

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE

Senate Bill 403 (Senator Della)
Judicial Proceedings

Child Support Enforcement - Repeal of Privatization Pilot Program

This bill repeals the Child Support Enforcement Privatization Pilot Program in Baltimore City and Queen Anne’s County.

This bill is effective July 1, 1996.

Fiscal Summary

State Effect: General fund revenues could decrease by \$122,900 in FY 1997. Future year revenue decreases reflect annualization. General fund expenditures could decrease by \$66,600 in FY 1997. Future year expenditure decreases reflect annualization and inflation.

(\$ in dollars)	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001
GF Revenues	(\$122,900)	(\$393,300)	(\$703,600)	\$0	\$0
GF Expenditures	(66,600)	(75,900)	(79,700)	0	0
Net Effect	(\$56,300)	(\$317,400)	(\$623,900)	\$0	\$0

Note: () - decrease; GF - general funds; FF - federal funds; SF - special funds

Local Effect: None.

Fiscal Analysis

Background: The Child Support Privatization Pilot Program was enacted during the 1995 session as part of the Welfare Reform Pilot initiative (Chapter 491 of 1995). The pilot program requires all child support enforcement activities in Baltimore City and Queen Anne’s County to be privatized by November 1, 1996. Private contractors are required to offer employment to affected employees. In addition, the cost of transferring child support activities to private contractors cannot exceed the fiscal 1995 administrative cost per child support dollar collected. The Act enables certain State employees to return to State service

when the pilot terminates. The pilot program sunsets on June 30, 1999.

The following are selected child support collection statistics for Baltimore City and Queen Anne's County for fiscal 1995.

- 2,627 new paternities established in Baltimore City (18% decrease over fiscal 1994) and 68 new paternities established in Queen Anne's County (11% decrease over fiscal 1994);
- 4,090 new support orders established in Baltimore City (14% decrease over fiscal 1994) and 136 new support orders established in Queen Anne's County (6% decrease over fiscal 1994);
- 195,541 total child support cases in Baltimore City (53% of all cases in the State) and 1,310 cases in Queen Anne's County;
- In Baltimore City, 31% of current obligations are collected, 4% of prior years obligations are collected, and 9% of total obligations are collected;
- In Queen Anne's County, 65% of current obligations are collected, 23% of prior years obligations are collected, and 46% of total obligations are collected; and
- Statewide, 50% of current obligations are collected, 8% of prior years obligations are collected, and 22% of total obligations are collected.

State Effect: Repealing the Child Support Enforcement Pilot Program would result in the following: (1) potential decrease in AFDC-related child support collection which goes to the State's general fund; (2) potential decrease in federal incentive bonuses due to lower support collections absent privatization; (3) decrease in pilot monitoring and administering expenses within the Child Support Enforcement Administration; and (4) indeterminate impact on administrative costs. A detailed analysis of these potential effects are discussed below.

Repealing the pilot program is projected to decrease AFDC-related child support payments by \$292,600 in fiscal 1997. This estimate is based on a 10% annual increase in child support collections as a result of privatization. AFDC-related child support collections are distributed as follows:

State Share	42%
-------------	-----

Federal Share	37%
Local Incentives	5%
AFDC Family Bonus	<u>16%</u>
Total	100%

Accordingly, State general fund revenues could decrease by \$122,900 in fiscal 1997 and by \$703,600 in fiscal 1999.

On the other hand, repealing the pilot program would reduce State monitoring expenses by \$195,800 in fiscal 1997. This includes the cost savings from not hiring one Human Service Administrator, three Human Service Specialists, and one Office Secretary to administer and monitor the effectiveness of the pilot program. These cost savings are shared 34% by the State and 66% by the federal government. Accordingly, State general fund expenditures would decrease by \$66,600 and federal fund expenditures could decrease by \$129,200 in fiscal 1997.

In addition, repealing the pilot program would prevent approximately 350 positions within CSEA from being transferred to the private sector. Private contractors are required to offer employment to all affected State employees. Since the privatization initiative has not gone into effect, the affected employees are still employed by the State.

Repealing the pilot program results in an indeterminate impact on administrative costs. The reimbursement of the private contractor is to be a percentage of the total amount of child support collected by the private contractor; however, it cannot exceed the fiscal 1995 administrative cost per child support dollar collected by the CSEA. In Baltimore City, the private contractor would receive approximately \$0.25 in reimbursement for every dollar in child support collected. Accordingly, if collections increase by 10% to \$53.5 million, the private contractor would receive approximately \$13.4 million, or around \$1 million more than was spent by the State in fiscal 1995. However, if collections do not increase, the private contractor would receive the fiscal 1995 expenditure allocation. The actual impact on State expenditures would depend upon how successful the private contractor is at collecting child support obligations and whether the State administrative costs would have increased absent the pilot program.

Information Source(s): Department of Human Resources (Child Support Enforcement Administration), Department of Fiscal Services

Fiscal Note History: First Reader - February 13, 1996
ncs

Analysis by: Hiram L. Burch Jr.
Reviewed by: John Rixey
(410) 841-3710
(301) 858-3710

Direct Inquiries to:
John Rixey, Coordinating Analyst