

Department of Legislative Services
 Maryland General Assembly
 2020 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 1531 (Delegate P. Young, *et al.*)
 Appropriations

State Finance and Procurement - Central Collection Unit - Powers

This bill repeals the authority of the Central Collection Unit (CCU) to settle a debt or claim without a lawsuit. The bill also decreases the maximum fee that CCU may assess and collect from a debtor to 5%, instead of 20%, of the outstanding principal and interest. The fee no longer must be sufficient to cover all collection and administrative costs.

Fiscal Summary

State Effect: In FY 2021, CCU special fund revenues and expenditures decrease by \$12.2 million, general fund revenues decrease by \$2.6 million, and general fund expenditures increase by \$8.1 million, as discussed below. Out-years reflect annualization.

(\$ in millions)	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
GF Revenue	(\$2.6)	(\$4.1)	(\$4.1)	(\$4.1)	(\$4.1)
SF Revenue	(\$12.2)	(\$17.1)	(\$17.1)	(\$17.1)	(\$17.1)
GF Expenditure	\$8.1	\$13.4	\$13.4	\$13.4	\$13.4
SF Expenditure	(\$12.2)	(\$17.1)	(\$17.1)	(\$17.1)	(\$17.1)
Net Effect	(\$10.7)	(\$17.5)	(\$17.5)	(\$17.5)	(\$17.5)

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

Local Effect: Local revenues and expenditures for the circuit courts are not likely materially affected.

Small Business Effect: Minimal.

Analysis

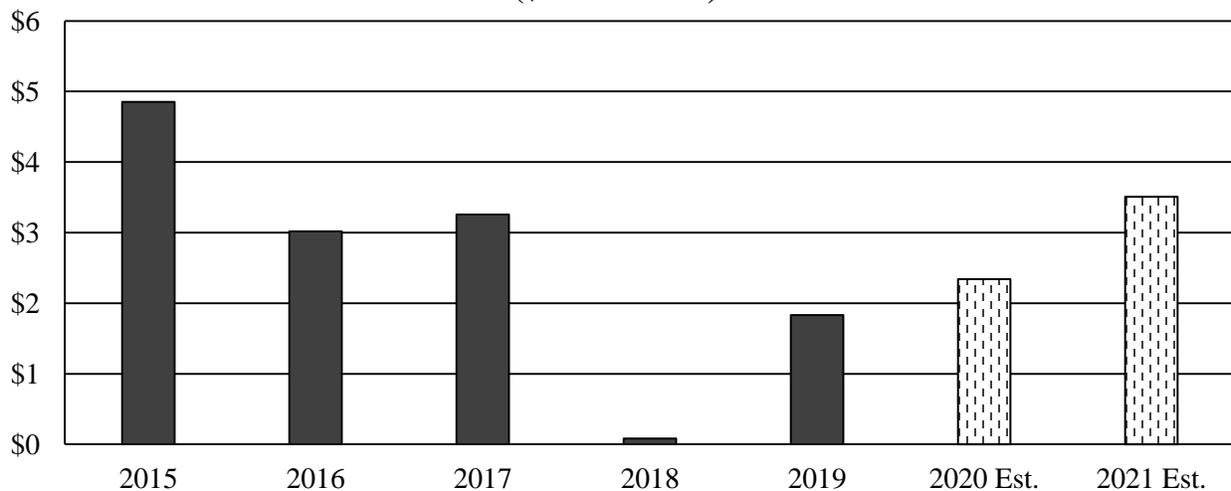
Current Law/Background: Generally, CCU is responsible for collecting any delinquent accounts or debts owed to the State. However, certain debts are not collected by CCU, unless done so with the approval of the Secretary of Budget and Management. Specifically, CCU is not responsible for and may not collect (1) taxes; (2) child support payments; (3) unemployment insurance contributions or overpayments; (4) fines; (5) court costs;

(6) bond forfeitures; (7) monies owed due to default on loans made by the Department of Commerce or the Department of Housing and Community Development; (8) specified insurance payments; or (9) debt that is owed for unpaid video tolls and associated civil penalties from persons residing outside of the State.

