

**CHILD SUPPORT ENFORCEMENT
ADMINISTRATION**

**MARYLAND DEPARTMENT OF
HUMAN RESOURCES**

COST-BENEFIT ANALYSIS

Volume 1 of 2

Table of Contents - continued
Child Support Enforcement Administration
Maryland Department of Human Resources

COST-BENEFIT ANALYSIS

	<u>Page(s)</u>
VOLUME 1 OF 2	
Independent Certified Public Accountant's Letter	1
Introduction	1
Background	1
Purposes of Engagement	2
Work Performed, Findings and Recommendations	2
Work Performed	3
Overview of Child Support Enforcement Operations – Baltimore City	4
Performance Measures – Baltimore City	4
Exhibit 1A – Cost Effectiveness – Baltimore City	5
Exhibit 1B – Collections – Baltimore City	5
Exhibit 2 – Paternity Establishment Percentages – Baltimore City	6
Exhibit 3 – Support Order Establishment Percentages – Baltimore City	6
Exhibit 4 – Current Collection Percentages – Baltimore City	7
Exhibit 5 – Cases Paying on Arrears Percentages – Baltimore City	7
Historical and Projected Collections – Baltimore City	8
Exhibit 6 – Historical and Projected Collections – Baltimore City	8
Projected Costs – Privatized versus State Operated – Baltimore City	9
Breakeven	9
Exhibit 7A – Projected Costs of Privatization	
Vs. State Operated – Baltimore City	10
Exhibit 7B – Breakeven as a % of Collections – Baltimore City	10
Projected Costs of State Operated Option – Baltimore City	11
Exhibit 7C – Projected Composition of costs for State Operated - Baltimore City	11

Table of Contents - continued
Child Support Enforcement Administration
Maryland Department of Human Resources

COST-BENEFIT ANALYSIS

Page(s)

VOLUME 1 OF 2

Advantages, Disadvantages and Concerns Expressed by State Furnished	
Employees Working with PSI – Baltimore City	12
Input Provided by PSI	15
Benefits of Privatization and State Operated Alternative – Baltimore City	17
Recommendations – Baltimore City	17
Overview of Child Support Enforcement Operations – Queen Anne’s County	18
Performance Measures – Queen Anne’s County	18
Exhibit 8A – Cost Effectiveness – Queen Anne’s County	19
Exhibit 8B – Collections – Queen Anne’s County	19
Exhibit 9 – Paternity Establishment Percentages – Queen Anne’s County	20
Exhibit 10 – Support Order Establishment Percentages – Queen Anne’s	20
Exhibit 11 – Current Collection Percentages – Queen Anne’s County	21
Exhibit 12 – Cases Paying on Arrears Percentages – Queen Anne’s	21
Historical and Projected Collections – Queen Anne’s County	22
Exhibit 13 – Historical and Projected Collections – Queen Anne’s	22
Projected Costs – Privatized versus State Operated – Queen Anne’s County	23
Breakeven	23
Exhibit 14A– Projected Costs of Privatization	
vs. State Operated – Queen Anne’s	24
Exhibit 14B – Breakeven as a % of Collections	24
Projected Costs of State Operated Option – Queen Anne’s County	25
Exhibit 14C – Projected Composition of Costs for State	
Operated – Queen Anne’s County	25
Benefits of Privatization and State Operated Alternative – Queen Anne’s County	26
Recommendations – Queen Anne’s County	26
Attachment A-Assumptions	27

Table of Contents - continued
Child Support Enforcement Administration
Maryland Department of Human Resources

COST-BENEFIT ANALYSIS

Page(s)

VOLUME 2 OF 2

Table 1	Systems Life Cost Profile	
	Baltimore City	33
	Queen Anne's County	40
Table 2	Projecting Collections – Payments	
	Baltimore City	47
	Queen Anne's County	52
Table 3	Projecting Collections	
	Baltimore City	57
	Queen Anne's County	58
Table 4	CSEA Disbursements	59
Table 5	CSEA Collection Goals vs. Actuals	
	Baltimore City	61
	Queen Anne's County	62
Table 6	Standard Salary Schedule 2009	63
Table 7	DHR Forecast Overview – Baltimore City	64
Table 8	DHR Forecast Details – Baltimore City	66
Table 9	Guidelines for Estimating Costs – Prepared by Department of Legislative Services	67
Table 10	Yearly Compensation Projection Summary – Baltimore City	69
Table 11	Yearly Compensation Projection Detail	
	Baltimore City	76
	Queen Anne's County	108
Table 12	CSEA Actual vs. Goals	116
Table 13	PSI Data for Privatization	119
Table 14	Child Support Enforcement Administration – Staffing Estimate	
	Baltimore City	124
	Queen Anne's County	125
Table 15	PSI Power Point Presentation to Lindsey + Associates	126
Table 16	Dollars Collected for Each \$1 Spent	146
Table 17	Historical Collections 1996 – 2008 – Baltimore City	147
Table 18	Maximum Hours Comparison of PSI FTE and State FTE	148

