

N00H00
Child Support Enforcement
Department of Human Resources

Operating Budget Data

(\$ in Thousands)

| | <u>FY 14</u> <u>Actual</u> | <u>FY 15</u> <u>Working</u> | <u>FY 16</u> <u>Allowance</u> | <u>FY 15-16</u> <u>Change</u> | <u>% Change</u> <u>Prior Year</u> |
|------------------------------|-------------------------------|--------------------------------|----------------------------------|----------------------------------|--------------------------------------|
| General Fund | \$21,791 | \$18,645 | \$19,552 | \$907 | 4.9% |
| Deficiencies and Reductions | 0 | 0 | -442 | -442 | |
| Adjusted General Fund | \$21,791 | \$18,645 | \$19,110 | \$464 | 2.5% |
| Special Fund | 7,073 | 10,696 | 10,950 | 253 | 2.4% |
| Deficiencies and Reductions | 0 | 0 | -23 | -23 | |
| Adjusted Special Fund | \$7,073 | \$10,696 | \$10,927 | \$231 | 2.2% |
| Federal Fund | 60,718 | 59,287 | 62,574 | 3,287 | 5.5% |
| Deficiencies and Reductions | 0 | 0 | -995 | -995 | |
| Adjusted Federal Fund | \$60,718 | \$59,287 | \$61,579 | \$2,293 | 3.9% |
| Adjusted Grand Total | \$89,582 | \$88,628 | \$91,616 | \$2,988 | 3.4% |

Note: The fiscal 2015 working appropriation reflects deficiencies and the Board of Public Works reductions to the extent that they can be identified by program. The fiscal 2016 allowance reflects back of the bill and contingent reductions to the extent that they can be identified by program.

- The fiscal 2016 allowance of the Department of Human Resources (DHR) Child Support Enforcement Administration (CSEA) increases by \$3.0 million, or 3.4%, compared to the fiscal 2015 working appropriation after accounting for across-the-board reductions in fiscal 2016. All three fund sources in CSEA increase in the fiscal 2016 allowance (\$ 2.3 million in federal funds, \$464,423 in general funds, and \$230,519 in special funds).
- Major changes in the fiscal 2016 allowance of CSEA occur in the area of personnel and the federal fund share of costs associated with cooperative reimbursement agreements.

Note: Numbers may not sum to total due to rounding.

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Personnel Data

| | <u>FY 14 Actual</u> | <u>FY 15 Working</u> | <u>FY 16 Allowance</u> | <u>FY 15-16 Change</u> |
|------------------------|--------------------------------|---------------------------------|-----------------------------------|-----------------------------------|
| Regular Positions | 688.20 | 679.90 | 679.90 | 0.00 |
| Contractual FTEs | <u>7.45</u> | <u>1.00</u> | <u>1.00</u> | <u>0.00</u> |
| Total Personnel | 695.65 | 680.90 | 680.90 | 0.00 |

Vacancy Data: Regular Positions

| | | |
|---|-------|-------|
| Turnover and Necessary Vacancies, Excluding New Positions | 48.61 | 7.15% |
| Positions and Percentage Vacant as of 12/31/14 | 39.00 | 5.74% |

- There are no changes in the number of regular positions or contractual full-time equivalents in the fiscal 2016 allowance of CSEA.
- Turnover expectancy decreases from 7.26% to 7.15% in the fiscal 2016 allowance.
- As of December 31, 2014, CSEA had a vacancy rate of 5.7%, or 39.0 positions. To meet its turnover expectancy, CSEA must maintain 48.61 vacant positions in fiscal 2016. At the level of vacancies in December, CSEA may have difficulty meeting the turnover expectancy.

Analysis in Brief

Major Trends

Child Support Collections Increase: Child support collections continued to increase in federal fiscal 2014; however, the pace of growth slowed, with an increase of only 1.7%, compared to federal fiscal 2012, which saw an increase of 4.8%.

CSEA Performance Continues to Improve in Federal Performance Measures and Other Key Activities: The percent of cases with a support order increased slightly in federal fiscal 2014 and remained above the federal goal. Despite continued improvement in the percent of current support paid and the percent of cases with arrears for which a payment is received, performance remains below the federal goal.

Arrearages Continue to Accumulate: After decreasing in federal fiscal 2012, the cumulative arrearages have begun to build again. The decrease in federal fiscal 2012 was due to case closure activity while the later increases are more typical.

Caseload Declines Slowly: Case closure activity resulted in relatively large declines in the child support caseload in recent years (with a decrease of 7.6% in federal fiscal 2012). The child support caseload has continued to decrease since that time, but at a much slower pace.

Issues

Baltimore City Privatization Contract: The Baltimore City child support privatization contract is currently operating under a one-year renewal option that is set to expire February 28, 2015. DHR has exercised a second renewal option, which would expire February 28, 2016. DHR plans to continue to operate the Baltimore City child support office through a privatized contract after this time and will undertake a new procurement. DHR’s fiscal 2016 allowance for the privatization contract increases compared to the fiscal 2015 working appropriation, but is lower than the fiscal 2014 actual expenditures by more than \$800,000.

Recommended Actions

| | <u>Funds</u> |
|--|---------------------|
| 1. Delete funds for a central business improvement contract. | \$ 718,877 |
| 2. Reduce funds for a Local Area Network contract to remove a cost-of-living adjustment. | 32,756 |
| Total Reductions | \$ 751,633 |

Updates

Federal Regulation Changes: In November 2014, the federal Office of Child Support Enforcement published proposed regulations for the child support program in the *Federal Register* as a result of an executive order directing agencies to increase reviews of existing regulations for changes, streamlining, expansion, or repeal. The proposed rules, among other changes, would expand case closure rules, allow federal financial participation in additional activities, and allow for a State option to provide limited child support services rather than only full services. The final changes have not been published and, therefore, little is known about the impact on the State. Legislative changes necessary as a result of any revised regulations would likely be required to occur in the first legislative session after the effective date.

2014 Session Legislation Impacts: Chapter 448 of 2014 added recreational hunting and fishing licenses to the licenses that may be denied or suspended for failure to pay child support. CSEA anticipates beginning to match this data by late spring 2015. Chapter 622 of 2014 adds certain payouts from a video lottery facility to the child support intercept program. The State Lottery and Gaming Control Agency is largely responsible for the steps required to implement this legislation to date, but CSEA has worked with the agency on the implementation.

N00H00
Child Support Enforcement
Department of Human Resources

Operating Budget Analysis

Program Description

Child support services involve the establishment of paternity when children are born to unmarried parents, establishment of child support orders, and the collection and distribution of current and arrears child support payments. The Department of Human Resources (DHR) Child Support Enforcement Administration (CSEA) administers and monitors child support services provided by the local departments of social services and other offices, provides technical assistance, formulates policy, develops and implements new programs, and ensures compliance with regulations and policy. CSEA also operates several centralized programs related to:

- locating noncustodial parents;
- collecting and disbursing payments;
- processing interstate cases; and
- enforcing support orders.

The key goal of CSEA is to enable, encourage, and enforce parental responsibility.

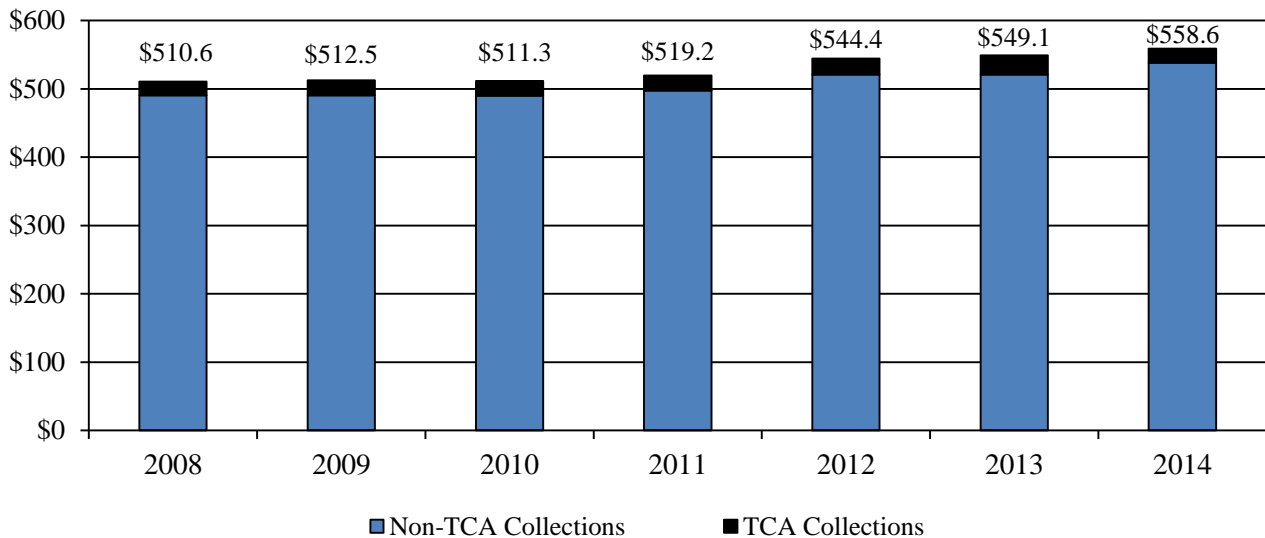
Performance Analysis: Managing for Results

1. Child Support Collections Increase

Total Collections

As shown in **Exhibit 1**, total collections have increased in all recent years except federal fiscal 2010. After a substantial increase in collections in federal fiscal 2012 (\$25.2 million, or 4.8%), the rate of growth has slowed. Federal fiscal 2014 collections increased by \$9.5 million, or 1.7% compared to federal fiscal 2013. CSEA attributes increased collections in federal fiscal 2014 to improvements in wage attachments. CSEA has improved collections from wage attachments by revising language in letters sent to employers and noncustodial parents, outreach to employers failing to report new hires, and a look-up table to identify the correct address for businesses for mailing wage withholding orders.

