

**CHILD SUPPORT ENFORCEMENT
ADMINISTRATION**

**MARYLAND DEPARTMENT OF
HUMAN RESOURCES**

**COST-BENEFIT ANALYSIS -
EXECUTIVE SUMMARY**

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Child Support Enforcement Administration Maryland Department of Human Resources

Cost-Benefit Analysis – Executive Summary

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September 9, 2009

Mr. Joseph Jackins
Executive Director
Child Support Enforcement Administration
Maryland Department of Human Resources
311 West Saratoga Street
Baltimore, Maryland 21201

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT'S REPORT

Dear Mr. Jackins:

Introduction

We were engaged to perform a cost-benefit analysis of privatization versus State operation of the child support enforcement operations for Baltimore City and Queen Anne's County. This engagement was performed in accordance with the American Institute of Certified Public Accountants Professional Standards for Consulting Services. The assumptions disclosed herein are those that we believe are significant to the projections. There will usually be differences between the projections and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material.

Background

The Maryland Department of Human Resources, Child Support Enforcement Administration (CSEA) administers a statewide child support enforcement program intended to ensure that non-custodial parents fulfill their obligations to provide financial and medical support to their children.

Privatization pilots were established in Baltimore City and Queen Anne's County under Family Law §10.119.1, Annotated Code of Maryland. Under the provisions of this law the pilots operated from November 1, 1996 through October 31, 2002. In 2003 Family Law §10.119.1 was changed and extended privatization pilots through September 30, 2009.

Three private companies have managed the child support enforcement program since 1996: Lockheed Martin IMS (1996 - 1999), Maximus (1999 - 2003) and Policy Studies Institute (PSI) (2004 - 2009).

Purposes of Engagement

The purposes of this engagement were to: (1) determine the cost and benefits of privatization versus State operation of the child support enforcement operations for Baltimore City and Queen's County and (2) make a recommendation as to whether the child support enforcement operations should remain privatized or transitioned to State operated.

Work Performed, Findings and Recommendations

The work performed, findings and recommendations are discussed in subsequent sections of this report. Please contact William L. Wilkerson, CPA, or James A. Lindsey, Jr., CPA, at 410-825-1994 should you have questions or comments.

Very truly yours,

Lindsey & Associates, LLC

Performance Measures – Baltimore City

Child support operations are measured against five (5) CSEA established performance goals.

1. Cost effectiveness and collections
2. Paternity establishment percentage
3. Percentage of cases with a support order in effect
4. Percentage of current support collected
5. Percentage of arrears cases making an arrears payment

PSI has consistently met or exceeded all CSEA goals with the exception of current collection percentages in 2007 and cases in arrears percentages for 2004 through 2008.

Projected Costs – Privatized versus State Operated – Baltimore City

Privatization is projected to be less costly than the State operated alternative. The current contractor is paid 8.95% of collections. Collection costs have decreased since 2004 from a high of 15.25% to 8.95% in 2009. Assuming the State issues another request for proposals pertaining to child support enforcement operations there is no guarantee that the current contractor will win the new contract. If a new private contractor is selected it is assumed that the cost of collections will be higher in the early years of the contract because of start-up costs. Also, it is assumed that the cost of collections will decrease in later years due to efficiencies. The following table for projected costs assumes that the cost of collection for the privatized option will approximate the historical cost trends since 2004.

