

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE
Revised

House Bill 1115 (Chairman, Commerce and Government Matters Committee)
(Departmental - Higher Education Commission)
Commerce and Government Matters Referred to Economic & Environmental Affairs

Higher Education - Community Colleges - Debt Collection

This amended departmental bill requires the Central Collection Unit in the Department of Budget and Management, at the request of a Community College Board of Trustees, to collect delinquent accounts and debts owed to local community colleges.

This bill takes effect July 1, 1997.

Fiscal Summary

State Effect: Special fund revenues could increase by \$89,900 in FY 1998; future year revenues reflect continual debt collections. Special fund expenditures could increase by \$74,500 in FY 1998; future year expenditures reflect annualization, inflation, and an additional position beginning in FY 2000.

(in dollars)	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
SF Revenues	\$89,900	\$329,600	\$569,300	\$809,000	\$479,400
SF Expenditures	74,500	87,500	120,700	122,700	125,200
Net Effect	\$15,400	\$242,100	\$448,600	\$688,300	\$354,200

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

Local Effect: Potential significant increase in local revenues. Expenditures would not be affected.

Small Business Effect: The Maryland Higher Education Commission has determined that this bill has minimal or no impact on small businesses (attached). Fiscal Services concurs with this assessment.

Fiscal Analysis

Background: The Central Collection Unit is responsible for the collection of all delinquent debts, claims, and accounts of the State other than taxes, child support, unemployment insurance contributions and overpayments, and court costs. Typical debts are student tuition and fees and reimbursements for institutional care. In fiscal 1996, over \$15.9 million in outstanding debts was collected. The fiscal 1998 budget allowance provides for 38 positions and \$2,185,394 in special funding. The unit imposes a 17% collection fee on outstanding debt in order to cover the unit's expenses. The unit is projected to receive 51,000 requests for debt collections in fiscal 1998.

State Effect: Local community colleges report that approximately 9,700 accounts valued at \$4.7 million become delinquent annually. Due to the lack of expertise in debt collection, only a portion of this amount is ever collected. This bill enables a community college board of trustees to transfer the responsibility for collecting delinquent accounts and debt owed to local community colleges to the Central Collection Unit in the Department of Management and Budget, which currently collects delinquent accounts for the State's 14 universities.

Administrative Expenses

Special fund expenditures could increase by an estimated \$74,519 in fiscal 1998, which reflects a 90-day start-up delay. This estimate reflects the cost of hiring two Collection Agents and one Data Device Operator to investigate and collect local community colleges debt obligations. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses. The information and assumptions used in calculating the estimate are stated below:

- all community colleges requesting the transfer of debt collection to the Central Collection Unit;
- 9,700 debt referrals annually; and
- one additional collection agent for every 5,000 referrals

Salaries and Fringe Benefits	\$54,404
Operating Expenses	<u>20,115</u>
Total FY 1998 State Expenditures	\$74,519

Future year expenditures reflect (1) full salaries with 3.5% annual increases and 3% employee turnover; (2) 2% annual increases in ongoing operating expenses; and (3) one

additional collection agent beginning in fiscal 2000.

Central Collection Unit Revenues

The CCU imposes a 17% collection fee on outstanding debt, which provides the revenues to fund the unit. This would generate \$89,900 in special fund revenues in fiscal 1998 and \$2.2 million in revenues over the next four years. **Exhibit 1** shows the amount of debt the unit is expected to collect over the next five years. This estimate is based on the CCU realizing a 15% recovery rate on outstanding debt owed to local community colleges in fiscal 1998 and a 60% recovery rate by fiscal 2001.

**Exhibit 1
Projected Debt Collection BY CCU**

Fiscal Year	Debt Referred for Collection	Cumulative Debt Referral	Annual Debt Collected	Cumulative Debt Collected	Cumulative Collection Rate	17% Fee*
FY 1998	\$3,525,000	\$3,525,000	\$528,750	\$528,750	15%	\$89,888
FY 1999	4,700,000	8,225,000	1,938,750	2,467,500	30%	329,588
FY 2000	4,700,000	12,925,000	3,348,750	5,816,250	45%	569,288
FY 2001	4,700,000	17,625,000	4,758,750	10,575,000	60%	808,988
FY 2002	4,700,000	22,325,000	2,820,000	13,395,000	60%	479,400

* based on 17% of annual debt collected

Local Effect: The Central Collection Unit expects to realize a 60% recovery rate on outstanding debt owed to local community colleges by fiscal 2001. This estimate is based on the unit’s collection experience for the 14 State universities. If such collections are realized, local community colleges would receive \$528,750 in revenues in fiscal 1998 and \$4.8 million in fiscal 2001. Over a five-year period, approximately \$13.4 million would be collected by the unit and returned to the local community colleges.

The actual local revenue increase would depend upon the amount of debt collected by the Central Collection Unit and the amount currently collected by the local community colleges. Based on information provided by the Maryland Higher Education Commission, local community colleges at present are not very successful at collecting past debts owed to the institutions. If the Central Collection Unit is more successful at collecting delinquent debt than the local colleges, local revenues would increase. Without any information on the current debt collection rate of community colleges, and the number of community colleges transferring debt collection over to the CCU, the actual amount of increased revenues cannot

be determined, although, it is assumed to be substantial.

Information Source(s): Department of Budget and Management, Maryland Higher Education Commission, Department of Fiscal Services

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