**Exhibit 1
Total Collections
Federal Fiscal 2008-2014
(\$ in Millions)**



TCA: Temporary Cash Assistance

Source: Department of Human Resources; Governor’s Budget Books

In federal fiscal 2014, collections increased in 19 of 24 jurisdictions. The jurisdictions that experienced a decrease in collections were Allegany, Calvert, Cecil, Garrett, and St. Mary’s counties. The largest increases in collections in federal fiscal 2014 occurred in Montgomery County (\$2.3 million) and Prince George’s County (\$2.1 million). The largest percentage increase in collections occurred in Dorchester County (5.3%). The largest dollar and percentage decrease in collections occurred in St. Mary’s County (\$360,741, or 2.8%).

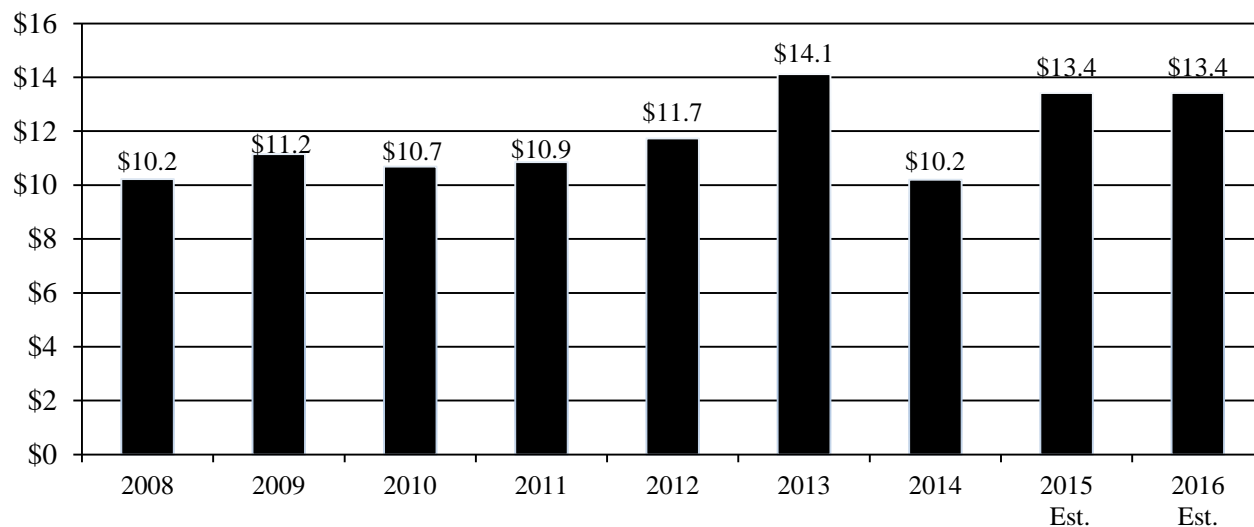
Collections by Source

While total collections increased between federal fiscal 2013 and 2014, the increase occurred among non-Temporary Cash Assistance (TCA) related cases (an increase of \$17.3 million, or 3.3%). Collections in TCA-related cases decreased by \$7.8 million, or 27.8%, between those years. Collections for TCA-related cases in federal fiscal 2014, of \$20.4 million, were at the lowest level since federal fiscal 2007. Despite the substantial decrease in TCA-related collections in federal fiscal 2014, DHR anticipates TCA-related collections reaching \$26.8 million in federal fiscal 2015 and 2016, which is higher than any recent year, except federal fiscal 2013. **DHR should comment on the cause of the lower TCA-related collections in federal fiscal 2014 and why the department anticipates substantial improvement in federal fiscal 2015.**

State Share of Collections

The collections on cases associated with TCA are used to reimburse the costs of the TCA program; 50% of the collections are provided to the federal government, and the State retains the other 50%. The State share is used in DHR’s budget in the Assistance Payments program and in CSEA as a special fund (Child Support Offset Fund). As such, lower collections in TCA-related cases has a budgetary impact. As shown in **Exhibit 2**, the State share of collections increased to \$14.1 million in federal fiscal 2013, but fell to \$10.2 million in federal fiscal 2014. Although lower than federal fiscal 2013, the State share of collections in federal fiscal 2014 was closer to recent performance than federal fiscal 2013.

Exhibit 2
State’s Share of Temporary Cash Assistance-related Collections
Federal Fiscal 2008-2016 Est.
(\$ in Millions)



Source: Department of Human Resources; Governor’s Budget Books

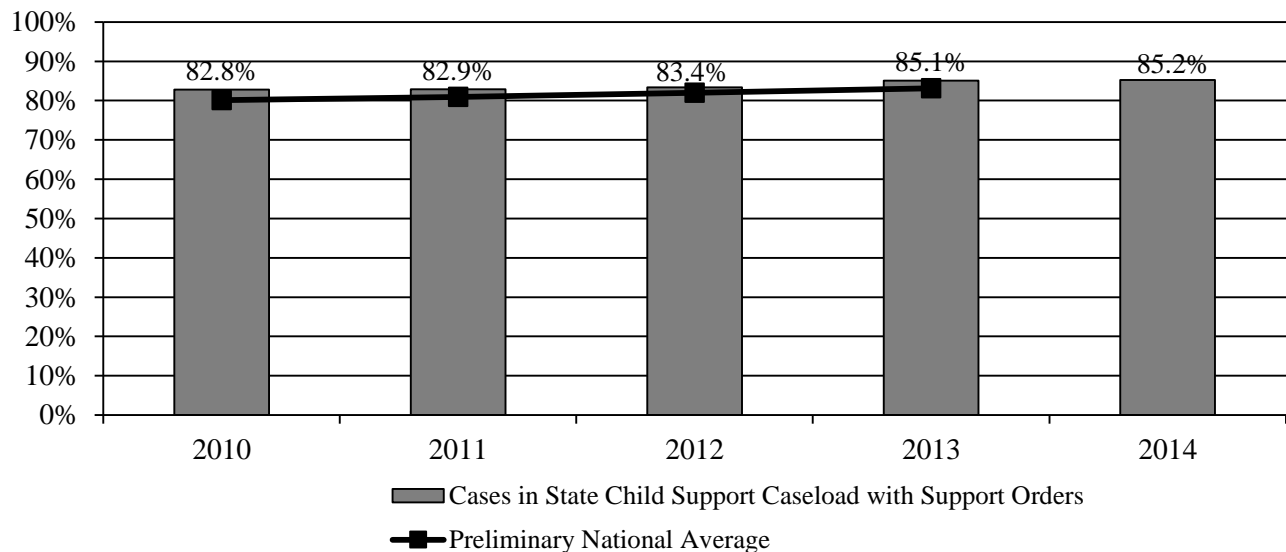
Due to anticipated higher TCA-related collections in federal fiscal 2015 and 2016, DHR assumes that the State share of TCA-related collections will be \$13.4 million in federal fiscal 2015 and 2016, and DHR’s budget includes this level of funding. The fiscal 2013 closeout audit conducted by the Office of Legislative Audits (OLA), and the Office of the Secretary fiscal compliance audit released by OLA in calendar 2014, noted that DHR had special fund expenditures that exceeded special fund revenues from fiscal 2010 to 2013. This overspending included funds from TCA-related collections. DHR took action in fiscal 2014 to eliminate the spending deficit in the Child Support Offset Fund. **Given that DHR has only recently overcome a spending deficit in the Child Support Offset Fund,**

DHR should comment on the impact on the DHR budget if the collections are not received at the level anticipated.

2. CSEA Performance Continues to Improve in Federal Performance Measures and Other Key Activities

Performance in several measures used by the federal Office of Child Support Enforcement (OCSE) to determine federal incentive payments (percent of cases with a support order, percent of current support paid, and percent of cases with arrears for which a payment is received) continued to improve in federal fiscal 2014 but at a slower pace than federal fiscal 2013, as shown in **Exhibits 3, 4, and 5**. For example, the improvement in the percent of cases with a support order slowed to 0.15 percentage points. With 85.2% of cases with a support order established, CSEA performance remained above the federal goal of 80.0%. Despite improving in federal fiscal 2014, the percent of current support paid and percent of cases with arrears for which a payment is received remained below the federal goal of 80.0%. CSEA indicates that it plans to further improve performance in these areas by implementing (1) a case management dashboard; (2) online applications; (3) expedited hearing processes; (4) electronic income withholding orders; (5) outsourcing of return mail processing; and (6) additional payment options for customers.