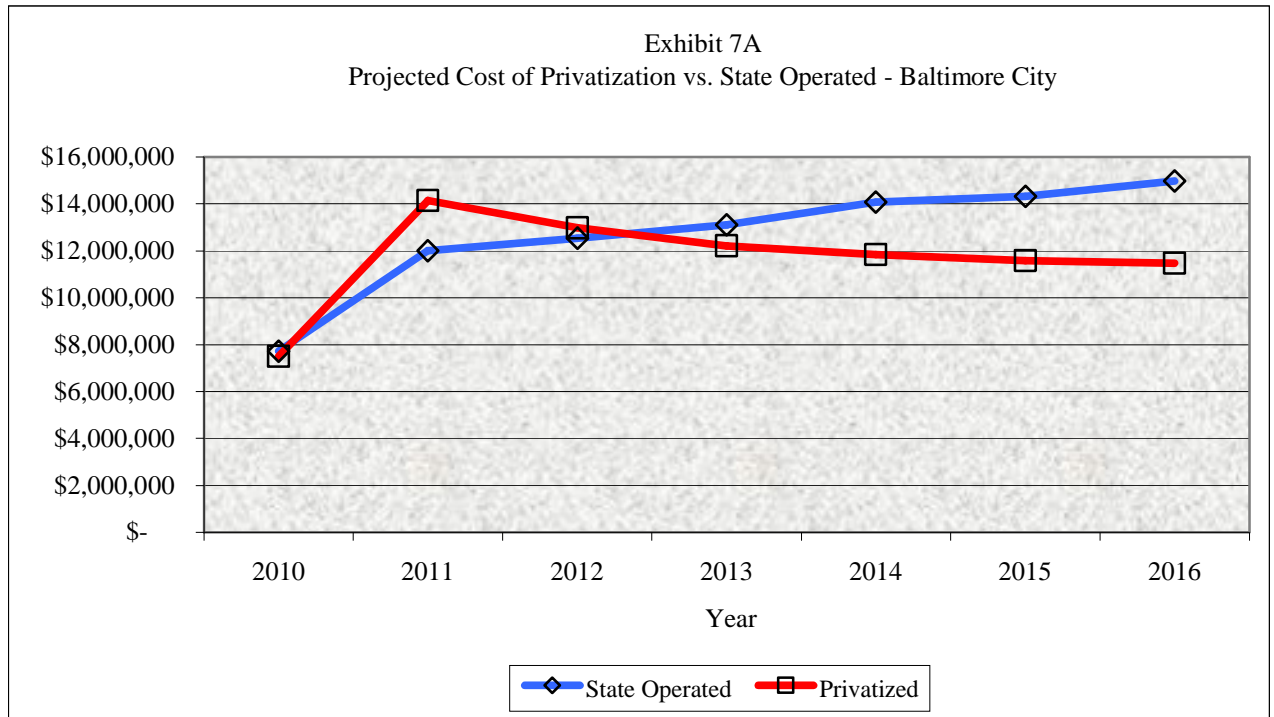
Projected Costs – Baltimore City

Year	State Operated	Privatized	Difference	Present Value of Difference
*2010	\$ 7,726,440	\$ 7,495,933	\$ 230,507	\$ 217,460
2011	12,006,654	14,144,675	(2,138,021)	(1,902,839)
2012	12,541,384	12,977,326	(435,942)	(366,017)
2013	13,103,857	12,213,902	889,955	704,933
2014	14,074,363	11,850,771	2,223,592	1,661,690
2015	14,318,326	11,583,273	2,735,053	1,928,212
2016	14,973,705	11,477,177	3,496,528	2,325,541
Total	\$ 88,744,729	\$ 81,743,057	\$ 7,001,672	\$ 4,568,982

*2010 is a partial year.

Breakeven

The breakeven varies from a high of 14.99% in 2010 to a low of 10.91% in 2011. The average breakeven for the 7 year projection horizon is 12.03%. This means if the percentage of collections paid to a private contractor is less than 12.03% the privatized option is less expensive than the State operated option.



Advantages, Disadvantages and Concerns Expressed by State Furnished Employees Working with PSI – Baltimore City

Twenty-seven (27) State furnished employees working with PSI at the Baltimore City Office of Child Support Enforcement completed a survey. In addition, we met with approximately 20 of the same employees to obtain clarification regarding their concerns. Their input is summarized in pages 12 to 14 in the Report.

Recommendations – Baltimore City

- Continue privatization because:
 - The percentage of collections paid to the private contractor is projected to be on the average less than 12.03% per year during the next 7 years,
 - And the cost of the privatized option is projected to be approximately \$4,568,982 less than the State operated option on a present value basis.
- The current contractor has consistently met all CSEA established goals except payment on arrears. Currently, the private contractor receives a bonus when goals are met. Goals and incentives must be changed so as to motivate a private contractor to achieve payment on arrears goals.
- State furnished employees are important to successful child support enforcement operations and it is important to provide State furnished employees with career advancement opportunities.
- The morale of State furnished employees is low. CSEA and the private contractor must focus on ways to improve their morale.
- Create a sense of partnership between State furnished employees and the private contractor.

Performance Measures – Queen Anne’s County

Child support operations are measured against five (5) CSEA established performance goals.

1. Cost effectiveness and collections
2. Paternity establishment percentage
3. Percentage of cases with a support order in effect
4. Percentage of current support collected
5. Percentage of arrears cases making an arrears payment

PSI has consistently met or exceeded CSEA goals with regards to collections, paternity establishment and support order establishment. PSI has consistently not met CSEA goals pertaining to cost effectiveness, current collection percentages and cases paying arrears.

