

Department of Legislative Services
Maryland General Assembly

FISCAL NOTE
Revised

Senate Bill 315 (Senator Teitelbaum. *et al.*)

Finance

Public Assistance - Finger Imaging Identification Pilot Program

This bill requires the Department of Human Resources (DHR) to establish a statewide finger imaging identification pilot program to prevent fraudulent receipt of family investment assistance. All public assistance applicants are required to be fingerprinted by the local department of social services. The fingerprints are to be stored and maintained in an electronic database by the local department of social services and DHR. DHR is required to conduct periodic audits of data base maintenance to ensure that the fingerprint information is not being improperly disclosed or illegally used. DHR is to report by October 1, 1999 to the Senate Budget and Taxation Committee and the House Appropriations Committee concerning the pilot program's effectiveness and recommendations on whether the pilot program should be continued, expanded, or concluded. The bill is in effect for two years and terminates on September 30, 2000.

Fiscal Summary

State Effect: Net savings of \$2.9 million to \$7.5 million could be realized in FY 1999, depending on enrollment and contract specifications, and exclusive of indeterminate but significant savings due to fraud deterrence. Future year net savings would decrease but are likely to remain significant due to the deterrence effect. Revenues would not be affected.

Local Effect: None.

Small Business Effect: Potential meaningful.

Fiscal Analysis

Background: An increasing number of states are using biometric identifying systems

(fingerprinting) for welfare fraud prevention. Biometrics are used to identify each welfare applicant to determine if they are already in the system, thereby preventing a client from receiving duplicate benefits by using false identification. The fingerprint image of a client is read by a scanner and is recorded on an automated data base, where the information is matched against the fingerprints of persons receiving benefits.

The Legislative Auditor recommended in a May 1996 audit of DHR that the department conduct a comprehensive analysis to determine the cost/benefits of using an automated fingerprinting system to reduce welfare fraud. DHR created a welfare reform fraud prevention committee to review the latest welfare fraud prevention technologies and to conduct a cost benefit analysis using data from other states' biometrics experience. The cost analysis showed that finger imaging had the lowest return on investment of the fraud initiatives reviewed. The other initiatives included overpayments/recoupment investment, computer matching, expansion of front end fraud detection programs, and EBTS trafficking unit. The committee recommended that DHR first pursue the other options due to their lower cost and higher rates of return and that finger imaging be re-evaluated periodically.

State Expenditures: State expenditures could increase by a range of \$863,000 to \$5.5 million in fiscal 1999, which accounts for the bill's October 1, 1998 effective date, and is based on comparative cost and enrollment data from other states with finger imaging projects (Arizona, New York, New Jersey, Illinois, Connecticut, and Texas). Based on the other states' data, the cost of an electronic finger imaging system can vary widely, depending on: (1) total enrollment, including whether both Temporary Cash Assistance (TCA) and Food Stamp Program (FSP) recipients are required to participate, or just TCA recipients; (2) whether the State or the vendor will own the equipment; and (3) whether the contract calls for a charge per image or fixed costs for a certain volume of images. The estimate reflects the cost of contracting with a vendor to develop the finger imaging system and hiring a project manager to oversee the pilot program. It includes salaries and fringe benefits (\$32,100), one-time start-up costs, and ongoing operating expenses. The information and assumptions used in calculating the estimate for vendor system development are stated below:

- 382,084 statewide clients based on November 1997 data;
- the number of clients includes new applicants (167,498) as well as current caseload (214,586);
- TCA clients (218,324) includes adults and children;
- FSP clients (163,760) includes head of household only;
- the federal government pays for 50% of FSP finger imaging costs;

- TCA savings per client = \$1,830;
- FSP savings per client = \$2,175; and
- the vendor contract includes an evaluation component of 10% of the contract cost.

The DHR fraud prevention committee reported a closing rate of 1.3% as a minimum rate and that closing rates could be as high as 4.3% (based on Los Angeles County's experience). Assuming a 2.8% case closing rate and a 90-day start-up delay, fiscal 1999 savings could total \$8.4 million. Taking into account pilot program costs, net savings in fiscal 1999 would be in the range of \$2.9 million to \$7.5 million. DHR's estimate of net costs of \$2.1 million in fiscal 1999 assumes that closing rates will be only 1.3%

Future year costs and savings would apply only to new applicants, since the existing caseload would be fingerprinted in the first year. Net savings in future years would therefore likely decrease, but could continue to be significant based on the program's deterrence effect.

Expenditures and savings of a finger imaging pilot project are represented as a total pool of State funds. The proposed fiscal 1999 budget includes \$165.8 million for cash assistance payments, of which \$90.5 million is federal block grant funds and \$75.3 million is general funds. With the block grant, however, it is not possible to reliably predict the federal/general fund split used for any particular program. The \$165.8 million pool of money could be used to fund other programs, such as the finger imaging pilot project to the extent that caseloads continue to drop below budgeted levels. Any funds used for a finger imaging program results in fewer funds available for other uses.

Additional Comments: The experience in other states indicates that the finger imaging system's primary value lies in the deterrence effect, i.e., in preventing fraudulent receipt of family investment assistance. A September 1995 report by the U.S. General Accounting Office (GAO) indicated that states and municipalities have realized substantial cost savings in public assistance programs by requiring new applicants and existing clients to submit to electronic fingerprint imaging during the enrollment or redetermination process. A fingerprint imaging pilot program initiated in 1991 in Los Angeles County, California realized cost savings of \$5.4 million as a result of terminating over 3,000 active cases and denying benefits to an additional 240 applicants who failed to comply with the fingerprinting requirements. In a 1995 report, Los Angeles County stated that through September 1996, estimated cumulative benefit savings of \$86 million significantly exceeded the estimated costs of \$20 million.

In New York State, 15% of all general assistance recipients initially failed to appear for

