Department of Legislative Services

Maryland General Assembly
1999 Session

FISCAL NOTE

Revised

House Bill 1059 (Delegate Rawlings, *et al.*)
Appropriations

Department of Human Resources - Welfare and Child Support Enforcement Innovation Act of 1999

This bill extends the termination date for the Child Support Enforcement Privatization Program (CSEPP) from June 30, 1999 to October 31, 2002 and increases the number of local jurisdictions with child support enforcement demonstration sites that compete against privatization contractors from one to not more than six. The Department of Human Resources (DHR) must develop a quality control process to reduce Temporary Cash Assistance (TCA) payment errors. The bill requires funding for the Job Skills Enhancement Pilot Program (JSEPP) in an amount sufficient to provide training to 400 recipients at a cost of up to $2,500 each. The bill requires the Department of Budget and Management (DBM) to develop and implement a plan for hiring welfare recipients by the principal State agencies. DBM must report on the development of the plan to various legislative committees by November 1, 1999 and annually thereafter on the number of welfare recipients hired and retained by State agencies. The bill takes effect July 1, 1999.

Fiscal Summary

State Effect: The FY 2000 budget includes $750,000 in general/federal funds that could be made available to JSEPP. FY 2000 quality control general/federal fund expenditures increase by up to $355,500, exclusive of significant savings. FY 2000 demonstration site expenditures increase by up to $219,500 ($74,600 general funds, $144,900 federal funds). State finances for CSEPP would continue in FY 2000. Potentially significant savings in cash assistance, Medicaid, and child care subsidies. Additional potentially significant decrease in future year TCA expenditures. Future year expenditures reflect one-time expenditures, annualization, and inflation. Potentially significant increase in special fund revenues.

(in dollars)	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
SF Revenues	-	-	-	-	-
GF Expend.	74,600	99,900	100,300	100,700	101,100
FF Exp.*	144,900	193,900	194,700	195,500	196,200
GF/FF Exp.**	1,105,500	1,441,700	1,457,500	1,473,900	1,490,900
Net Effect	($1,325,000)	($1,735,500)	($1,752,500)	($1,770,100)	($1,788,200)

Note: ( ) = decrease; GF = general funds; FF = federal funds; SF = special funds; - =indeterminate effect
**Federal fund expenditures are reimbursable by the federal government.*
***GF/FF expenditures represent a combined pool of federal block grant funds and general funds.*

Local Effect: None.

Small Business Effect: Minimal.

Fiscal Analysis

Bill Summary: The bill alters the reimbursement of private contractors for child support enforcement services under CSEPP and requires a private contractor to offer employment to former State employees working for an existing contractor. It clarifies the employment and retirement reinstatement rights of State employees hired by a private contractor who remain employed by the contractor until the termination of CSEPP.

DHR must require all local departments of social services to submit plans with objectives for meeting the goals of the Family Investment Program, monitor achievement of plan objectives, conduct or contract for an audit of local departments at least once every two years, comply with certain auditing standards, and prepare a report on the audit findings.

Background: DHR contracted with Lockheed Martin in 1996 to privatize the child support enforcement offices in Baltimore City and Queen Anne's County on a pilot basis. Lockheed has not fully met expectations in improving child support enforcement. Its contract expires on October 31, 1999. DHR does not intend to renew its contract with Lockheed; instead its intent is to develop a request for proposals for a new vendor and change the current payment method from one based on a percentage of child support collections to one based on new federal performance measures.

Current law requires DHR to establish a publicly-managed demonstration site in one jurisdiction to compete against privatized child support offices in providing child support enforcement services. In order to effectively compete, the law authorizes performance incentive pay for employees in the demonstration site based on child support collection results. Washington County was selected as the demonstration site in 1995.

A December 1998 legislative audit report for the Family Investment Program recommends that DHR develop a comprehensive process to analyze cash assistance payment errors, formulate strategies for improving the eligibility determination process, and monitor implementation strategies. The report recommends that DHR require all local departments of social services to submit annual plans that include measurable objectives to meet the goals of welfare reform and that DHR monitor the local departments' efforts in achieving plan objectives. The report further recommends that DHR's internal audit unit comply with auditing standards issued by the Institute of Internal Auditors.

Chapter 637 of 1998 (SB 686) requires DHR, in cooperation with the local departments of social services, to establish a JSEPP in at least three counties to provide training to newly employed TCA recipients in entry-level positions with limited potential for advancement. DHR plans to implement JSEPP in St. Mary's, Frederick, and Montgomery counties.

State Revenues: The bill's effect on child support collections cannot be reliably estimated at this time. The magnitude of any change in State special fund revenues would depend on (1) the CSEPP vendor selected and method of payment specified by DHR; and (2) the effectiveness of incentive pay at any new demonstration sites selected and proportion of collections for TCA clients. Collections on behalf of TCA clients are split evenly between the State and the federal government.

