.

### Child-Related Tax Benefits

A review of the Income Shares methodology found that the BCSO schedule has only a small portion of child-related tax benefits taken into account. Typically, the custodial parent receives \$200 to \$400 per month in additional net income as a cost offset to gross spending on children.

### Parenting Time Adjustments

A review of the Income Shares methodology finds that the BCSO schedule assumes that the non-custodial parent has no parenting time.

The following modifications to Alabama’s child support guidelines are recommended:

- Update the Basic Child Support Obligation schedule with either the Income Shares BCSO schedule adjusted for second household costs or with the Cost Shares BCSO schedule;
- Adopt a self-support calculation that includes the standard Income Shares calculation and the obligor-only calculation;
- Presumptively share the child-related tax benefits either by pro-rating the child-dependency exemptions according to shares of combined adjusted gross income or by developing a schedule of the value of child-related tax benefits and treating them as a cost offset in the award calculation;
- Adopt the Arizona parenting time adjustment;
- Change the assumption for included medical expenses to \$250 per year per child (from the current \$200 per year per family) to reflect higher out-of-pocket medical expenses as incorporated in all three of the newer alternative BCSO schedules;
- Add a formula to take into account child care (day care) tax credits when day care is an add-on.

Key factors behind these recommendations are:

- The current BCSO schedule is based on significantly old data from the 1972-73 Consumer Expenditure Surveys and is based on a methodology (the Espenshade-Engel 1984 study) that has been generally recognized as excessive.
- The current Rule 32 self-support portion of the BCSO has been eroded by almost two decades of inflation. The self-support reserve should be brought up-to-date for current costs of basic needs.
- The BCSO schedule (not just in the current Rule 32 but in all proposed alternatives) does not take into account the vast majority of child-related tax benefits. Not doing so results in awards that do not reflect equal duty of support.
- The BCSO schedule does not include any built in adjustments for standard parenting time of the non-custodial parent—in newly proposed schedules as well as the current Rule 32 version. Most states have a formula to take into account both parents’ parenting time costs. Not doing so results in awards that do not reflect equal duty of support.
- The newly proposed BCSO schedules all incorporate \$250 per child per year for unreimbursed medical expenses.
- Child care tax credits are significant cost offsets.

Again, I appreciate the opportunity for conducting this project and I look forward to the March 31 presentation.

Sincerely,



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