606 Baltimore Avenue
Suite 101
Towson, MD 21204
410.825.1994 phone
301.596.1996 DC phone
410.825.1997 fax
www.acpafirm.com

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

Work Performed

We performed the following steps using the U. S. Department of Health and Human Services Administration for Children and Families Cost Benefit Analysis Guide dated July 1993 (the "Guide") as a guide for performing the cost-benefit analysis.

1. Reviewed relevant information and correspondence listed below:
 - a. Department of Health & Human Services Cost Benefit Analysis Guide dated July 1993, Annual Report
 - b. Dockside Solutions Quality Assurance Internal Audit submitted May10, 2009
 - c. Information received from the Department of Budget and Finance
 - d. PSI invoices from 2004 to 2009
 - e. Spreadsheets provided by CSEA related to:
 - a) Collections
 - b) Invoices
 - c) Recurring and non-recurring costs, and
 - f. CSEA Box Scores, memos, testimonies, cost analyses and other salient paperwork
2. Obtained inputs from designated sources including interviewing appropriate PSI management, CSEA management and State furnished employees
3. Prepared spreadsheets using Tables 3-3 and 3-4 from the Guide
4. Examined five (5) federal performance metrics
5. Compared CSEA goals to PSI actual performance
6. Established the cost of the status quo - privatization
7. Determined the cost for State operated alternative
8. Identified and characterized all costs (i.e., recurring, non-recurring) for both privatization and State operated alternative
9. Documented all material assumptions regarding collections and costs
10. Prepared a cost profile by year
11. Surveyed State furnished employees and determined their concerns
12. Identified quantitative and qualitative benefits for both privatization and State operated alternative

Overview of Child Support Enforcement Operations – Baltimore City

PSI has managed the child support enforcement operations since January 1, 2004. During this time collections have increased from \$78,083,706 in 2003 to a projected \$86,571,887 in 2009.

Currently there are approximately 32 state furnished employees (SFE), 96 PSI employees and 61 contractual/temporary employees located in the Baltimore City Office of Child Support Enforcement for a total of about 189 employees.

State furnished employees typically have more experience with child support enforcement systems with many of them having worked since 1996 with Lockheed Martin IMS (1996 - 1999), Maximus (1999 - 2003) and Policy Studies Institute (PSI) (2004 – 2009) and with the State prior to privatization.

PSI is paid a percentage of revenues collected. The percentage has decreased from 15.25% in 2004 to 8.95% in 2009. The administrative cost per child support dollar cannot exceed Baltimore City's 1995 cost.

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

A comparison of CSEA established goals versus actual results obtained by PSI follow on Exhibits 1A through 5. PSI has consistently met or exceeded all CSEA goals with the exception of current collection percentages in 2007 (Exhibit 4) and cases in arrears percentages for 2004 through 2008 (Exhibit 5).

