

Department of Legislative Services
 Maryland General Assembly
 2001 Session

FISCAL NOTE

House Bill 1167 (Delegate R. Baker, *et al.*)
 Appropriations

Department of Human Resources - Welfare and Child Support Enforcement
 Innovation Act of 2001

This bill expands the Child Support Enforcement Privatization Pilot Program to Prince George’s County by December 31, 2001, and requires any private contractor to offer employment to any former State or county employee who is affected by the transfer of child support enforcement responsibilities. Any such employee who declines an offer of employment from the private contractor will be considered laid off and shall be entitled to all rights specified under the applicable State or county personnel law. The bill also extends the duration of the programs currently running in Baltimore City and Queen Anne’s County through October 31, 2005.

This bill takes effect July 1, 2001.

Fiscal Summary

State Effect: Total expenditures would be approximately \$8.04 million in FY 2002 (\$2.73 million general funds; \$5.30 million federal funds). This reflects an increase of about \$1.87 million (\$0.64 million general funds; \$1.23 million federal funds) over the Governor’s proposed FY 2002 budget allowance of \$6.17 million (\$2.10 million general funds; \$4.07 million federal funds). Future year estimates reflect inflation. Potential minimal increase in general fund revenues.

(\$ in millions)	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
GF Revenue	-	-	-	-	-
GF Expenditure	2.7	2.8	2.9	3.0	3.1
FF Expenditure	5.3	5.4	5.5	5.7	5.9
Net Effect	(\$8.0)	(\$8.1)	(\$8.4)	(\$8.7)	(\$9.0)

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

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: The Child Support Enforcement Privatization Pilot Program is authorized to operate in Baltimore City and Queen Anne's County. The legislation authorizing the pilot program is scheduled to sunset October 31, 2002. Private child support enforcement companies in those jurisdictions are required to offer employment to any former State employees who were affected by the transfer of child support enforcement responsibilities, and any employee who declined such an offer was considered laid off and entitled to all rights specified under the State Personnel and Pensions Article.

Background: The Department of Human Resources (DHR) is currently engaged in privatization efforts in Baltimore City and Queen Anne's County. Chapter 491 of 1995 directed DHR to privatize the child support enforcement operations in these two jurisdictions, and included a sunset provision that would have ended the privatization pilots in 1999. Chapter 486 of 1999 extended the sunset provision to October 31, 2002.

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 did not meet the performance measures during the first contract. Consequently, DHR selected a new private contractor, MAXIMUS.

Pursuant to existing law, Prince George's County currently operates its own child support enforcement operation. DHR will take over Prince George's County's child support operation on July 1, 2001. Approximately 97 county employees will become State employees on that date. This bill provides an alternative privatization of the child support operation that DHR is scheduled to take over on July 1, 2001.

State Fiscal Effect: This estimate assumes that a private vendor would take over child support collection activities as of July 1, 2001, the effective date of the bill. DHR advises that if the privatization effort is not operational by that date, DHR will have to take over Prince George's County's child support enforcement operation temporarily during the transfer period. Transferring operations and employees from Prince George's County to DHR and then to a private contractor by December 30, 2001 would be difficult administratively and is likely to be costly. The costs of such an effort cannot be accurately quantified at this time.

State Revenues: General fund revenues could increase as a result of this proposal due to: (1) a nonrefundable application fee charged to each applicant that registers to provide private collection services in Prince George’s County; (2) license renewal fees for the vendor or vendors approved to provide such services; and (3) potential civil penalties for violations of the provisions of this bill. Any such increases, however, cannot be reliably estimated at this time due to insufficient data, but are expected to be minimal.

State Expenditures: General fund expenditures would be approximately \$2.73 million and federal fund expenditures would be approximately \$5.30 million in fiscal 2002. The estimate includes the cost of hiring one program manager, one administrator, and five administrative officers to monitor the private child support collection company. It includes salaries, fringe benefits, and one-time start-up costs. It also includes costs for contract creation and payment to the private child support collection vendor as indicated below:

Salaries and Fringe Benefits	\$313,263
Contract Creation	180,000
Private Provider Services	7,491,125
Other Operating Expenses	<u>50,741</u>
Total FY 2002 Federal and State Expenditures	\$8,035,129
FY 2002 Budget Allowance	<u>\$6,166,145</u>
Additional Funding Required (35% State funds; 66% federal funds)	\$1,868,984

The payment to the private collection service provider reflects the following:

Prince George’s County Collections

Fiscal 1995 Collections	\$56,776,901
Fiscal 1995 Administrative Costs	4,854,729
Child support collections per \$1 of administrative costs in 1995	\$11.70
Fiscal 2002 Estimated Collections	87,646,163
Fiscal 2002 Estimated Administrative Costs	\$7,491,125

For point of reference, statewide in fiscal 2000 Maryland collected \$4.08 for every \$1 invested in child support enforcement. This reflects child support collections of

\$387,391,860 and total expenditures of \$95,054,484. If this number were used to calculate expenditures for Prince George's County, fiscal 2002 estimated administrative costs would be \$21,481,903.

For purposes of comparison, fiscal 2000 expenditures for child support collection privatization in Baltimore City, which had 143,874 cases, and Queen Anne's County, which had 1,208 cases, was \$12,544,339. Prince George's County's caseload was 65,585 in fiscal 2000.

Future year expenditures reflect: (1) full salaries with 6.5% annual increases in fiscal 2003 and 4.5% increases each year thereafter, with 3% employee turnover; (2) 3.5% annual increase in the amount of the contract with the private child support enforcement vendor; and (3) 1% annual increases in ongoing operating expenses.

The fiscal 2002 budget allowance includes \$6,166,145 for child support enforcement activities for Prince George's County. Of this amount \$2,096,490 (34%) is State general funds, and \$4,069,655 (66%) is federal funds.

Additional Information

Prior Introductions: None.

Cross File: SB 631 (Senator Currie) – Finance.

Information Source(s): Department of Human Resources; Department of Budget and Management, *Annual Report Fiscal Year 2000*, Maryland's Child Support Enforcement Program; Department of Legislative Services

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