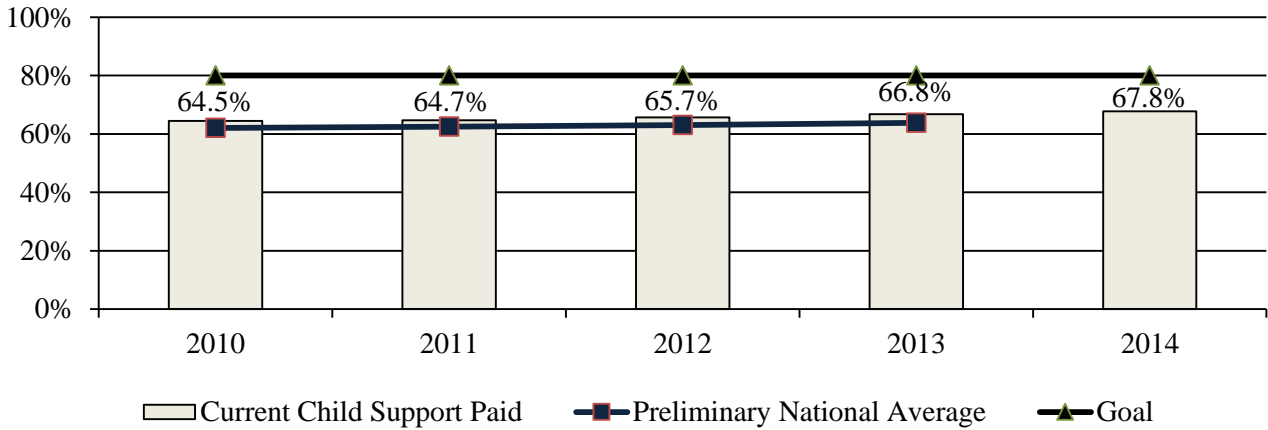
Exhibit 3
Child Support Caseload Under Order
Federal Fiscal 2010-2014



Note: Percentages refer to State child support caseload with support orders.

Source: Department of Human Resources; Governor's Budget Books

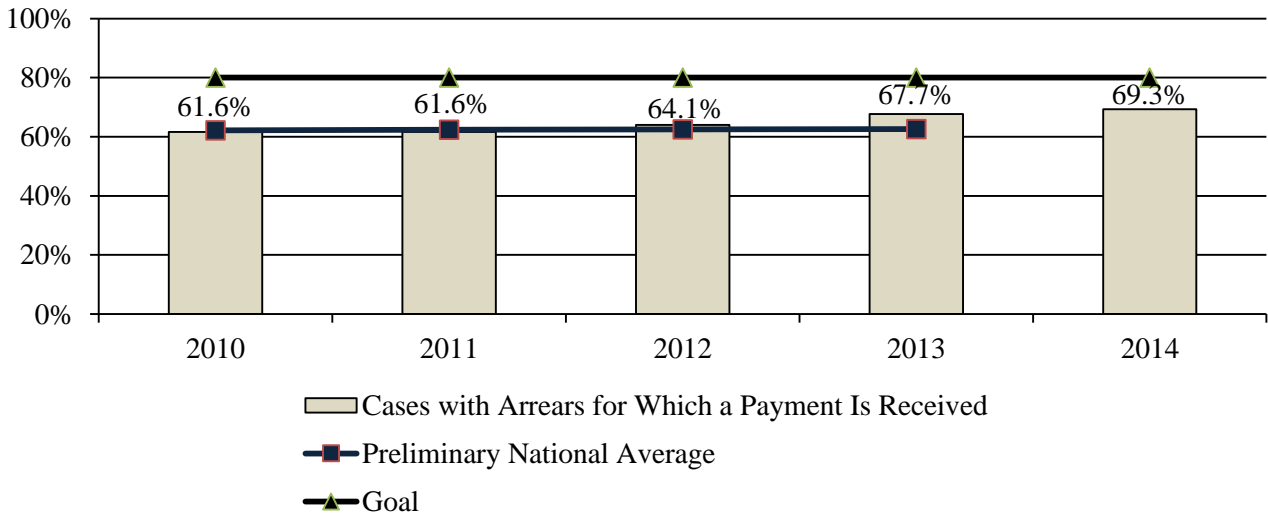
Exhibit 4
Current Support Paid
Federal Fiscal 2010-2014



Note: Percentage refers to State child support caseload current support paid.

Source: Department of Human Resources; Governor’s Budget Books

Exhibit 5
Cases with Arrears for Which a Payment Is Received
Federal Fiscal 2010-2014



Note: Percentage refers to State child support caseload with arrears for which a payment is received.

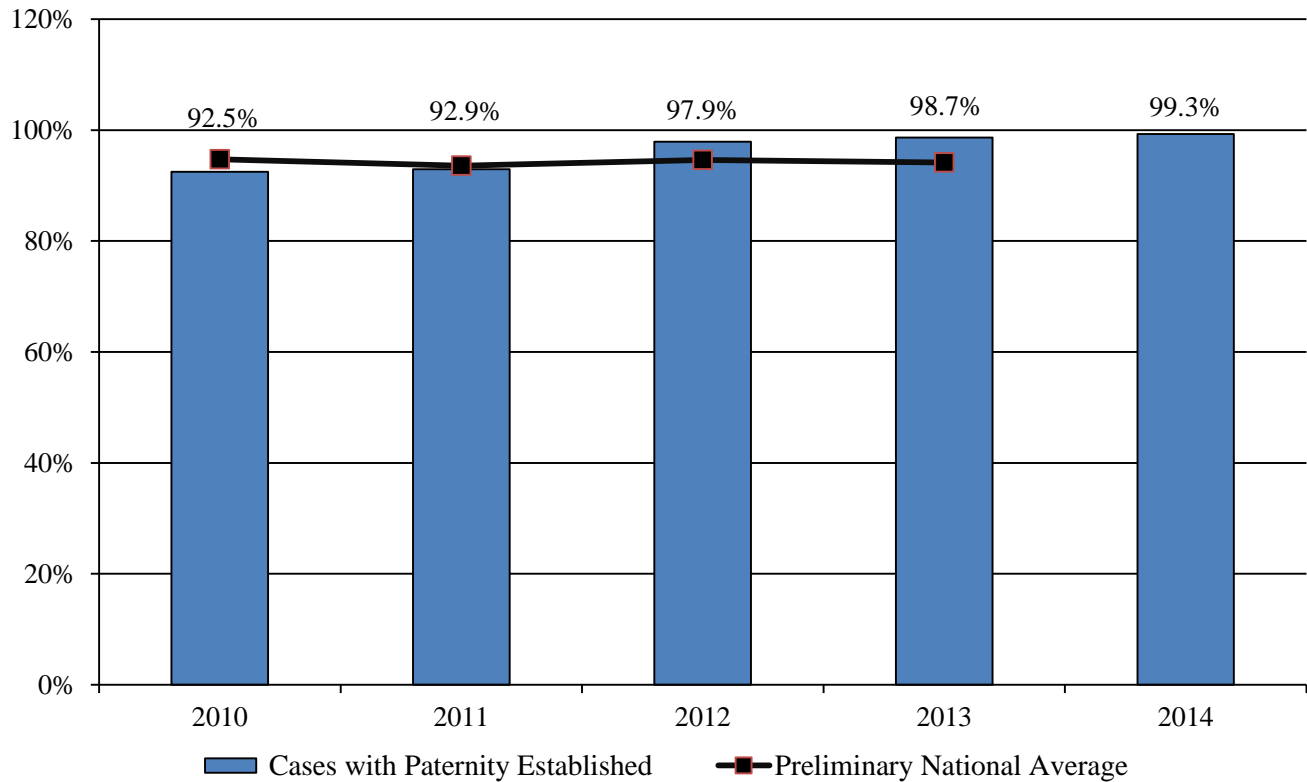
Source: Department of Human Resources; Governor’s Budget Books

N00H00 – DHR – Child Support Enforcement

DHR has a goal for Maryland to be in the top 10 of state child support performance in each of the federal measures. The most recent federal data available is for federal fiscal 2013, and this data is preliminary. In federal fiscal 2013, CSEA met the goal to be in the top 10 of state child support performance for the percent of cases with arrears for which a payment is received, despite a performance that was 10.7 percentage points lower than the 80% federal goal. Only one state (Pennsylvania) exceeded the federal goal in that measure. CSEA was near the top 10 in the percent of current support paid (ranked 13). In the other two measures (supporter order and paternity establishment), CSEA's performance was outside of the top 20 states.

For purposes of the Managing for Results (MFR) submission, DHR reports on the paternity establishment for the State child support caseload. This is different from the measure that DHR reports on for purposes of its federal performance measure (paternity establishment statewide). **Exhibit 6** presents the data using the MFR measure (for the State caseload), rather than the federal performance measure (the statewide performance). DHR continued to improve performance in the percent of the State child support cases with paternity established in federal fiscal 2014, but similar to other measures, the rate of improvement slowed in federal fiscal 2014 (0.61 percentage points). However, CSEA's performance in this measure remains above the federal goal of 90%. CSEA attributes the improved performance to requiring caseworkers to record paternity establishment when entering a court order into the case management system and shortening the timeframe for genetic testing. DHR indicates that the plans to implement a case management dashboard will further improve performance.