CCU is authorized to use any actions available to it under State law to collect debts or claims. It may also settle a debt or claim without a lawsuit. CCU is authorized to charge an administrative fee of up to 20% of the outstanding principal and interest on the debt referred to it for collection; the current fee is 17%. Debt payments are credited to the agency that refers the debt. The administrative fees are credited to the Central Collection Fund to pay for CCU's operating expenses, except that any balance in excess of 15% of the unit's actual operating expenses reverts to the general fund. CCU uses a variety of methods and resources to facilitate the collection of delinquent accounts, including automated and manual efforts, as well as a private collection agency.

CCU currently has \$3.5 billion in outstanding receivables owed to the State. Typical debts include Motor Vehicle Administration fines, student tuition and fees, and restitution for damage to State property. **Exhibit 1** provides detail on the agency's annual net profit since fiscal 2015, which is measured as administrative fees recovered on gross collections above CCU operating expenses. At the end of each fiscal year, CCU reverts any balance in the Central Collection Fund in excess of 15% of its actual operating expenses.

Exhibit 1
Central Collection Unit Net Profit
Fiscal 2015-2021 (as Estimated)
(\$ in Millions)



Source: Governor's Fiscal 2021 Budget Books

State Fiscal Effect: Although CCU has the authority to collect up to 20% of the outstanding principal and interest on the debt referred to it for collection, the current fee is 17%. Some debts are ineligible for assessed fees while others have reduced fees, so CCU receives, on average, 15.5% in fees on debts collected. Thus, limiting the collection fee to 5% reduces CCU special fund revenues and expenditures by approximately \$12.2 million in fiscal 2021, which accounts for the bill’s October 1, 2020 effective date, and by \$17.1 million annually thereafter. To backfill for the loss of special funds to fully cover the operations of the unit, general fund expenditures are needed; general fund expenditures increase by \$7.7 million in fiscal 2021 and by \$13.0 million annually thereafter to cover CCU’s collection and administrative costs.

At the end of each fiscal year, CCU reverts to the general fund any balance in the Central Collection Fund in excess of 15% of its actual operating expenses for that fiscal year. By reducing its collections, general fund revenues from reversions decrease by \$2.6 million in fiscal 2021 and by \$4.1 million annually thereafter.

Additionally, the bill eliminates CCU’s authority to settle, without a lawsuit, debts or claims that are referred to it for collection. Currently, only about 1% of debt accounts referred to CCU for collection are submitted to the Office of the Attorney General (OAG) to file a lawsuit. Since CCU would no longer be able to settle debts without suit, the workload of OAG may increase to file suits to settle debts on behalf of CCU. OAG advises that, in order to maintain the current ratio of CCU suits to attorneys and support staff, OAG needs 72 employees as a result of increased caseload stemming from the bill, thus increasing OAG general fund expenditures by \$4.6 million in fiscal 2021. Based on feedback from CCU, the Department of Legislative Services disagrees with OAG’s assessment.

CCU advises that, under the bill, debtors cannot negotiate reduced debt without CCU filing a lawsuit against them. Thus, CCU notes that it will generally pursue the full amount of debts owed by debtors using other means still available to it in the bill, and not settle debts. By generally doing this, OAG’s caseload should not significantly increase.

However, there may be instances where CCU opts to settle debts or claims through a lawsuit if collection of a full debt is not practical or feasible. Thus, general fund expenditures for OAG increase by \$340,666 in fiscal 2021, which accounts for the bill’s October 1, 2020 effective date. This estimate reflects the cost of hiring three assistant Attorneys General and two paralegals to settle debts in the courts. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

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Salaries and Fringe Benefits	\$313,835
Operating Expenses	<u>26,831</u>
Total FY 2021 State Expenditures	\$340,666

Future year expenditures reflect full salaries with annual increases and employee turnover and ongoing operating expenses. To the extent that more cases are settled in court than anticipated, OAG may need additional employees and resources.

To the extent that CCU pursues debt collections for the full amount of debt owed, CCU collections may increase. However, to the extent that CCU settles debts or claims through lawsuits, CCU collections may decrease due to difficulties serving debtors. Thus, a reliable estimate of the net effect on CCU debt collection revenue is not possible, but CCU does not anticipate a material change in debt collections, just in the associated fees.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

Information Source(s): Judiciary (Administrative Office of the Courts); Department of Budget and Management; Office of the Attorney General; Department of Legislative Services

Fiscal Note History: First Reader - February 27, 2020
an/mcr

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