Department of Legislative Services

Maryland General Assembly
2002 Session

FISCAL NOTE
Revised

Senate Bill 178 (Senator Bromwell, *et al.*)
Finance Appropriations

Welfare and Child Support Enforcement Innovation Act of 2002

This bill requires local departments of social services to enter into hiring agreements with entities doing business with a county to employ Family Investment Program (welfare) recipients. The bill extends the termination date for the Child Support Enforcement Privatization Pilot Program (CSEPPP) from October 31, 2002 until October 31, 2005. It also eliminates the restriction on benefits for the children of Temporary Cash Assistance (TCA) recipients who are born ten months or more after the parent's initial TCA application. The bill removes the Commission on Responsible Fatherhood from the Department of Human Resources Child Support Enforcement Administration.

The bill takes effect July 1, 2002.

Fiscal Summary

State Effect: General fund expenditures would increase by $46,300 in FY 2003 to reflect the Department of Human Resources hiring one additional employee for the Family Investment Program. Future years reflect annualization and inflation. Federal fund expenditures would decrease by at least $100,000 in FY 2003 and the out-years as local departments of social services cancel contracts to manage the child-specific benefit. Revenues would not be affected. 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.

(in dollars)	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Revenues	$0	$0	$0	$0	$0
GF Expenditure	46,300	56,300	58,800	61,500	64,300
FF Expenditure	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)
Net Effect	$53,700	$43,700	$41,200	$38,500	$35,700

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

Local Effect: The bill is not expected to have a significant impact on local government finances.

Small Business Effect: Minimal.

Analysis

Bill Summary: County governing bodies and the Department of Human Resources (DHR) must determine which county procurement contracts are appropriate for the execution of a hiring agreement. Under the hiring agreements, contractors must alert the local department of job openings, help create job-training programs, and give priority to qualified Family Investment Program (FIP) recipients.

DHR must create a model hiring agreement form for local departments and entities with eligible contracts to use by December 1, 2002. DHR and the local departments of social services must submit an annual report to the Joint Committee on Welfare Reform on the initiative's progress by December 1.

The bill also allows current FIP recipients to participate in a mentoring program, that currently only involves former welfare recipients.

In addition, the bill repeals certain unemployment insurance reporting requirements for employers that hire new employees. Specifically, the requirements that an employer submit to the Secretary of Labor, Licensing, and Regulation, the employee's starting wage and whether the employee has health insurance provided by the employer are repealed.

The bill also clarifies that the FIP dedicated purpose account may only be used for the four purposes outlined in the Federal Personal Responsibility and Work Opportunity Reconciliation Act of 1996 and adds a fifth purpose, "reducing child poverty," as an additional use for the funds in the dedicated purpose account.

Current Law:

Family Investment Program Contracts and Hiring Agreements

FIP provides temporary cash assistance, medical assistance, child care, food stamps, and other social services to State residents who meet eligibility requirements. The program's goal is for each family receiving assistance to become self-sufficient. DHR is required to place FIP recipients in jobs with entities doing business with the State, principal State agencies, and local governments.

Child Support Enforcement Privatization Pilot Program

CSEPPP is established within 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.

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 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.

Limitations on Child-specific Benefits

Except when births result from rape or incest, TCA benefits may not be increased when a recipient gives birth to a child ten months or more after initially applying for benefits. Instead, DHR indirectly gives these recipients a child-specific benefit up to the value of the cash assistance increment they are denied for the purchase of specific goods for caring for the child, such as diapers.

The child-specific benefit must be given to a third-party that will distribute the goods to the child's family or whomever the Social Services Administration has placed the child with. A local department of social services may pay an administration fee to a third-party payee to cover the administrative costs for managing the child-specific benefit.

Commission on Responsible Fatherhood

The Welfare Innovation Act of 2001 (SB 541/HB 891) established the Commission on Responsible Fatherhood within DHR's Child Support Enforcement Administration for budgetary and administrative purposes. An executive order established the Governor's

Fatherhood Advisory Council. The commission and the council were merged October 1, 2001 and retained the commission's name. DHR's Community Services Administration has historically administered father-focused programs and now has administrative and budgetary responsibility for the commission.

Background:

Family Investment Program Contracts and Hiring Agreements

As of December 31, 2001, DHR has placed 646 FIP recipients in local government jobs, 101 recipients in jobs with principal State agencies, and 140 recipients in jobs with entities contracting with the State.

Child Support Enforcement Privatization Pilot Program

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.

In its own self-assessment of the privatization experience, DHR reviewed 9,866 child support enforcement cases for Baltimore City and 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. In comparing the performance of the MAXIMUS sites with the demonstration sites, the Department of Legislative Services 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.

Limitations on Child-specific Benefits

DHR advises that the birth rates for TCA recipients appears to be unaffected by the child-specific benefit policy. The number of children born to recipients ten months or later after the mother signed up for TCA benefits was 2,636 in 1999, 3,199 in 2000, and 3,359 in 2001. Local departments of social services have had difficulties recruiting third-party payees to administer the child-specific benefit to these clients. For those local departments that can find faith-based or nonprofit organizations to administer this benefit, administration costs have been high. The Montgomery County local department of social services pays $75,000 annually in administration costs, while Frederick and Harford counties each pay from $12,000 to $13,000 annually to vendors. These three counties account for only 6% of the children statewide that would qualify for this benefit. The statewide administrative cost of this benefit cannot be reliably quantified at this time.

State Fiscal Effect: General fund expenditures could increase by $46,263 in fiscal 2003, which accounts for a 90-day start-up delay. This estimate reflects the cost of DHR hiring a full-time human service administrator to work with county governments, entities contracting with county governments, and local departments of social services to create the hiring agreements. The administrator also will collect data on the local departments progress and write a report for the General Assembly's Joint Committee on Welfare Reform each year. The estimate includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Salaries and Fringe Benefits	$40,300
Operating Expenses	5,963
Total FY 2003 State Expenditures	**$46,263**

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

DHR reported that it would need eight human service administrators and one office secretary to fulfill this bill's requirements and to help manage the three existing hiring initiatives. The Department of Legislative Services (DLS) disagrees. DHR already has one full-time employee managing the existing hiring initiatives. Considering that hiring agreements are not a new concept and that local departments of social services are already involved in efforts to place recipients, DLS believes that one additional administrator should be able to manage the additional workload resulting from this bill.

Federal fund expenditures would decrease by at least $100,000 in fiscal 2003 and out-years as local departments of social services cancel contracts with faith-based or nonprofit organizations that serve as third-party vendors. The statewide administrative cost of this benefit cannot be reliably quantified at this time. DHR would instead give the benefit in cash to recipients who have additional children ten months or later after they apply for assistance. The total amount of assistance to recipients would not change.

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 186 (Delegate Rosenberg, *et al.*) – Appropriations.

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

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