HB 893

# Department of Legislative Services

Maryland General Assembly
2006 Session

## FISCAL AND POLICY NOTE

House Bill 893 (Delegate McConkey, *et al.*)
Appropriations

**Department of Budget and Management - Central Collection Unit - Liens - Expiration**

This bill requires that any liens held by the State's Central Collection Unit expire after 12 years unless they are re-recorded.

## Fiscal Summary

**State Effect:** Total State revenue (all funds) could decrease by about $2.1 million, and as much as $6.4 million, over an indeterminate period of time. Total special fund revenues for the Central Collection Unit could decrease by about $357,000, and as much as $1.1 million, over an indeterminate period of time. The amount of lost revenue in any given year is difficult to estimate.

**Local Effect:** None.

**Small Business Effect:** Minimal. Any State-held liens on property owned by small businesses that owe the State money would be subject to cancellation after 12 years.

## Analysis

**Current Law:** The Central Collection Unit (CCU) is responsible for collecting any delinquent accounts or debts owed to the State, except for:

- taxes;
- child support payments;

- unemployment insurance contributions or overpayments;
- fines;
- court costs;
- bond forfeitures;
- monies owed due to default on loans made by the Department of Business and Economic Development or the Department of Housing and Community Development; or
- certain insurance payments.

Debts collected by CCU are paid to the State Treasury and subject to a 17% fee for administrative expenses. The fee revenues are deposited into the Central Collection Fund to pay for CCU's operating expenses. Therefore, CCU is entirely self-sustaining.

CCU is authorized to use any actions available to it under State law to collect debts or claims, including placing liens on property owned by debtors to the State.

**Background:** CCU acknowledges that debts held for more than 12 years have little probability of collection, but notes that liens are a very effective tool for collecting on delinquent debts. Liens prevent an individual from selling, transferring, refinancing, or leaving to heirs any asset until the lien on it is paid.

In fiscal 2005, CCU collected $102 million in debts owed to the State, earning a net profit of $7.4 million. It collected some or all of the debt from 41.5% of the accounts referred to it, and 31.8% of the dollar value of the debts owed to it. Typical debts collected by CCU include student tuition and fees, restitution for damage to State property, and workers' compensation premiums.

**State Fiscal Effect:** CCU reports that it currently has 622 accounts with liens valued at $6.4 million that are more than 12 years old. If those liens are cancelled, CCU would likely lose any prospect of collecting on those debts. CCU's record indicates that it collects about one-third of the dollar value of debts owed to the State, so lost revenues (all funds) would likely amount to about $2.1 million over an indeterminate number of years. That amounts to 2% of the debt it collected in fiscal 2005. To the extent that the liens are paid, variable amounts would be collected by CCU in any given year, so it is difficult to estimate lost revenue for a given year.

Current regulations require CCU to charge a 17% administrative fee on all debts collected except for the tax intercept refund program, for which the fee is 10%. Assuming that all of the liens would be subject to the 17% fee, special fund revenues for

CCU could decrease by $357,000, and as much as $1.1 million, over an indeterminate period of time.

## Additional Information

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Department of Budget and Management, Department of Legislative Services

**Fiscal Note History:** First Reader - March 20, 2006
mam/ljm

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