

Department of Legislative Services  
 Maryland General Assembly  
 2002 Session

FISCAL NOTE

Senate Bill 758  
 Finance

(Senator McFadden, *et al.*)

Department of Human Resources - Child Support Enforcement Administration -  
 Demonstration Program

This bill requires the Secretary of the Department of Human Resources (DHR) to establish a child support enforcement demonstration program to increase the effectiveness of child support collections by the Child Support Enforcement Administration (CSEA). It provides for the participation of employees in the demonstration plan and authorizes the Secretary to appoint a director of the demonstration program in each jurisdiction. The bill is subject to a contingency. It has an effective date of November 1, 2002.

Fiscal Summary

**State Effect:** State finances for CSEA-Local Department Operations would continue. For 22 jurisdictions and 661.9 positions, the FY 2003 budget allowance is \$35.3 million (\$23.5 million federal funds/\$11.7 million general funds/\$0.1 million special funds). Out-year expenditures are expected to reflect inflation and ongoing operations. Initiation of the incentive payment program would be \$938,200 additional (66% federal funds/33% general funds) in FY 2003. Out-year expenditures reflect annualization and 1% annual increases.

(in dollars)	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	319,000	429,600	433,800	438,200	442,600
FF Expenditure	619,200	833,800	842,200	850,600	859,100
Net Effect	(\$938,200)	(\$1,263,400)	(\$1,276,000)	(\$1,288,800)	(\$1,301,700)

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

**Local Effect:** Potential minimal loss in revenues. CSEA would have authority to extinguish existing contracts with State's Attorneys' offices and hire private legal counsel.

**Small Business Effect:** None.

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## **Analysis**

**Bill Summary:** The Secretary of Human Resources is required to establish a child support enforcement demonstration program statewide to increase support collections. All employees of CSEA that provide child support enforcement services are demonstration program participants. The Secretary is authorized to appoint a director of the demonstration program in each jurisdiction. Each director must report to the executive director of CSEA. The bill provides that the Secretary has sole authority over child support functions including:

- location of parents;
- establishment of paternities;
- establishment of child support orders;
- collection and disbursement of support payments;
- review and modification of child support orders;
- enforcement of support obligations;
- provision of legal representation to CSEA; and
- establishment of contractual agreements with private or public entities to provide child support services.

The bill provides the Secretary with the authority to sever contractual agreements with a State's Attorney and hire private counsel to provide legal representation for CSEA.

All employees hired after initiation of the demonstration program must be either in the management service, or special appointments in the State Personnel Management System for six months, and then in the professional or skilled service. If a position in CSEA is held by a classified service employee before initiation of the demonstration program, the position remains in the classified service or its equivalent in the State Personnel Management System until the position becomes vacant. Upon vacancy, the position converts to either a management service position or a special appointment position for a period of six months and then a professional or skilled services position. The Secretary is required to establish a performance incentive program to provide pay incentives for employees in a demonstration program.

A "conciliation conference" may be conducted through a demonstration program. A court is authorized to issue a writ of summons to order parties to appear and produce documents at a conciliation conference. The demonstration program representative is authorized to apply to the court, upon affidavit, for a body attachment if any of the parties

fails to appear at a conciliation conference. If any of the parties refuses to obey a court order to appear or produce documents at a conciliation conference, the court may issue a body attachment or compel compliance in any other appropriate manner.

The bill provides that the powers of the Secretary to carry out the bill's provisions are to be construed liberally.

The bill has a contingency provision. The bill takes effect if the termination provision specified in Section 14 of Chapter 491 of 1995, as amended by Chapter 486 of 1999, takes effect. If the statutory provisions, as affected by the termination provision, are not abrogated, then on October 31, 2002, the statutory provision authorizing implementation of the child support enforcement demonstration sites statewide shall become null and void without any further action by the General Assembly.

**Current Law:** The child support enforcement privatization program (CSEPP) 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 CSEPP 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 CSEPP. The report must provide an assessment of the effectiveness and success of CSEPP in enhancing child support collections. Plans for improving the success of CSEPP must also be included. DHR is required to adopt regulations to carry out CSEPP.

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:* CSEPP 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 CSEPP from October 31, 1999 until October 31, 2002. The DHR evaluation committee recommended that a three-year contract be awarded to MAXIMUS, Inc.

*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 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.

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 Expenditures:** DHR would continue State budgeted expenditures for CSEA under the statewide demonstration. The fiscal 2003 budget allowance is \$35,340,643, which consists of \$23,494,820 in federal funds, \$11,726,326 in general funds, and \$119,497 in special funds. The fiscal 2003 budget allowance would finance 661.95 positions. Out-year expenditures are expected to continue, adjusted for inflation and ongoing operations.

The base salary budget for fiscal 2003 is \$27,898,631. The bill requires a performance incentive program for employees. DHR advises that incentive payments would be based on an estimated 5% of the base salary budget. While 100% of the State employees could participate in the incentive program, DHR estimates that 80% would participate initially. Incentives would be paid to employees on a quarterly basis. In fiscal 2003 DHR advises that three quarterly payments would be made to eligible employees, accounting for the bill's November 1, 2002 effective date.

Salary Base	\$27,898,631
Estimated Incentive Rate	5%
Total Estimated Incentive	\$1,394,932
Estimated Participation Rate	80%
Incentive at 80% Participation	\$1,115,945
FICA at 7.3%	81,464
Unemployment at 0.06%	670
Retirement at 4.73%	52,784
<b>Total Estimated Incentive Costs</b>	<b>\$1,250,863</b>
Less 25% Start-up Savings	312,716
Total FY 2003 Estimated Incentive Cost	938,147
Federal Funds	\$619,177
General Funds	\$318,970

Out-year expenditures reflect annualization and 1% annual increases in incentive costs.

Potentially, other expenditures may occur in addition to the incentive payments. The bill would require the conversion of privatized employees in Baltimore City and Queen Anne's County to State employees. DHR has maintained that the conversion would have

no fiscal impact. However, DHR has also stated that while the privatized sites pay bonuses to some employees, the demonstration sites would pay incentives to a wider range of employees on a more frequent basis. If that proves to be true, then DLS advises it is likely that DHR would have to pay more in salaries than the current private contractor does for those employees. If additional expenditures occur, they would be 66% financed by federal funds and 34% financed by general funds.

DLS advises there may also be expenditures with transition of traditional State sites and the privatized sites to demonstration sites. During the fiscal 2003 budget hearings, DHR conveyed that it plans to recruit and hire a director for the Baltimore City Office as of September 1, 2002. Reinstatement of former employees would be completed by November 1, 2002. The hiring flexibility available for demonstration sites would be used to recruit and hire for vacant positions, including vacant privatized positions as of November 1, 2002. DHR would also have to assume leases in Baltimore City and Queen Anne's County to maintain offices in their current locations. However, DLS advises if that effort is unsuccessful, DHR could incur additional costs to lease new spaces. DHR would also need to purchase office equipment from the vendor. Modification of existing contracts or attainment of new contracts would be necessary to address security, genetic testing services, and other functions.

In addition, DHR would need to establish new bank accounts, request a budget amendment to effectuate the transition to demonstration status for Baltimore City and Queen Anne's County, and potentially use employees from other offices to fill service gaps, if they occur.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** HB 1226 (Delegate Marriott, *et al.*) – Appropriations.

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

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