Projected Costs – Privatized versus State Operated – Queen Anne’s County

Privatization is projected to be more costly than the State operated alternative. The current contractor is paid 8.25% of collections. Collection costs have decreased since 2004 from a high of 10.00% to 8.25% in 2009. Assuming the State issues another request for proposals pertaining to child support enforcement operations there is no guarantee that the current contractor will win the new contract. If a new private contractor is selected it is assumed that the cost of collections will be higher in the early years of the contract because of start-up costs. Also, it is assumed that the cost of collections will decrease in later years due to efficiencies. The following table for projected costs assumes that the cost of collection for the privatized option will approximate the historical cost trends since 2004.

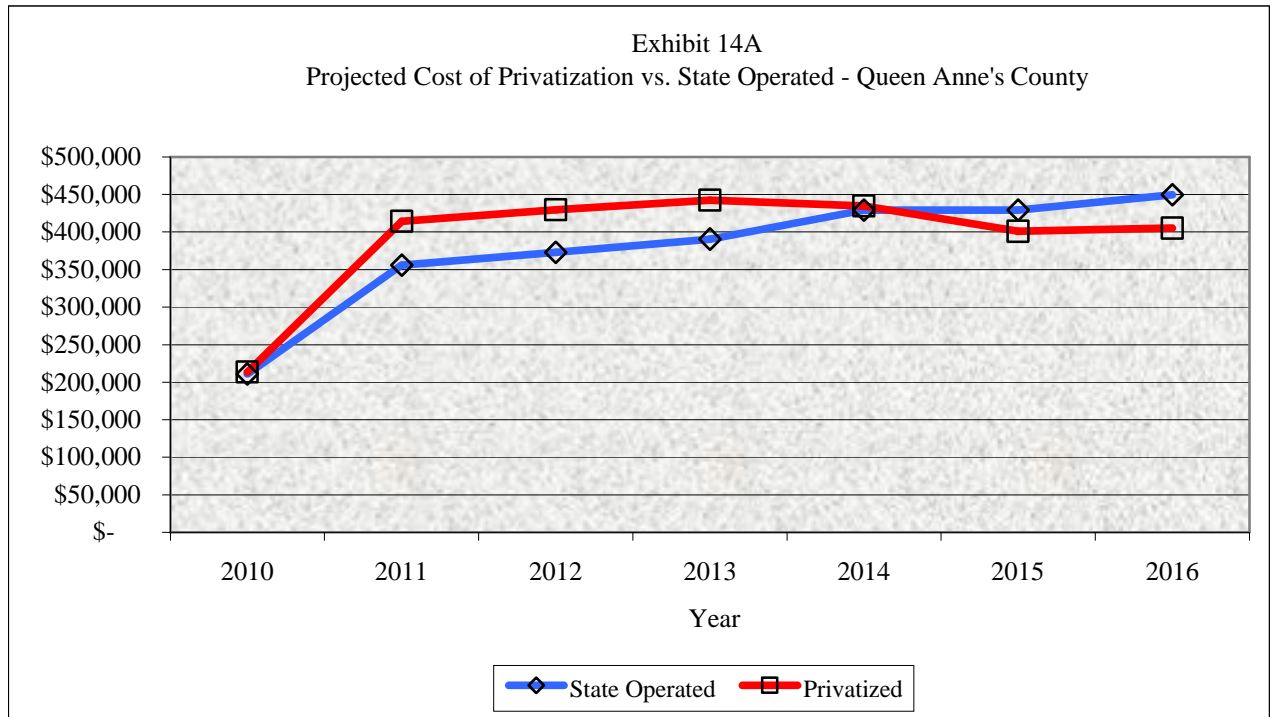
Projected Costs – Queen Anne’s County

Year	State Operated	Privatized	Difference	Present Value of Difference
*2010	\$ 210,937	\$ 213,469	\$ (2,532)	\$ (2,389)
2011	356,147	414,043	(57,896)	(51,527)
2012	373,085	429,460	(56,375)	(47,332)
2013	390,894	442,454	(51,560)	(40,841)
2014	428,922	434,705	(5,783)	(4,322)
2015	428,936	401,080	27,856	19,638
2016	449,462	405,179	44,283	29,453
Total	\$ 2,638,383	\$ 2,740,390	\$ (102,007)	\$ (97,320)

*2010 is a partial year.

Breakeven – Queens Anne’s County

The breakeven varies from a high of 9.86% in 2010 to a low of 8.44% in 2011. The average breakeven for the 7 year projection horizon is 9.01%. This means if the percentage of collections paid to a private contractor is less than 9.01% the privatized option is less expensive than the State operated option.



Recommendations – Queen Anne’s County

- Revert to State operated option for child support enforcement operations in Queen Anne’s County because the State operated option is projected to be \$97,320 less on a present value basis than the privatized option.
- However, if the percentage of collections paid to a private contractor is projected to be on the average less than 9.01% per year during the next 7 years continue privatization.