Exhibit 1A
 Cost Effectiveness - Baltimore City

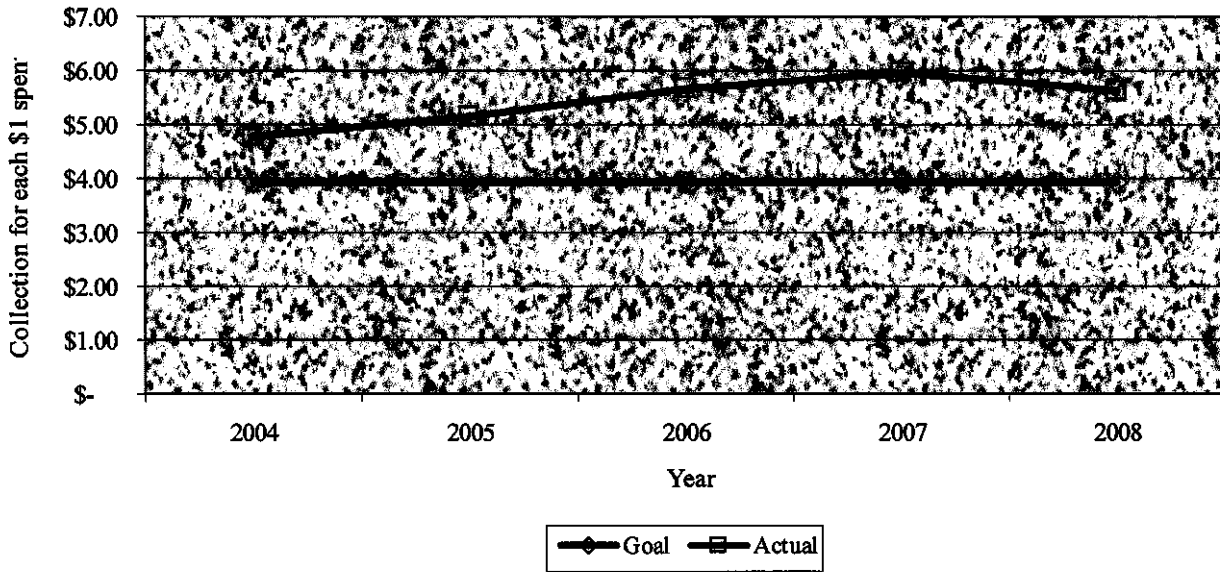


Exhibit 1B
 Collections - Baltimore City

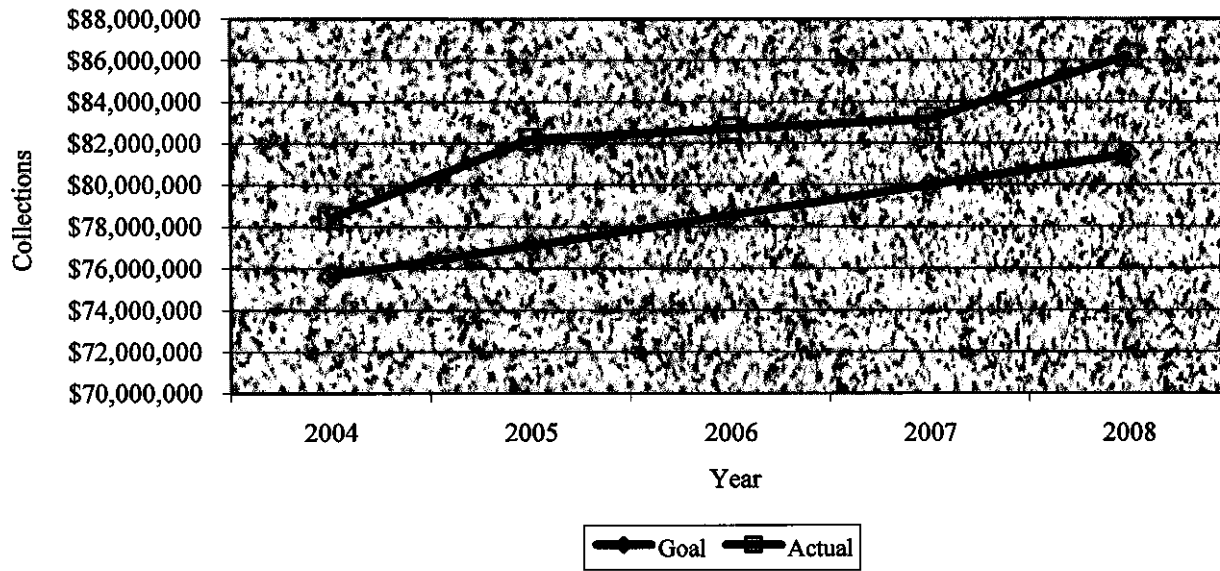


