

**Department of Legislative Services**  
 Maryland General Assembly  
 2001 Session

**FISCAL NOTE**

Senate Bill 21 (Senator Currie)  
 Judicial Proceedings

**Private Child Support Collection Agencies - Regulation**

This bill provides for the registration and regulation of persons who provide child support collection services.

**Fiscal Summary**

**State Effect:** General fund expenditures could increase by an estimated \$81,200 in FY 2002. Future year expenditures reflect annualization and inflation. General fund revenues could increase by \$2,000 in FY 2002 and subsequent even numbered years, reflecting the two-year licensing cycle and assuming a constant number of licensees.

(in dollars)	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
GF Revenue	\$2,000	\$0	\$2,000	\$0	\$2,000
GF Expenditure	81,200	93,400	98,400	103,900	109,700
Net Effect	(\$79,200)	(\$93,400)	(\$96,400)	(\$103,900)	(\$107,700)

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

**Local Effect:** None.

**Small Business Effect:** Minimal.

**Analysis**

**Bill Summary:** The bill requires the Department of Human Resources (DHR) to adopt a code of ethics for those providing child support collection services and implement regulations necessary to carry out this bill. The Child Support Enforcement Administration (CSEA) is required to register, regulate, and investigate complaints

against persons who provide private child support collection services in the State, and to attempt to negotiate settlements of complaints. If the administration is unable to negotiate a settlement of the complaint, the administration may refer the complaint to the Office of the Attorney General or the Office of Administrative Hearings for arbitration.

Providers of private child support collection services must be at least 18 years old and registered with the administration. Providers register by submitting an application and paying a nonrefundable application fee set by the administration. This registration is for a renewable two-year term and is nontransferable.

If a registrant is charged with committing any of the enumerated violations set forth in this bill, the administration may seek an immediate restraining order to prohibit the registrant from providing services in the State, and may suspend or revoke the registration and/or impose a civil penalty of up to \$5,000 for each violation, plus up to an additional \$500 for each day the violation continues past the time set for its correction. Before the administration takes a final action, the person against whom the action is contemplated is entitled to notice of the action and an opportunity to request a hearing before the administration. Any civil penalties collected are paid into the State's general fund.

Any violation of the provisions of this bill may be referred to the Office of the Attorney General for enforcement. Additionally, any alleged unfair or deceptive trade practice may also be referred to the Attorney General.

The bill requires that a provider of child support collection services may not collect any fees from the child support obligee other than an initial fee of not more than \$25 and a commission of not more than 10% of any amount of current or past due support collected.

In addition to civil penalties, the bill sets forth criminal penalties. Specifically, any person who violates the provisions of this bill is guilty of a misdemeanor and on conviction is subject to a fine not exceeding \$5,000 or imprisonment not exceeding one year, or both.

This bill does not apply to private contractors participating in the Child Support Enforcement Privatization Pilot Program, a demonstration site, or an individual admitted to the bar of the Court of Appeals of Maryland.

**Current Law:** Maryland law does not specifically deal with private child support collection agencies. These companies are, however, subject to the same consumer fraud and protection laws as other businesses, but are exempt from some of the debt collection

limitations placed on other businesses under the federal Fair Debt Collection Practices Act because child support is not considered consumer debt.

**Background:** Several private child support companies, largely unregulated, have begun to offer services to custodial parents across the nation. Reports indicate that some child support collection companies resort to harassing tactics, which would otherwise be illegal if child support were consumer debt, when pursuing an obligor. Some of these companies are also reported to have engaged in unethical practices. Generally, when a custodial parent contracts with a private collection agency, the parent is required to authorize the redirection of child support collections to the private agency and agree to pay a collection fee. These contracts can be difficult to terminate and the fees can be as much as 33% in addition to an administrative fee of anywhere from \$50 to \$400. Moreover, incidents have arisen where some companies have charged fees for child support that the company had no role in collecting.

Since 1992 CSEA's customer service department has taken and attempted to resolve complaints regarding private child support collection agencies.

**State Revenues:** The number of persons that provide child support collection services in Maryland is unknown. It is estimated, however, that there are five national companies that do business in Maryland. CSEA estimates that registration application and renewal fees will be approximately \$400. This would result in a general fund revenue increase of \$2,000 in fiscal 2002 should all of these nationally advertised companies register in Maryland. Future year revenues are expected to increase by a relatively constant amount in subsequent even numbered years for collections from renewal fees, assuming the number of licensees remains constant in the out-years. Any general fund revenues resulting from the bill's penalty provisions are not expected to be significant.

**State Expenditures:** CSEA advises that general fund expenditures could increase by an estimated \$179,400 in fiscal 2002, which accounts for the bill's October 1, 2001 effective date. This estimate reflects the cost of hiring an attorney, two office/intake clerks, an administrative officer, and one data processing programmer to establish a program to regulate private child support collection agencies. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses. This estimate assumes that CSEA would need to form a regulatory unit that would require additional staff. According to CSEA, federal dollars currently pay two-thirds of CSEA's budget, but this funding, and the personnel it supports, cannot be used for this type of regulatory activity. Consequently, this regulatory unit will have to be separate from CSEA's other functions and funded by State general funds.

The Department of Legislative Services (DLS) advises, however, that the number of individuals currently contracting with private collection agencies is unknown. Accordingly, it is estimated that general fund expenditures would increase by an estimated \$81,150 in fiscal 2002, which accounts for the bill's October 1, 2001 effective date. This estimate reflects the cost of two and one-quarter new positions (one administrative officer, one office/intake clerk, and one part-time data processing programmer). It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses. DLS advises that this level of staffing is sufficient, at least initially, to fulfill the requirements of the bill. DLS believes that a higher level of staffing cannot be justified until data indicating the number of individuals seeking assistance and the number of companies requiring registration becomes available.

The DLS estimate reduces the number of positions assumed in the CSEA estimate by a total of two and three-quarters. CSEA contends, however, that a full-time data processing programmer is needed to develop and maintain a computer system; however, DLS advises that programming and maintenance requirements to sustain this type and size unit are likely to be minimal, and that a part-time data processing programmer should suffice. In addition, an attorney is not needed as a direct result of the bill's requirements, and one office/intake clerk should be sufficient to support the office.

Salaries and Fringe Benefits	\$62,630
Other Operating Expenses	<u>18,520</u>
<b>Total FY 2002 State Expenditures</b>	<b>\$81,150</b>

Future year expenditures reflect: (1) full salaries with a 6.5% increase in fiscal 2003 and a 4.5% increase each year thereafter, with a 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

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

**Fiscal Note History:** First Reader – January 30, 2001  
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