Exhibit 6
Child Support Caseload with Paternity Established
Federal Fiscal 2010-2014



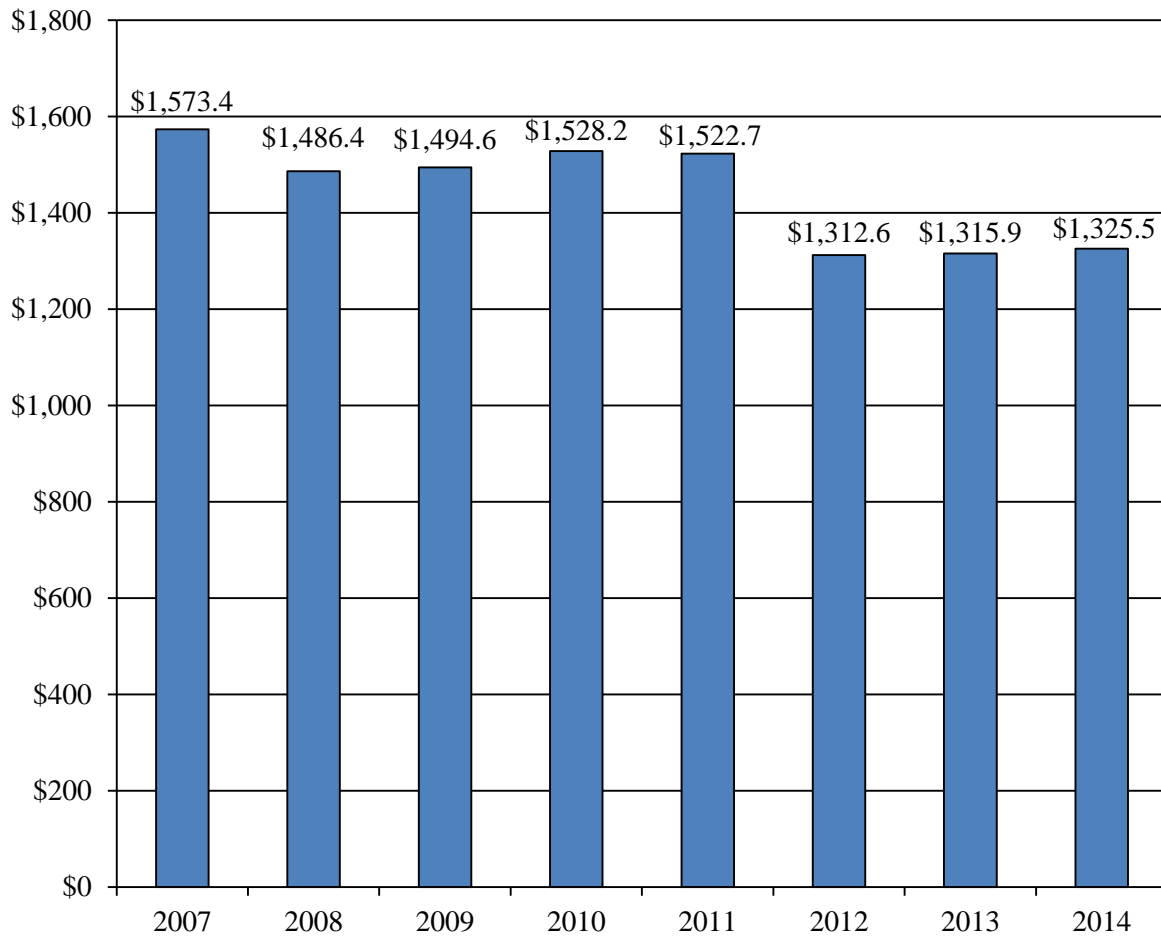
Note: Percentage is the State child support caseload paternity establishment.

Source: Department of Human Resources; Governor's Budget Books

3. Arrearages Continue to Accumulate

In recent years, CSEA has enhanced its case closure process to make the process more effective while staying in compliance with federal case closure rules. The case closure activity reduced the cumulative arrearages as cases were closed. As shown in **Exhibit 7**, between the last day of federal fiscal 2011 and 2012, cumulative arrearages decreased by \$210.1 million, or 13.8%. Historically, cumulative arrearages have tended to increase over time. Since the decrease in federal fiscal 2012, this tendency has continued. Cumulative arrearages increased by \$9.6 million, or 0.7%, between the last day of federal fiscal 2013 and 2014.

Exhibit 7
Cumulative Arrearages
Federal Fiscal 2007-2014
(\$ in Millions)

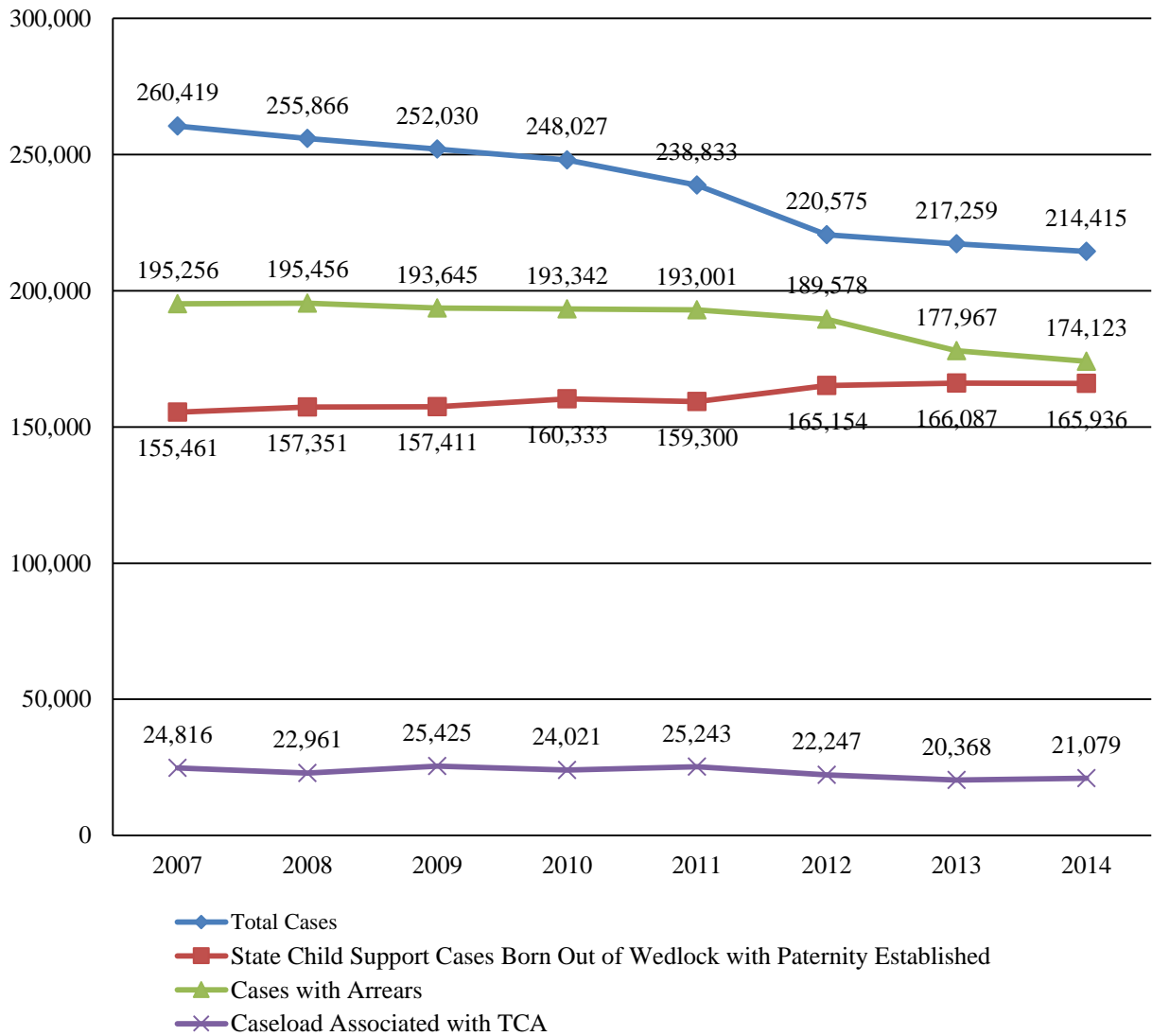


Source: Department of Human Resources

4. Caseload Declines Slowly

The case closure activity discussed earlier, resulted in a substantial decline in the number of child support cases in federal fiscal 2011 (3.7%) and in federal fiscal 2012 (7.6%). As shown in **Exhibit 8**, the number of child support cases has continued to decline since that time but at a much slower pace. In federal fiscal 2014, the number of child support cases decreased by 1.3%. Between fiscal 2007 and 2014, the number of child support cases has decreased by 17.7%.

**Exhibit 8
Child Support Caseload
Federal Fiscal 2007-2014**



TCA: Temporary Cash Assistance

Source: Department of Human Resources; Governor’s Budget Books

As with the total number of child support cases, the number of cases with arrears has decreased in recent years due to the case closure activity discussed earlier. In federal fiscal 2014, the number of cases with arrears decreased by 2.2%. Although the number of cases with arrears has decreased in most recent years, the share of cases with arrears was higher in federal fiscal 2014 (81.2%) than in federal

fiscal 2007 (75.0%). However, the share of cases with arrears in federal fiscal 2014 was lower than in federal fiscal 2012 (85.9%). **DHR should comment on the efforts to reduce the share of cases with arrears.**

The number of cases associated with TCA increased by 3.5% between federal fiscal 2013 and 2014, after decreasing in the previous two federal fiscal years. Despite the increase in that year, the TCA-related caseload was lower than all recent years, except federal fiscal 2013. Although the number of cases associated with TCA has fluctuated in recent years, the share of cases associated with TCA has fluctuated within a relatively small range since federal fiscal 2007 (with a low of 9.0% in federal fiscal 2008 and a high of 10.6% in federal fiscal 2011).

Fiscal 2015 Actions

Cost Containment

In the cost containment actions approved by the Board of Public Works in January 2015, DHR had a reduction of \$6.6 million, or 1%, departmentwide, as part of the across-the-board general fund reduction among State agencies. DHR has not yet determined how that will be allocated or CSEA's share of the reduction. If the reduction were to be allocated proportionately, CSEA's share of the reduction would be \$195,458.

Proposed Budget

As shown in **Exhibit 9**, the fiscal 2016 allowance of CSEA increases by \$3.0 million, or 3.4%, compared to the fiscal 2015 working appropriation after accounting for across-the-board reductions. All three fund sources in CSEA increase:

- federal funds \$2.3 million;
- general funds \$464,423; and
- special funds \$230,519.