For illustrative purposes, child support collections increased by 15% in the Washington County demonstration site in fiscal 1998. An increase in collections of 15% in five new demonstration sites could total an estimated $12.7 million. Assuming that 30% would be collections for TCA clients and that the State retains half of TCA collections, the State could realize an additional $2 million in new revenues from the new demonstration sites. Further, any increase in child support collections will result in increased federal performance incentive dollars earned by the State. Because the federal incentive payment program is being restructured, it is not possible to predict the amount of additional federal dollars that may accrue to the State.

State Expenditures:

Child Support Enforcement Privatization Program

State expenditures for CSEPP will be maintained because the bill proposes to continue the child support enforcement privatization pilot project. The fiscal 2000 budget includes $14 million in general fund expenditures for the privatization contract. Revising the current payment method is not expected to affect the total fiscal 2000 payment for the privatization contract.

Expansion of Child Support Enforcement Demonstration Sites

Expenditures could increase by up to an estimated $219,508 ($74,633 general funds, $144,875 federal funds) in fiscal 2000 as a result of providing pay incentives at up to five additional demonstration sites. This estimate accounts for a 90-day start-up delay. The information and assumptions used in calculating the estimate are stated below:

- a pay incentive of up to 5% of demonstration site annual salaries;
- demonstration sites selected will represent a range of large (two), medium (one), and small-size jurisdictions (two);
- large jurisdiction annual salaries equal $1.8 million;
- medium jurisdiction annual salaries equal $0.9 million; and
- small jurisdiction annual salaries equal $0.7 million.

Future year expenditures reflect full salaries with 3.5% annual increases and 3% employee turnover.

TCA Payment Error Reduction (Quality Control)

Prior to the advent of welfare reform, DHR had a quality control unit to assess the accuracy of payments under Aid to Families with Dependent Children. The quality control unit was eliminated in recent years because it was not required under federal welfare reform. Positions in the former quality control unit have been abolished or transferred elsewhere within DHR. The bill re-establishes a quality control unit for TCA payments.

Expenditures for the new quality control unit could increase by up to an estimated $355,539 in fiscal 2000, which accounts for a 90-day start-up delay. This estimate reflects the cost of 11 positions (six income maintenance specialists, three human services specialists, one supervisor, one clerk) to analyze case files to identify cash assistance overpayments and work with local departments of social services to revise procedures to reduce future error rates. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Salaries and Fringe Benefits	$314,864
Other Operating Expenses	40,675
FY 2000 State Expenditures - Quality Control	**$355,539**

The Department of Legislative Services advises, however, that the number of income maintenance specialists needed will depend on the sample size of TCA recipients necessary to systematically analyze cash assistance payment errors. The number of recipient cases needed to represent a statistically valid sample has not yet been determined. Thus, it is not possible at this time to project the exact number of positions required. DHR's staffing goal is that each income maintenance specialist review 120-144 cases annually.

The December 1998 legislative audit report notes that past quality control analyses have found overpayments in around 15% of a sample of cash assistance cases reviewed. This represents a potential loss of approximately $28 million when applied to the entire State caseload in fiscal 1998. Thus, re-establishment of a quality control unit could result in significant TCA savings.

The fiscal 2000 budget includes $137.1 million for cash assistance payments, of which $85.9 million is federal block grant funds and $51.2 million is general funds. TCA expenditures come from a pool of State dollars and federal block grant funds and are characterized as general/federal fund expenditures because it is not possible to reliably predict the federal/general fund split. It is likely that, given the State's accumulation of $104.2 million in federal fund reserves, federal funds would be spent down first before using general funds. However, the State is in danger of facing sanctions in fiscal 1999 and 2000 for failure to comply with the maintenance of effort (MOE) requirement for the federal Temporary Assistance to Needy Families (TANF) Block Grant. Spending general funds to pay for TCA payment error reduction would help to address the MOE shortfall. Any funds used to support the bill's requirements will reduce the funds available for other uses.

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

Job Skills Enhancement Pilot Programs

JSEPPs could cost up to $750,000 in fiscal 2000, which accounts for a 90-day start-up delay. This estimate reflects the cost of training 400 recipients at up to $2,500 each. It is assumed that the JSEPPs could be funded through existing TCA funds. TCA expenditures come from a pool of State dollars and federal block grant funds and are characterized as general/federal fund expenditures because it is not possible to reliably predict the federal/general fund split.

Future year expenditures would increase with annualization. Future year TCA expenditures could decrease to the extent that JSEPP is successful in preventing former TCA recipients from returning to TCA.

Hiring Welfare Recipients in State Agencies

The bill requires DBM to develop and implement a plan for hiring welfare recipients by the principal State agencies. The plan must include identification of State agency positions most suitable for welfare recipients, a proposal for recruiting welfare clients, job retention strategies, and a target number of clients to be hired. There would be no effect on State salary expenditures if welfare clients are hired into existing State jobs. However, facilitating employment for welfare recipients could result in significant savings in State expenditures for cash assistance, Medicaid, and child care subsidies. Any expenditures to develop the plan could be handled with existing resources.

Information Source(s): Department of Human Resources (Family Investment Administration, Child Support Enforcement Administration, Office of the Inspector General), Department of Budget and Management, Department of Health and Mental Hygiene (Medical Care Programs Administration), Department of Legislative Services

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nncsjr	Revised - House Third Reader - April 6, 1999
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