

Department of Legislative Services
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FISCAL NOTE
Revised

House Bill 495
 Appropriations

(Delegate Branch, *et al.*)

Finance

**Department of Human Resources - Welfare Reform and Child Support
 Enforcement - Repeal of Sunset**

This bill alters the termination date for the Child Support Enforcement Privatization Pilot Program (CSEPPP), and expands the scope of the program. The bill requires the Secretary of Human Resources to establish at least 16 demonstration sites to compete with the privatization sites on a phased-in basis. The demonstration site phase-in must be completed by July 1, 2005. The bill is effective July 1, 2002 and terminates June 30, 2005.

Fiscal Summary

State Effect: State finances for CSEPP would continue beyond FY 2003. The FY 2003 budget includes \$11.2 million for the privatization program (\$7.4 million federal funds/\$3.8 million general funds). Out-year expenditures are expected to remain relatively constant. For FY 2003, three new demonstration sites would be phased in. FY 2003 incentive payments are estimated to be \$173,700 (66% federal funds/34% general funds). Out-year expenditures reflect annualization and addition of four new sites in FY 2004 and five new sites in FY 2005. Potential minimal increase in special fund revenues from increased support collections. As of June 30, 2005, demonstration sites established under this bill would revert to traditional State-run sites.

(in dollars)	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
SF Revenue	-	-	-	-	-
GF Expenditure	59,100	286,200	430,900	-	-
FF Expenditure	114,600	555,700	836,500	-	-
Net Effect	(\$173,700)	(\$841,900)	(\$1,267,400)	\$0	\$0

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

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: This bill requires the Secretary of Human Resources to establish child support demonstration sites in all jurisdictions that are not privatized. The jurisdictions of Baltimore City and Queen Anne's County are privatized. A demonstration site is any jurisdiction that competes against privatized jurisdictions in providing child support enforcement services.

The Secretary must establish at least three new sites for a total of seven demonstration sites by November 1, 2002. Four of the seven sites must be the four sites in existence as of January 1, 2002. By July 1, 2003, 4 new sites for a total of 11 demonstration sites must be established. Five new sites for a total of 16 demonstration sites must be established by July 1, 2004 and 6 new sites for a total of 22 demonstration sites must be established by July 1, 2005. When establishing demonstration sites, the Secretary must choose jurisdictions that are geographically diverse. The Secretary is authorized to establish sites at a rate faster than required if sufficient funds are available in the budget.

The bill repeals the termination date for the authorization of the Department of Human Resources (DHR) to enter into a privatization contract for child support enforcement services in Baltimore City and Queen Anne's County. The first privatization contract to be negotiated between DHR and a private contractor after the bill's effective date must be three years, with the option for up to two one-year extensions. The bill has an effective date of July 1, 2002. The bill's provisions terminate effective June 30, 2005.

Current Law: The Child Support Enforcement Privatization Pilot Program (CSEPPP) is established within DHR and operates in Baltimore City and Queen Anne's County. The Secretary is authorized to enter into contracts with companies to privatize all aspects of child support enforcement including absent parent location, paternity establishment, support order establishment, collection and disbursement of support payments review, and modification of child support orders and child support order enforcement. Any contractor that provides privatization services is required to offer fair and equitable employment to any former State employees working for an existing contractor and affected by the transfer of child support enforcement responsibilities. The private contractor is required to retain any employee who accepts an offer of employment at a comparable salary and benefit level for the duration of CSEPPP unless there is cause for dismissal. The private contractor must also make a grievance procedure available for former State employees. DHR must assist a former State employee who declines an offer

of employment with a private contractor by identifying a comparable position in the State service.

A request for proposal (RFP) to transfer child support collection activities must comply with State procurement provisions, set the goals of privatization, and specify incentives for the contractor. The Secretary is required to report annually to the Governor and the General Assembly on the operation and performance of CSEPPP. The report must provide an assessment of the effectiveness and success of CSEPPP in enhancing child support collections. Plans for improving the success of CSEPPP must also be included. DHR is required to adopt regulations to carry out CSEPPP.

The Secretary is required to establish child support enforcement “demonstration sites” in at least one, but not more than six jurisdictions for the purpose of competing against the privatized jurisdictions. The Secretary has sole authority over child support enforcement functions at a demonstration site, including, but not limited to: (1) parent location; (2) paternity establishment; (3) child support order establishment; (4) collection and disbursement of support payments; (5) review and modification of child support orders; (6) enforcement of support obligations; (7) provision of legal representation; and (8) establishment of contractual agreements with private or public entities to provide child support services. Unless a classified service employee already holds a position, employment positions at the demonstration sites are in the management service or are special appointments in the State Personnel Management System. The Secretary is required to establish pay incentives for demonstration site employees. Powers of the Secretary to carry out the demonstration site provisions are to be construed liberally.

Background:

Origin of Privatization Authority: Chapter 491 of 1995 established CSEPPP. Pilot sites were established in Baltimore City and Queen Anne’s County and the State arranged to transfer its operations to a private, for-profit vendor effective November 1996. The first contractor was Lockheed Martin, which received a three-year contract. In 1999, Chapter 486 extended the authority for CSEPPP from October 31, 1999 until October 31, 2002. The DHR evaluation committee recommended that a three-year contract be awarded to MAXIMUS, Inc.

