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Lieutenant Governor

Maryland
DEPARTMENT OF BUDGET AND MANAGEMENT

DAVID R. BRINKLEY
Secretary

MARC L. NICOLE
Deputy Secretary

HOUSE BILL 364 State Finance and Procurement – Central Collection Unit – Powers (P. Young, et al)

POSITION: OPPOSE

DATE: January 27, 2021

COMMITTEE: House Appropriations Committee

SUMMARY OF BILL: HB 364 reduces the maximum collection fee that can be assessed by the Central Collections Unit (CCU) from 20% to 5%; and repeals CCU's authority to settle delinquent debts without first filing suit. The bill is effective October 1, 2021.

EXPLANATION OF POSITION: The Department of Budget and Management (DBM) opposes the legislation because it totally disrupts the funding model used in Maryland to collect delinquent debt owed to the State of Maryland. CCU is a <u>special funded</u> division of DBM that has been statutorily created to collect delinquent debts owed to the State; therefore, taxpayers do not bear the burden of the costs associated with collecting debt owed to the State by others. State agencies refer unsettled debt, with the exception of child support payments and tax payments, to CCU.

Collection Fee. The maximum statutory collection fee is 20%. However, the current fee is 17%, as set by the Secretary of DBM, and is assessed to eligible delinquent debts assigned to CCU for collection. All fees collected pay for the operations of CCU, which receives <u>no</u> General Funds. After all expenses are deducted, CCU retains 15% of the amount of the prior fiscal year's operating expenses to partially fund the next fiscal year's operations. There is no anticipated transfer to the General Fund for Fiscal Year 2021 due to CCU's suspended collection activity. This suspension was directed by Governor Hogan due to the COVID-19 pandemic. While CCU was authorized to begin collection activities again, involuntary collection methods such as state tax intercept will not begin until February 2021.

Reducing CCU's collection fee to 5%, based on projected collections, would create a budget shortfall in CCU of $13.9 million for FY 2022. The cumulative budget shortfall estimate for FY 2022-2026 is $68.7 million. CCU's FY 2022 personnel expenses for 120 full-time State employees is $10.2 million. The impact of this fee reduction provision eviscerates CCU's ability to collect delinquent State debt using a business model that relies on collection fees to pay for operations. Therefore, the bill necessitates an ongoing backfill of General Funds to address the budget shortfall.

It is important to note that CCU also provides manpower and technical assistance to various settlement/amnesty programs offered periodically by the State. Beginning in 2019 and continuing to date, CCU provides assistance to MAIF in executing amnesty programs impacting over 400,000 vehicle-related debts. This assistance is provided with no increase in budget or manpower. Any reduction in CCU's staff, resulting from passage of this legislation, would prevent CCU from continuing to provide support for similar amnesty programs.

Debt Settlement. CCU has the ability to settle debts owed to the State. This process has significant benefits for individuals who owe debts to the State. Debtors are allowed to pay the debt in full, pay the debt over time, or propose a lower payment amount to settle the debt in full. All requests for settlement of debts are carefully reviewed by CCU management, assistant attorney generals, and typically the agency referring the debt to CCU to determine the best outcome for the State and the debtor.

CCU entertains most reasonable offers of settlement. The offer is weighed, giving consideration to: the present value of payment versus the possibility of longer payment periods or no payment; any applicable maximum insurance policy limits, and debtor's individual circumstances.

CCU may settle the debt or negotiate an amount sufficient to cover the State's losses and expenses. The settlement process allows CCU, by considering all circumstances, to take the action most beneficial to the State while avoiding significant debtor hardship or years of potential litigation.

Relying on litigation to settle debt, as required by this legislation, is a lengthy and labor intensive process. Requiring CCU to file suit on all referred debts would require the need for significant increases in attorneys' positions and related personnel to process the increased caseload. Further, an additional burden on the court system would be created. The litigation process creates an unnecessary burden on debtors to defend the litigation. DBM has not analyzed the additional fiscal impact of this provision. CCU diligently attempts to work with debtors to establish affordable, voluntary monthly payment to avoid suit and judgment against the debtors.

The current debt settlement process is a more efficient and effective process for all parties.

For these reasons, the Department respectfully requests an unfavorable report.

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