Exhibit 2
Paternity Establishment Percentages - Baltimore City

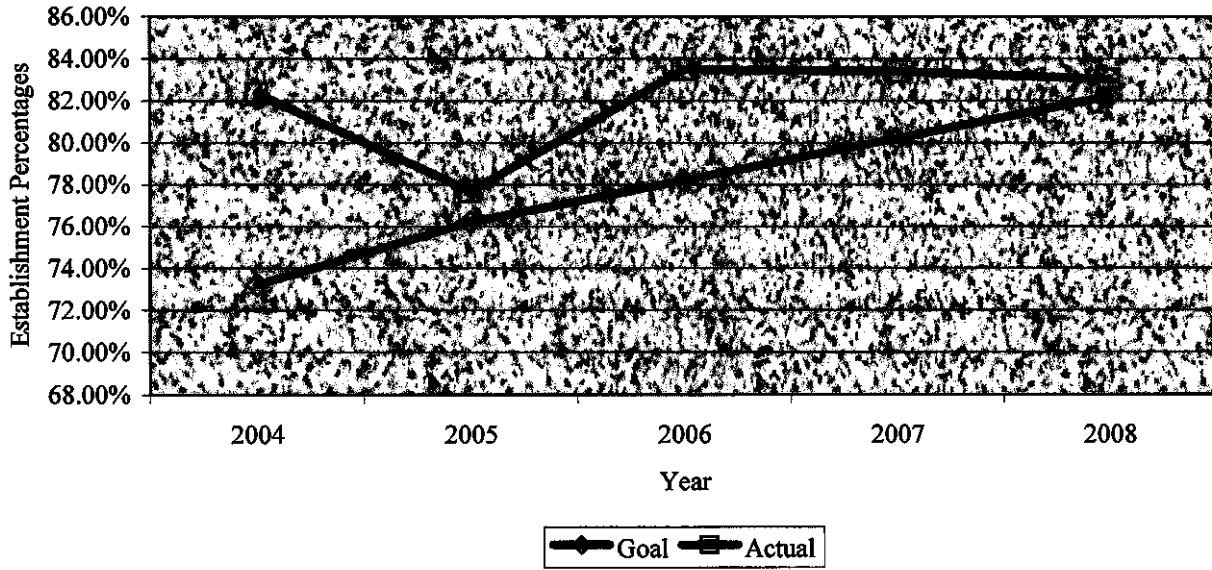


Exhibit 3
Support Order Establishment Percentages - Baltimore City