The majority of the federal fund increase (\$1.6 million) occurs in the area of cooperative reimbursement agreements (CRA), primarily to reflect recent experience. Under CRAs, the agency undertaking the child support function (including State's Attorney's Offices, sheriffs, and the clerk of the courts), pays 34% of the cost and receives the typical federal financial participation (66%) for expenses it incurs for completing the function. The federal funds are budgeted within CSEA as the State child support agency.

Exhibit 9
Proposed Budget
DHR – Child Support Enforcement
(\$ in Thousands)

| How Much It Grows: | <u>General Fund</u> | <u>Special Fund</u> | <u>Federal Fund</u> | <u>Total</u> |
|-----------------------------------|----------------------------|----------------------------|----------------------------|---------------------|
| Fiscal 2014 Actual | \$21,791 | \$7,073 | \$60,718 | \$89,582 |
| Fiscal 2015 Working Appropriation | 18,645 | 10,696 | 59,287 | 88,628 |
| Fiscal 2016 Allowance | <u>19,110</u> | <u>10,927</u> | <u>61,579</u> | <u>91,616</u> |
| Fiscal 2015-2015 Amt. Change | \$464 | \$231 | \$2,293 | \$2,988 |
| Fiscal 2015-2016 Percent Change | 2.5% | 2.2% | 3.9% | 3.4% |

Where It Goes:

Personnel Expenses

| | |
|--|---------|
| Employee and retiree health insurance..... | \$1,439 |
| Regular earnings including planned increments and the annualization of the fiscal 2015 cost-of-living adjustment (prior to cost containment) | 594 |
| Employee retirement | 534 |
| Social Security contributions | 66 |
| Accrued leave and unemployment partially offset by overtime and unemployment compensation..... | 23 |
| Turnover adjustments..... | -44 |
| Section 21: Across-the-board elimination of increments | -706 |
| Section 20: Across-the-board 2% pay reduction..... | -754 |

Contractual Services

| | |
|---|-------|
| Federal fund share of cooperative reimbursement agreements primarily to align with recent experience..... | 1,553 |
| Central business improvement to assist in implementation of business process review recommendations | 719 |
| Call center contract based on expanded services in a planned new contract | 400 |
| Baltimore City child support privatization contract to better reflect recent experience..... | 225 |
| New centralized mail center to improve efficiency..... | 202 |
| Local area network contract costs due to staff cost-of-living adjustments | 33 |
| Check printing, mailing, and armored courier services..... | 31 |
| New hire data due to anticipated contract costs | -228 |
| Central collections due to anticipated contract costs..... | -331 |

N00H00 – DHR – Child Support Enforcement

Where It Goes:

| | |
|--|----------------|
| Elimination of medical support enforcement due to decision by the vendor to stop providing the service | -350 |
| Eliminating credit bureau agency contract expected to assist in prioritizing collections, location services, and investigating delinquent cases which was a one-time initiative..... | -503 |
| Administrative expenses | |
| Office supplies primarily to reflect recent experience | 95 |
| Legal services in Talbot County following the end of the cooperative reimbursement agreement with the State’s Attorney’s Office | 78 |
| Postage and cell phone expenditures more than offset by telephone expenditures to more closely reflect recent experience | -72 |
| Rent | -81 |
| Other changes..... | 65 |
| Total | \$2,988 |

Note: Numbers may not sum to total due to rounding. The fiscal 2015 working appropriation reflects deficiencies and the Board of Public Works reductions to the extent that they can be identified by program. The fiscal 2016 allowance reflects back of the bill and contingent reductions to the extent that they can be identified by program.

Cost Containment

The fiscal 2016 allowance includes an across-the-board general fund reduction in State agencies. DHR’s share of the reduction is \$6.9 million, or 1%. DHR has not yet determined how that reduction will be allocated or CSEA’s share of the reduction. If the reduction were to be allocated proportionately, CSEA’s share of the reduction would be \$209,962.

The fiscal 2016 allowance includes an across-the-board 2% pay reduction. CSEA’s share of this reduction is \$753,951 (\$211,960 in general funds, \$11,101 in special funds, and \$530,890 in federal funds). The fiscal 2016 allowance also includes an across-the-board reduction to eliminate increments. CSEA’s share of the reduction is \$706,135 (\$230,338 in general funds, \$11,863 in special funds, \$463,933 in federal funds). These actions are fully explained in the analysis of the Department of Budget and Management – Personnel.

Child Support Reinvestment Fund

The special fund increase of \$230,519 occurs primarily among the Child Support Reinvestment Fund. The Child Support Reinvestment Fund holds the federal incentive payments received by CSEA for performance. These payments are received based on performance in the second preceding year; for example, incentive payments received in federal fiscal 2016 would reflect federal fiscal 2014 performance. DHR anticipates receiving money into this fund each year but has recently had no fund balance. As a result, it would be expected that only the funds received by the department each year

N00H00 – DHR – Child Support Enforcement

could be used to support expenditures. Unlike most fund sources used for child support expenses, DHR cannot use the Child Support Reinvestment Funds to draw down the typical 66% federal participation.

In fiscal 2012, DHR spent \$7.2 million more of Child Support Reinvestment Funds than it received by essentially borrowing this amount from the amount it expected to receive in federal fiscal 2013. In fiscal 2013, DHR again borrowed from its anticipated receipt in federal fiscal 2014 and spent more Child Support Reinvestment Funds than it received. After these two years, DHR had overspent its Child Support Reinvestment Fund receipts by \$8.7 million.

In fiscal 2014, DHR underspent the amount of Child Support Reinvestment Funds it received by approximately \$2.7 to allow the agency to reduce the amount it was borrowing from the next year. The fiscal 2015 and 2016 budget plan should allow the agency to continue to reduce the amount of borrowing; however, at the end of fiscal 2016 DHR would still be borrowing \$4.3 million. **DHR should comment on the planned timeline for fully eliminating the need to borrow anticipated funds from the next year for this fund source.**

Medical Support Enforcement Contract

Federal law requires states to include a provision for medical support in the child support order, which can be provided by either or both parents. Medical support is defined as health insurance and payment for medical expenses. To meet the medical support requirements, CSEA held a contract with Health Management Systems, Inc. through the Arkansas Medical Support Services Consortium. The fiscal 2016 allowance does not contain funding for this contract, a decrease of \$350,000. CSEA indicates that the vendor decided to stop providing the service. As a result, CSEA will provide the service in-house.

Business Process Improvement Contract

The fiscal 2016 allowance includes an increase of \$718,877 for a new central business improvement contract. Under this contract, consultants will assist CSEA in implementing the recommendations of a business process review statewide. CSEA previously had a contractor, which reviewed current business processes, provided business process improvement recommendations, investigated best practices, provided implementation support and monitoring, with a goal to improve agency performance in national rankings in paternity establishment, support order establishment, current support collection, and cases with arrears for which a payment is received. However, this work was conducted only in Anne Arundel, Baltimore, Montgomery, and Prince George's counties (the four jurisdictions that report directly to the Executive Director of CSEA). Activities included in the contract would be to develop training materials, conduct training, monitor performance, and provide technical assistance.

The recommendations that are expected to be implemented are to:

- expand early intervention to maintain relationships with parties early in the case;

N00H00 – DHR – Child Support Enforcement

- streamline and improve intake and establishment processes;
- improve performance in locating noncustodial parents;
- stratify certain groups of noncustodial parents to most efficiently work cases;
- begin to analyze the enhancement or replacement of the current information technology system (Child Support Enforcement System); and
- improve the process for entering court orders.

These recommendations should be implemented with existing agency personnel. **The Department of Legislative Services recommends deleting the funds for this contract.**

Issues

1. Baltimore City Privatization Contract

The Baltimore City child support office has operated under a privatization contract since a privatization pilot was first authorized in Chapter 491 of 1995. The current contract (with Maximus) for child support services in Baltimore City has been in place since December 2010. The base term of the contract ended on February 28, 2014. The contract has continued since that time under the first of two one-year renewal options available, and DHR recently exercised the second renewal option. The contract will now expire on February 28, 2016. The second renewal option affords the department the opportunity to complete a new procurement. **DHR should comment on the planned timeline for a new privatization contract procurement.**