Payments to MAXIMUS are based on a certain percentage of child support collections, which vary each contract year. In the current contract year, which is year three, payments to vendors will be based on 14.715% of child support collections in Baltimore City and 6.71% in Queen Anne’s County. The RFP established minimum collection goals for years one and two of the contract. In year one of the contract, the collection minimum for Baltimore City was \$63,500,000. Actual collections totaled \$63,847,278, so the minimum standard was exceeded by \$347,278. In Queen Anne’s County, the minimum

collection standard was \$2,400,000 in year one. MAXIMUS collected \$2,814,881, exceeding the minimum by \$414,881. In year two, the collection minimum for Baltimore City was \$63,500,000. MAXIMUS actually collected \$67,200,903, exceeding the minimum by \$3,700,903. In Queen Anne's County, the collection minimum was \$2,400,000. MAXIMUS collected \$2,820,851, exceeding the minimum by \$420,851.

DHR Demonstration Sites: DHR is authorized to establish six demonstration sites currently. Four demonstration sites have been set up to "compete" with privatized Baltimore City and Queen Anne's County: Calvert, Montgomery, Howard, and Washington counties. In these jurisdictions, the child support enforcement offices can earn incentive dollars from the State. Performance measures used for the demonstration sites reflect federal guidelines. The Department of Legislative Services (DLS) budget analysis for fiscal 2003 for the Child Support Enforcement Administration (CSEA) provided an analysis of privatization based on the minimum performance criteria established by DHR.

In comparing the performance of the MAXIMUS sites with the demonstration sites, DLS found that the demonstration sites met or exceeded their goals from October 1999 to October 2000. Queen Anne's County improved its performance and met or exceeded its attainment goals, although for collections from cash paying arrears, the county's performance declined slightly but still exceeded the goal. Baltimore City met or exceeded its goals in three of four performance areas, but in one area, collections from current support paid, performance declined during the period.

DHR also contracted with RESI Research and Consulting to complete an outside evaluation of the experience of demonstration sites and compare that to the privatization experience. Preliminary findings were recently released. The consultants found that data had to be adjusted to account for the location of 40% of the child support enforcement caseload in Baltimore City. The consultants adjusted the data to form a more equalized basis of comparison between Baltimore City and the other jurisdictions. The preliminary findings were that there was no statistically significant difference between performance of the privatized sites and the 18 State jurisdictions that operate in the traditional State system. The consultants also reported that the performance in the four demonstration sites improved more than the performance in the privatized sites. The evaluation is not yet complete, as MAXIMUS has finished only two years of its three-year privatization contract with the State. It is possible that substantial improvements could occur in the privatized sites that have not yet had a chance to manifest.

State Revenue: Child support collections could increase to the extent that the conversion to demonstration sites facilitates child support enforcement efforts. Any such increase cannot be quantified at this time due to unavailability of data. Temporary Cash Assistance (TCA) recipients must assign their support rights to the State and federal

government as partial reimbursement for TCA payments made on behalf of the children of the obligor; as a result, TCA child support collections are distributed 50% to the State and 50% to the federal government.

State Expenditures: The bill requires a performance incentive program for employees in each demonstration jurisdiction, with incentive payments based on an estimated 5% of base salaries. The Secretary has discretion to determine which sites will be phased into the demonstration program, therefore DLS estimated the fiscal impact by using 5% of the average of the total fiscal 2003 salaries for the four existing demonstration sites.

At any one time, DHR advises that demonstration jurisdictions could meet goals requiring incentive payments about 80% of the time. Incentives would be paid to employees on a quarterly basis. Although the bill has an effective date of July 1, 2002, some delay in start-up is likely, given that the Secretary is not required to complete phase-in of the three new sites for fiscal 2003 until November 1, 2002.

Fiscal 2003 expenditures could increase by an estimated \$173,698 (\$114,641 federal funds/\$59,057 general funds) in fiscal 2003 based on the following facts and assumptions.

- the total fiscal 2003 payroll for the four existing demonstration sites is \$6,419,068;
- based on a 5% incentive payment, the average incentive payment per site is \$80,238;
- the average incentive payment per site at 80% attainment is \$64,190;
- fringe benefits at 15.2%; and
- three-month start-up delay.

Out-year expenditures reflect annualization and the phase-in of four new sites in fiscal 2004 and five new sites in fiscal 2005. (Because the bill terminates at the end of fiscal 2005, it is assumed that no new sites would be phased in during fiscal 2006 as required by the bill.) Out-year expenditures reflect annual salary increases of 3.5%. The incentive percentage is not expected to change in the near future. There may, however, be expenditures with the transition of traditional State sites to demonstration sites. The hiring flexibility available for demonstration sites would be used to recruit and hire for vacant positions. DHR may potentially use employees from other offices to fill service gaps, if they occur. As of June 30, 2005, demonstration sites created under this bill would revert to traditional State-run sites, since the bill's provisions terminate on that date.

DLS also advises that because the Secretary of Human Resources is authorized to accelerate the phase-in of demonstration sites as the agency budget permits, fiscal 2003

and out-year costs could increase significantly to accommodate a more rapid transition to demonstration sites. The impact of an accelerated phase-in cannot be reliably estimated. However, by way of illustration, if 22 sites became demonstration sites in fiscal 2003, DLS estimates total incentive payments would be \$1,582,912, consisting of \$1,044,722 in federal funds and \$538,190 in general funds.

The State contract with MAXIMUS totals \$42 million over three years. The fiscal 2003 State budget contains \$11,224,642 for privatization. Federal funds comprise 66% or \$7,408,264. State general funds comprise 34% or \$3,816,378. The amount budgeted for the contract in fiscal 2003 is substantially unchanged from the contract amount for fiscal 2002. A contract with a private vendor for Baltimore City and Queen Anne's County would continue for three more years under this bill. Out-year expenditures for the privatization contract are dependent on negotiated payments between the vendor and DHR, but the contract costs are expected to remain relatively constant.

Additional Information

Prior Introductions: None.

Cross File: SB 387 (Senator Bromwell, *et al.*) – Finance.

Information Source(s): Department of Human Resources, Department of Legislative Services

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