

Department of Legislative Services

Maryland General Assembly

2002 Session

FISCAL NOTE

Senate Bill 387

(Senator Bromwell, *et al.*)

Finance

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

This bill extends the termination date for the Child Support Enforcement Privatization Pilot Program (CSEPPP) from October 31, 2002 until October 31, 2005.

Fiscal Summary

State Effect: State finances for CSEPPP would continue beyond the first four months of FY 2003. The FY 2003 budget allowance includes \$11.2 million for the privatization pilot program (\$7.4 million federal funds/\$3.8 million general funds). Out-year expenditures are expected to remain relatively constant.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: CSEPPP is established within the Department of Human Resources (DHR) and operates in Baltimore City and Queen Anne's County. The Secretary of DHR 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: CSEPPP began in 1995 with enactment of Chapter 491 of 1995. 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. If this bill is enacted, then MAXIMUS, INC. will have the opportunity to bid again to provide privatization services in Baltimore City and Queen Anne’s County.

DHR Evaluation of MAXIMUS Performance: In its annual report to the General Assembly and the Governor, DHR established minimum performance criteria in four areas: (1) paternity establishment; (2) court order establishment; (3) collection from cases paying arrears; and (4) current support paid. DHR reports that in Baltimore City, standards for paternity establishment and court order establishment were exceeded. MAXIMUS achieved the standard for cases paying arrears and did not meet the standard for current support paid. In Queen Anne's County, MAXIMUS substantially exceeded the goals for paternity establishment, court order establishment, and exceeded the standard for collection from cases paying arrears. MAXIMUS met the standard for collection from current support paid.

In its own self-assessment of the privatization experience, DHR reviewed 9,866 child support enforcement cases for Baltimore City and measured compliance in the following areas: case closure, paternity and support order establishment, expedited process, order enforcement, disbursement of collections, securing and enforcing medical support, review and adjustment, and interstate services/central registry. DHR determined that MAXIMUS was in compliance for disbursement of collections, expedited processes, interstate services/central registry, and review and adjustment of orders. MAXIMUS was out of compliance in case closure, enforcement of support obligations, paternity and support order establishment, and enforcing medical support. MAXIMUS is required to develop a corrective plan for the non-compliance areas and began that process in June 2001. In Queen Anne's County, DHR reviewed 77 cases in the same areas and found that MAXIMUS exceeded the standards for compliance in all areas.

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. RFP established minimum collection goals for year one and year 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 has set up four demonstration sites 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 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 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, current support paid, performance declined during the period.

State Expenditures: The State contract with MAXIMUS totals \$42 million over three years. The proposed 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.

Additional Information

Prior Introductions: None.

Cross File: HB 495 (Delegate Branch, *et al.*) – Appropriations.

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

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Analysis by: Karen D. Morgan

Direct Inquiries to:
John Rixey, Coordinating Analyst
(410) 946-5510
(301) 970-5510