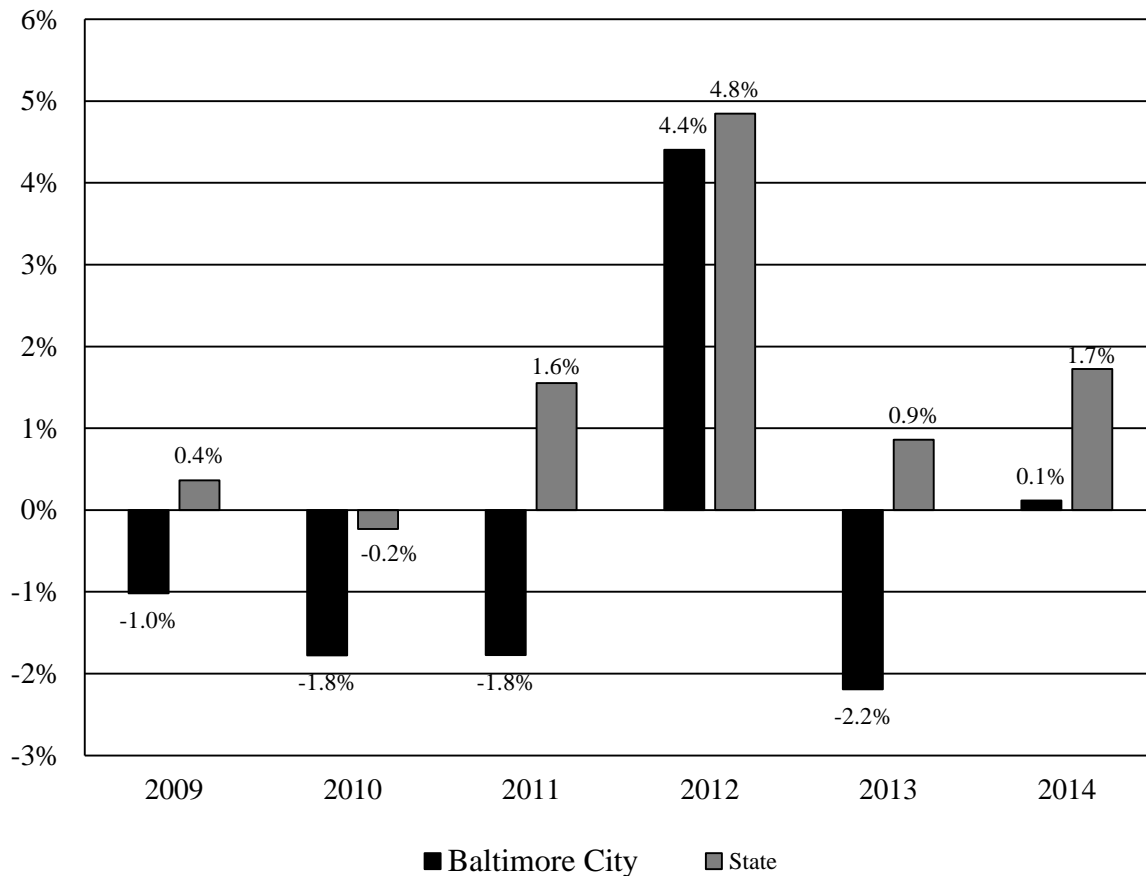
Funding

The fiscal 2016 allowance for the privatization contract increases by \$225,240 compared to the fiscal 2015 working appropriation. DHR indicates that the increase is to better align with recent experience. Despite the increase, the fiscal 2016 funding for the contract, \$8.0 million, is \$828,576 lower than the fiscal 2014 actual expenditures, and the fiscal 2015 working appropriation is \$1.05 million lower than the fiscal 2014 actual expenditures. In addition, both the fiscal 2015 working appropriation and the fiscal 2016 allowance for the contract are lower than the actual expenditures in any recent year, except that the fiscal 2016 allowance is slightly higher than the fiscal 2012 actual. **DHR should comment on whether the fiscal 2015 working appropriation and fiscal 2016 allowance are sufficient to fund the contract expenses in those years. DHR should also comment on how it would cover the contract costs if those levels are exceeded.**

Baltimore City Office of Child Support Enforcement Performance

In federal fiscal 2014, Baltimore City child support cases comprised 29.3% of the total State child support caseload, but only 15.0% of total collections. As shown in **Exhibit 10**, Baltimore City child support collections have generally not performed as well as collections statewide. In fact, Baltimore City child support collections were lower in federal fiscal 2014 than the collections in federal fiscal 2012 (a decrease of \$1.8 million), even as statewide collections increased (an increase of \$14.2 million).

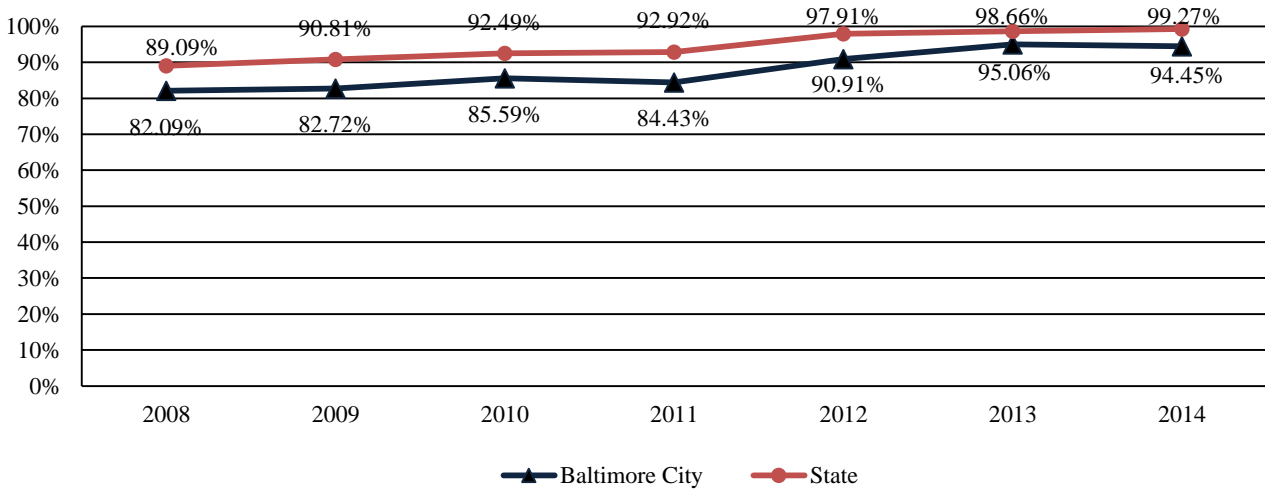
Exhibit 10
Change in Collections
Baltimore City vs. Statewide
Federal Fiscal 2009-2014



Source: Department of Human Resources

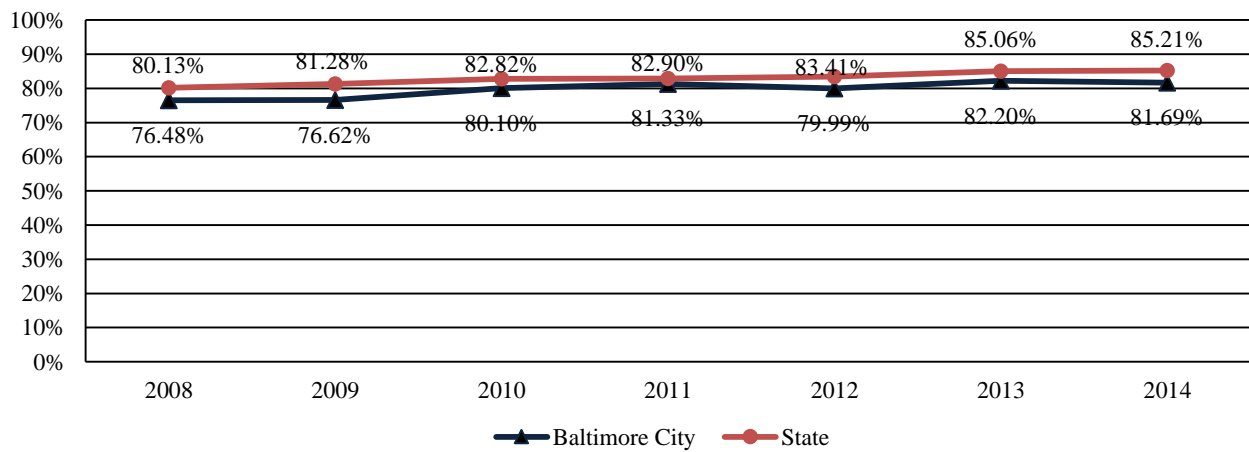
As shown in **Exhibits 11, 12, 13, and 14**, since federal fiscal 2008, in paternity establishment and in federal performance measures, Baltimore City has also performed worse than the State as a whole. However, in recent years, Baltimore City has generally narrowed the gap with the statewide performance.

Exhibit 11
Paternity Establishment
Baltimore City vs Statewide
Federal Fiscal 2008-2014



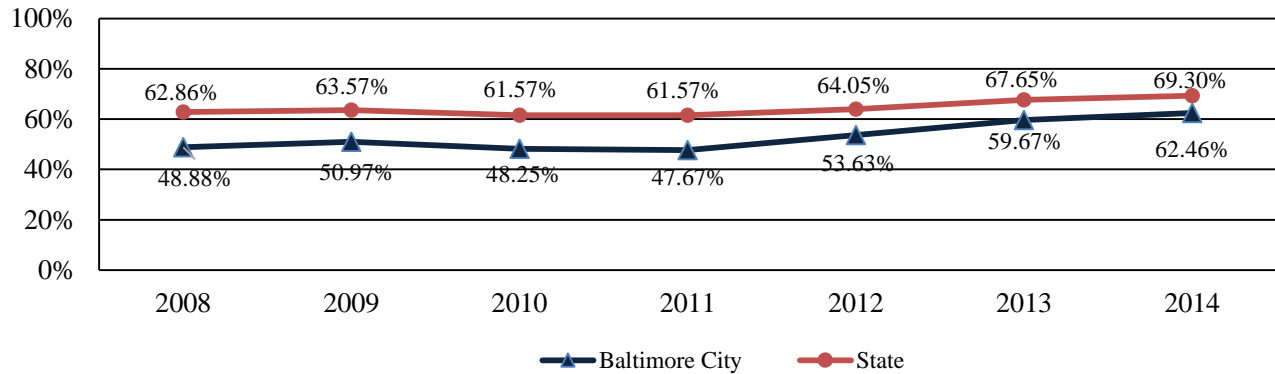
Source: Department of Human Resources

Exhibit 12
Support Order Establishment
Baltimore City vs Statewide
Federal Fiscal 2008-2014



