

**Department of Fiscal Services**  
Maryland General Assembly

**FISCAL NOTE**

House Bill 503 (Delegate Dembrow)  
Commerce and Government Matters

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**Central Collection Unit - Collection of Unemployment Insurance Contributions and Overpayments**

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This bill makes the Central Collection Unit (CCU) of the Department of Budget and Management responsible for collecting any delinquent unemployment insurance contribution or overpayment that is owed to the State.

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**Fiscal Summary**

**State Effect:** Increase in special fund revenues of \$310,000 from collection fees to CCU beginning in FY 1998. Out-year revenues increase to \$448,000 due to higher collections, then decrease in FY 2002 to \$138,000 after initial backlog is resolved. Increase of \$159,400 in special fund expenditures by CCU in FY 1998. Future year expenditures reflect annualization and growth.

(in dollars)	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
SF Revenues	310,000	448,000	448,000	448,000	138,000
SF Expenditures	159,400	165,100	170,500	176,400	183,000
Net Effect	\$150,600	\$282,900	\$277,500	\$271,600	(\$45,000)

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

**Unemployment Insurance Trust Fund:** Estimated increase in revenues of approximately \$10.5 million over five years beginning in FY 1998 due to collections by CCU of existing and new Trust Fund debts. Variance in actual collections from the assumed 27% collection rate will result in variance to the actual amount collected.

**Local Effect:** None.

**Small Business Effect:** None. This bill would not directly affect small businesses.

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## Fiscal Analysis

**State Effect:** This bill gives responsibility to the Central Collection Unit (CCU) for collection of unemployment insurance delinquent contributions and overpayments. Currently, the Office of Unemployment Insurance (OUI) refers selected overpayments to CCU for possible recovery through the Tax Refund Intercept Program (TRIP), which attempts to collect these overpayments through reduction in State tax refunds. Under the bill, CCU would be responsible for collecting all overpayments through a variety of means, including State income tax interceptions, lawsuits and wage garnishments, State employee salary offsets, and notation in the debtor's credit report.

In addition, this bill would make CCU responsible for contribution nonpayment debts. OUI and CCU advise that OUI currently has in place an effective staff and system for collecting these debts, including: the use of recorded judgments and liens, a payment offset mechanism, and injunctions against noncontributing employers. OUI's existing receivables for noncontribution are primarily defunct corporate debts; referral of these debts to CCU would produce little additional collectible revenue. Assuming no change in workload or revenue to CCU as a result of contribution debts, the estimates below are based solely on transfer to CCU of overpayment debts.

For overpayments, OUI would refer to CCU in the first year a backlog of approximately 14,000 benefit overpayment debts with a value of approximately \$27 million. Each year thereafter, OUI would refer approximately 1,600 debts with a value of approximately \$3 million. OUI collection staff would continue to monitor and resolve current accounts receivable through offsets and recoupments; no reduction in this staff is anticipated. Currently, CCU handles approximately 42,000 debts per year; the first-year OUI debts would represent a 33% increase in workload for CCU.

To accommodate the additional workload, special fund expenditures could increase by an estimated \$159,400 in fiscal 1998, which reflects the bill's October 1, 1997 effective date. This estimate reflects the cost of hiring an additional six positions, including three Collection Agents, two Administrative positions, and a Legal Assistant to assist in the additional debt collections. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Salaries and Fringe Benefits	\$115,303
Operating Expenses	<u>44,080</u>
<b>Total FY 1998 State Expenditures</b>	<b>\$159,383</b>

Future year expenditures reflect (1) full salaries with 3.5% annual increases and 3%

employee turnover; and (2) 2% annual increases in ongoing operating expenses.

CCU estimates a recovery rate of 30% on the overpayment debt referrals over four years, with an initial annual recovery rate of 7.5%. Because CCU already collects TRIP revenues of approximately 3% on OUI's overpayment debts, the effective additional collection rate as a result of this legislation would be 27% (30% - 3%). The Maryland Unemployment Insurance Trust Fund could receive an additional \$1.8 million in fiscal 1998, increasing to approximately \$2.6 million per year between 1999 and 2001, and then decreasing to \$810,000 per year beginning in 2002 after the backlog is fully resolved. Based on the 27% collection rate, it is estimated that the Trust Fund could collect approximately \$10.5 million over the five-year period.

CCU is a self-supporting unit, with funding generated from a 17% collection fee added to each debt. Based on the debt recovery estimates, CCU would receive additional special-fund revenue of approximately \$310,000 in fiscal 1998, increasing to \$448,000 per year between 1999 and 2001, and decreasing to \$138,000 per year in 2002 after the backlog is resolved. Thus, after accounting for the additional personnel and other expenditures discussed above, CCU will experience net additional revenues of approximately \$150,600 in fiscal 1998, increasing to over \$270,000 per year in fiscal 1999, 2000, and 2001. In fiscal 2002, the backlog will have been addressed and personnel expenditures will exceed collection revenues. All new CCU personnel are unclassified employees and the unit has been given the flexibility to adjust staffing to correspond with its revenues.

Finally, existing law gives administration officials authority to use CCU to collect various State debts. Absent this legislation, State law does not prohibit OUI from using CCU to collect its debts, as it currently does under the TRIP.

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**Information Source(s):** Department of Budget and Management (Central Collection Unit); Department of Labor, Licensing, and Regulation (Office of Unemployment Insurance); Department of Fiscal Services

**Fiscal Note History:** First Reader - February 10, 1997

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