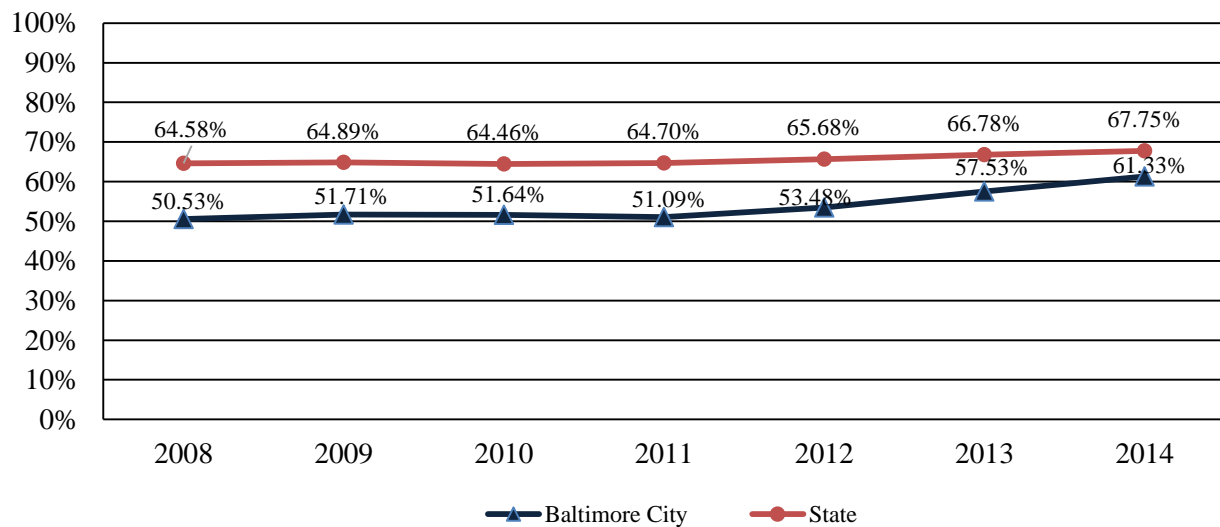
Source: Department of Human Resources

Exhibit 13
Cases with Arrears for Which a Payment Is Received
Baltimore City vs Statewide
Federal Fiscal 2008-2014



Source: Department of Human Resources

Exhibit 14
Current Support Paid
Baltimore City vs Statewide
Federal Fiscal 2008-2014



Source: Department of Human Resources

Recommended Actions

| | <u>Amount Reduction</u> |
|---|------------------------------------|
| 1. Delete funds for a central business improvement contract. These funds are intended for a new contract to assist the Child Support Enforcement Administration to implement recommendations of a business process review. The department should implement the recommendations using existing agency personnel. | \$ 718,877 SF |
| 2. Reduce funds for a Local Area Network contract with the University of Maryland to remove a cost-of-living adjustment (COLA). Section 20 of the fiscal 2016 budget bill is an across-the-board salary reduction to withdraw the fiscal 2015 COLA for State employees. Consistent with that action, this action reduces a contract increase which the Child Support Enforcement Administration indicates is the result of staff COLAs. | 32,756 SF |
| Total Special Fund Reductions | \$ 751,633 |

Updates

1. Federal Regulation Changes

On November 17, 2014, the federal OCSE published proposed regulations for the child support enforcement program in the *Federal Register*. Under an executive order, agencies were directed to increase the review of existing regulations for changes, streamlining, expansion, or repealing. The proposed changes are expected to (1) strengthen the program; (2) update practices to increase regular and on-time payments to families; (3) increase the number of noncustodial parents working and supporting their children; (4) reduce the accumulation of arrearages; (5) remove regulatory barriers to cost-effective approaches for improvement of child support enforcement; (6) remove outdated barriers to electronic communications and document imaging; (7) update regulations that limit methods of storing or communicating information; and (8) reflect a recent Supreme Court decision.

Some of the proposed changes:

- eliminate Title IV-E (foster care) cases from child support cases that automatically continue after a determination of ineligibility (for example by reason of reunification) and instead provide notice that the services will continue in cases in which the agency determines that the services and notice are appropriate;
- allow states (as an option) to provide the parent applying for child support services an opportunity to select the services it will receive from a menu of options rather than requiring them to select full services and having the state define those service options in the state plan;
- require that child support payments owed and payable to families be disbursed only and directly to families (previously payments could be directed to a private collection agencies under contract with a custodial parent);
- modernize processes for setting support order amounts to take into account actual earnings (as a means of setting orders based on a noncustodial parent’s actual ability to pay) and ensure that state child support guidelines take into account subsistence needs of noncustodial parents;
- prohibit the treatment of incarceration as voluntary unemployment and allow a state plan option to review and adjust a support order if a noncustodial parent is incarcerated for more than 90 days without a specific request from either parent and requiring a change to notice for review requirements to add a notice if the agency has knowledge that a parent is incarcerated;
- allow states to recognize parenting time provisions in the support order when both parents have agreed to the provisions, but notes that the state agency is not responsible for undertaking new activities, and the costs must be minimal and incidental to child support establishment activities;

N00H00 – DHR – Child Support Enforcement

- alter the time period for granting exemptions from implementing laws or procedures from three to five years if the state can demonstrate that it will not increase the effectiveness and efficiency of the state child support program or if a state has similar procedures not in full compliance with the law or procedure but that the change would not increase the efficiency and effectiveness of the program;
- allow states to choose to provide certain job services to custodial parents in the state plan, which would then allow the state to receive federal child support dollars for this purpose, defining job service program standards (emphasizing rapid labor force attachment and job retention rather than career development), and provide that services can include job search assistance, readiness training, development and placement services, skills assessments related to facilitating job placement, job retention, certificate programs and skills training directly related to employment, and work supports;
- require states to take into account subsistence needs of the noncustodial parent in civil contempt proceedings and encouraging this in other enforcement procedures (such as license revocation, liens, and state tax refund offsets);
- remove a provision which prohibits Medicaid, the Children’s Health Insurance Program, or other state health programs from being considered medical support;
- add or amend case closure criteria including (1) when there is no current support order and all arrearages are owed to the state (2) arrearage only cases against low-income senior citizens who are entering or have entered into long-term care and whose children have reached majority age and the noncustodial parent has no income or assets above the subsistence level for support; (3) when the noncustodial parent is living with the minor children as a primary caregiver or in an intact two parent household and the services are determined to be no longer appropriate by the agency; (4) when repeated attempts to locate a noncustodial parent are unsuccessful due to inadequate identifying or location information; and (5) when noncustodial parents cannot pay support and show no evidence of support potential despite multiple referrals for services over a five-year period and there are no income or assets above the subsistence level;
- require notice to the recipient within 30 calendar days of case closure that the case has been closed and provide information on reapplying;
- authorize federal financial participation for activities designed to increase access to child support proceedings, to encourage alternative dispute resolution, and certain educational activities; and
- clarify that for the purpose of CRAs law enforcement officials include district attorneys, Attorneys General, and similar public attorneys and prosecutors and adding corrections officials to the list of entities that CRAs may be entered.

N00H00 – DHR – Child Support Enforcement

The timeline for the effective date of any final regulation changes is unknown and is an area that OCSE was seeking comment. Comments on the proposed regulation changes were due January 16, 2015, and any adjustments or final adoption are pending.

Impact on CSEA

CSEA has undertaken some activities that are consistent with the proposed rule changes. For example, Chapter 670 of 2012 authorized CSEA to suspend child support payments for obligors incarcerated for 18 months or longer who are not on work release, do not have means to pay the child support, and did not commit the crime with the intent of being incarcerated or otherwise impoverished. Although this requires a longer time period for incarceration than the proposed rule it is consistent with the intent to limit the accumulation of arrearages during incarceration. In addition, Maryland's child support guidelines include a calculation for a self-support reserve, which is consistent with the proposed rule to include a calculation for a subsistence level in the guidelines. In addition, DHR operates a noncustodial parent employment program, not paid for with child support federal funds.

DHR indicates that the timeline for any final rulemaking is at the discretion of OCSE. No details about changes that would be required in Maryland law or to the State plan will be known until the final rulemaking. DHR anticipates that following the final rulemaking details would be provided by OCSE on timelines for DHR to make decisions about any optional State plan amendments. DHR does expect that legislative changes would need to occur in the legislative session following the final rulemaking, which would be consistent with past practice.

2. 2014 Session Legislation Impacts

During the 2014 session, two pieces of legislation altered enforcement authority by CSEA.

License Suspension

Chapter 448 of 2014 adds recreational hunting or fishing licenses to those that are subject to license denial and suspension by CSEA for failure to pay child support. Previously, the license suspension or denial authority was available to CSEA for professional or occupational licenses issued by:

- the Department of Natural Resources (DNR);
- the Department of Labor, Licensing, and Regulation;
- the Department of Health and Mental Hygiene;
- DHR;

N00H00 – DHR – Child Support Enforcement

- the Department of Transportation;
- the Department of the Environment;
- the Comptroller of the Treasury;
- the Department of Agriculture;
- the Maryland Insurance Administration;
- the Public Service Commission;
- the Secretary of State;
- the State Department of Education;
- the Office of the Attorney General;
- the clerks of the court; and
- the Court of Appeals.

Chapter 448 also requires DHR to request an exemption from the U.S. Department of Health and Human Services to allow the agency to collect only the last four digits of a Social Security number (rather than the whole Social Security number) on the license application for recreational hunting or fishing licenses. If the exemption was granted by July 1, 2015, the chapter adds provisions to statute to allow DNR to require only the last four digits of the Social Security number on recreational hunting and fishing license applications and for CSEA to request only this information for matching purposes.

CSEA requested the exemption in a letter dated June 23, 2014, as required. CSEA was granted the exemption for a three-year period (October 1, 2014, through September 30, 2017) in a letter dated September 22, 2014. However, the federal OCSE noted that the exemption is subject to continuing review and could be terminated if there is change in circumstances including that the effectiveness of the license revocation process is reduced and if the State fails to demonstrate that the exemption is warranted. If the exemption is revoked or is not reviewed, Maryland must enact legislation (if necessary) or implement practices by the beginning of the fourth month after the end of the first legislative session (or four months if no legislation is required) after the exemption is revoked or the extension is denied. If Maryland wishes to seek an extension, it is required to do so at least 90 days before the end of the current exemption period.

CSEA anticipates it will begin matching recreational licenses with DNR by late spring 2015.

Child Support Intercepts of Video Lottery Payouts

Chapter 622 of 2014 requires a video lottery operation licensee to provide notice to child support obligors who have been certified as owing child support and win a prize at the video lottery facility of a size requiring the issuance of an Internal Revenue Service form W-2G that:

- the obligor has won a prize to be paid by cash or check by the licensee;
- the State Lottery and Gaming Control Agency has received certification from CSEA of the obligor's arrearage amount;
- the video lottery operation licensee is required to withhold the prize to pay toward the child support arrearage;
- notification of the right to appeal within 15 days of the amount to be transferred to CSEA; and
- if no appeal is filed that the amount will be transferred to CSEA.

The chapter also adds video operation licensee to existing rules on appeals of transfers of prizes to CSEA and the order of interception for the State Lottery and Gaming Control Agency. The chapter does not apply to prizes won on or before June 1, 2015.

CSEA indicates that the State Lottery and Gaming Control Agency is seeking a contract modification with the vendor that performs the intercept of lottery winnings to also intercept video lottery payouts. CSEA has also worked with the agency to implement procedures to intercept the video lottery payouts.

Current and Prior Year Budgets

Current and Prior Year Budgets DHR – Child Support Enforcement Administration (\$ in Thousands)

| | <u>General Fund</u> | <u>Special Fund</u> | <u>Federal Fund</u> | <u>Reimb. Fund</u> | <u>Total</u> |
|----------------------------------|--------------------------------|--------------------------------|--------------------------------|-------------------------------|---------------------|
| Fiscal 2014 | | | | | |
| Legislative Appropriation | \$18,195 | \$11,183 | \$59,030 | \$0 | \$88,408 |
| Deficiency Appropriation | -591 | -13 | -669 | 0 | -1,273 |
| Budget Amendments | 4,186 | 10 | 3,531 | 0 | 7,726 |
| Reversions and Cancellations | 0 | -4,106 | -1,173 | 0 | -5,279 |
| Actual Expenditures | \$21,791 | \$7,073 | \$60,718 | \$0 | \$89,582 |
| Fiscal 2015 | | | | | |
| Legislative Appropriation | \$18,520 | \$10,691 | \$59,035 | \$0 | \$88,246 |
| Cost Containment | 0 | 0 | 0 | 0 | 0 |
| Budget Amendments | 125 | 5 | 251 | 0 | 382 |
| Working Appropriation | \$18,645 | \$10,696 | \$59,287 | \$0 | \$88,628 |

Note: Numbers may not sum to total due to rounding. The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies.

Fiscal 2014

CSEA's fiscal 2014 expenditures were \$1.2 million higher than the legislative appropriation. CSEA's fiscal 2014 general fund expenditures were \$3.6 million higher than the legislative appropriation. Increases totaling \$4.4 million occurred by budget amendment primarily to support the Baltimore City privatization contract, the State disbursement unit, and business process reengineering services in lieu of Child Support Offset Funds (\$4.1 million). Other increases resulted from salary and wage adjustments (\$124,460), the cost-of-living adjustment (COLA) provided to State employees in January 2014 (\$181,814), and increments provided in April 2014 (\$74,768). These increases were partially offset by decreases totaling \$853,758 due to lower than expected lease costs in certain jurisdictions (\$263,237) and deficiency appropriations, which reduced funding for health insurance (\$377,131) and retirement reinvestment (\$213,390). CSEA also reverted a small amount of general funds.

The fiscal 2014 special fund expenditures of CSEA were \$4.1 million lower than the legislative appropriation. Increases totaling \$9,538 occurred as a result of employee compensation changes including the fiscal 2014 COLA (\$7,011) and employee increments (\$2,527). These increases were more than offset by the special fund share of the deficiency appropriations that reduced funding for retirement reinvestment (\$8,233) and health insurance (\$4,842) and cancellations totaling \$4.1 million. The cancellations were largely the result of the decision to use general and federal funds rather than Child Support Reinvestment or Child Support Offset funds for certain costs. Other cancellations resulted from lower than expected expenditures for genetic testing services.

CSEA's fiscal 2014 federal fund expenditures were \$1.7 million higher than the legislative appropriation. Increases totaling \$3.5 million occurred by budget amendment primarily for cooperative reimbursement agreements, the Baltimore City privatization contract, State disbursement unit services, and business process reengineering services (\$3.0 million). Other increases resulted from employee compensation changes including the federal fund share of the fiscal 2014 COLA (\$362,652) and employee increments (\$132,759). These increases are partially offset by the federal fund share of the deficiency appropriations that reduced funding for retirement reinvestment (\$422,247) and health insurance (\$247,170) and cancellations totaling \$1.2 million. The cancellations resulted from lower than expected expenditures for salaries and wages and lease costs.

Fiscal 2015

The fiscal 2015 appropriation of CSEA has increased by \$382,174 in total funds (\$125,281 in general funds, \$5,428 in special funds, and \$251,465 in federal funds) to support the fiscal 2015 COLA.

**Object/Fund Difference Report
DHR – Child Support Enforcement**

| <u>Object/Fund</u> | <u>FY 14 Actual</u> | <u>FY 15 Working Appropriation</u> | <u>FY 16 Allowance</u> | <u>FY 15 - FY 16 Amount Change</u> | <u>Percent Change</u> |
|---|-------------------------|--|----------------------------|--|---------------------------|
| Positions | | | | | |
| 01 Regular | 688.20 | 679.90 | 679.90 | 0.00 | 0% |
| 02 Contractual | 7.45 | 1.00 | 1.00 | 0.00 | 0% |
| Total Positions | 695.65 | 680.90 | 680.90 | 0.00 | 0% |
| Objects | | | | | |
| 01 Salaries and Wages | \$ 44,609,895 | \$ 47,126,962 | \$ 49,738,009 | \$ 2,611,047 | 5.5% |
| 02 Technical and Spec. Fees | 350,138 | 139,776 | 139,230 | -546 | -0.4% |
| 03 Communication | 499,629 | 603,073 | 530,835 | -72,238 | -12.0% |
| 04 Travel | 71,787 | 91,670 | 97,861 | 6,191 | 6.8% |
| 06 Fuel and Utilities | 120,721 | 124,420 | 123,903 | -517 | -0.4% |
| 07 Motor Vehicles | 45,518 | 86,565 | 81,389 | -5,176 | -6.0% |
| 08 Contractual Services | 39,197,560 | 35,241,174 | 37,125,335 | 1,884,161 | 5.3% |
| 09 Supplies and Materials | 532,610 | 456,014 | 559,968 | 103,954 | 22.8% |
| 10 Equipment – Replacement | 42,335 | 0 | 0 | 0 | 0.0% |
| 11 Equipment – Additional | 90,521 | 0 | 0 | 0 | 0.0% |
| 12 Grants, Subsidies, and Contributions | 18,170 | 600 | 209 | -391 | -65.2% |
| 13 Fixed Charges | 4,003,302 | 4,757,808 | 4,678,967 | -78,841 | -1.7% |
| Total Objects | \$ 89,582,186 | \$ 88,628,062 | \$ 93,075,706 | \$ 4,447,644 | 5.0% |
| Funds | | | | | |
| 01 General Fund | \$ 21,790,679 | \$ 18,645,353 | \$ 19,552,074 | \$ 906,721 | 4.9% |
| 03 Special Fund | 7,073,218 | 10,696,064 | 10,949,547 | 253,483 | 2.4% |
| 05 Federal Fund | 60,718,289 | 59,286,645 | 62,574,085 | 3,287,440 | 5.5% |
| Total Funds | \$ 89,582,186 | \$ 88,628,062 | \$ 93,075,706 | \$ 4,447,644 | 5.0% |

Note: The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies. The fiscal 2016 allowance does not reflect contingent or across-the-board reductions.

**Fiscal Summary
DHR – Child Support Enforcement**

| <u>Program/Unit</u> | <u>FY 14 Actual</u> | <u>FY 15 Wrk Approp</u> | <u>FY 16 Allowance</u> | <u>Change</u> | <u>FY 15 - FY 16 % Change</u> |
|---|-------------------------|-----------------------------|----------------------------|---------------------|-----------------------------------|
| 06 Local Child Support Enforcement Administration | \$ 44,961,107 | \$ 48,059,760 | \$ 50,359,857 | \$ 2,300,097 | 4.8% |
| 08 Support Enforcement – State | 44,621,079 | 40,568,302 | 42,715,849 | 2,147,547 | 5.3% |
| Total Expenditures | \$ 89,582,186 | \$ 88,628,062 | \$ 93,075,706 | \$ 4,447,644 | 5.0% |
| General Fund | \$ 21,790,679 | \$ 18,645,353 | \$ 19,552,074 | \$ 906,721 | 4.9% |
| Special Fund | 7,073,218 | 10,696,064 | 10,949,547 | 253,483 | 2.4% |
| Federal Fund | 60,718,289 | 59,286,645 | 62,574,085 | 3,287,440 | 5.5% |
| Total Appropriations | \$ 89,582,186 | \$ 88,628,062 | \$ 93,075,706 | \$ 4,447,644 | 5.0% |

Note: The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies. The fiscal 2016 allowance does not reflect contingent or across-the-board reductions.