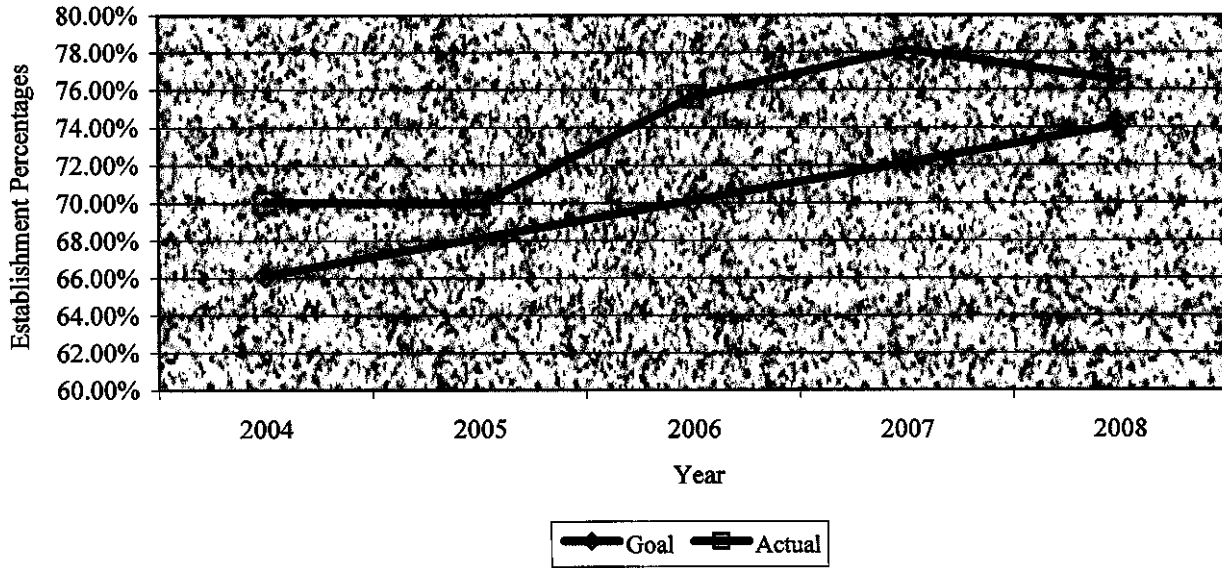


Exhibit 4
Current Collection Percentages - Baltimore City

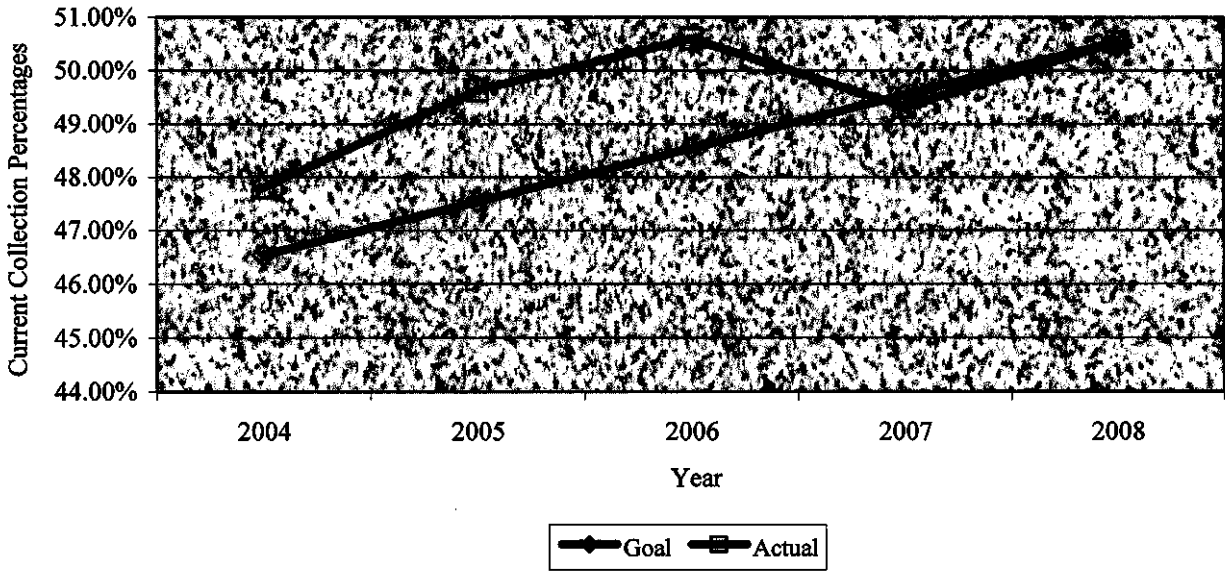
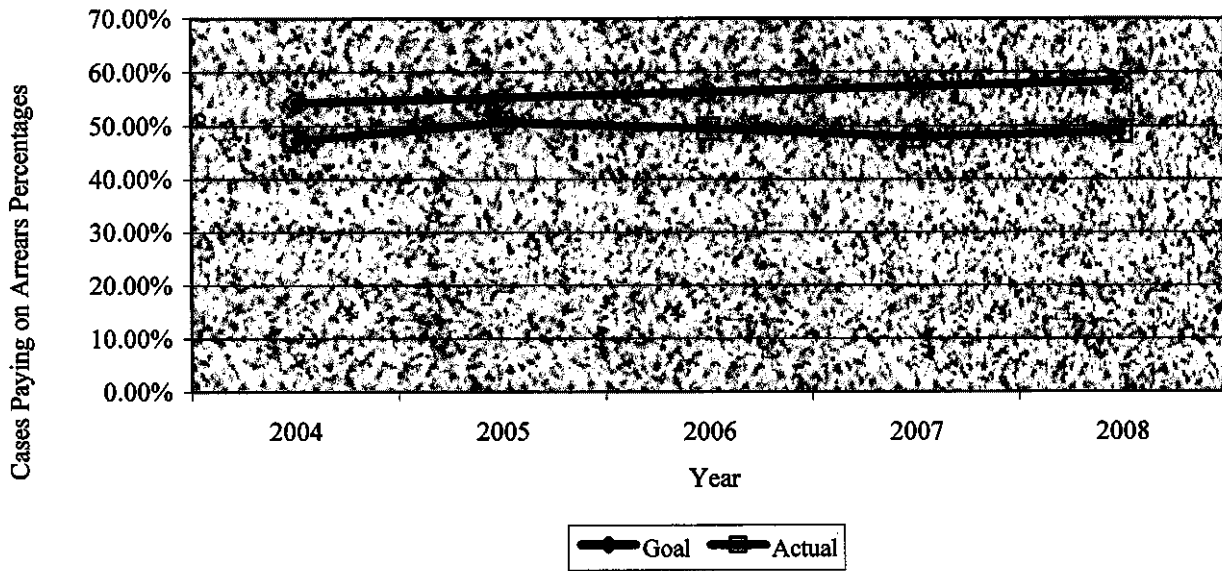
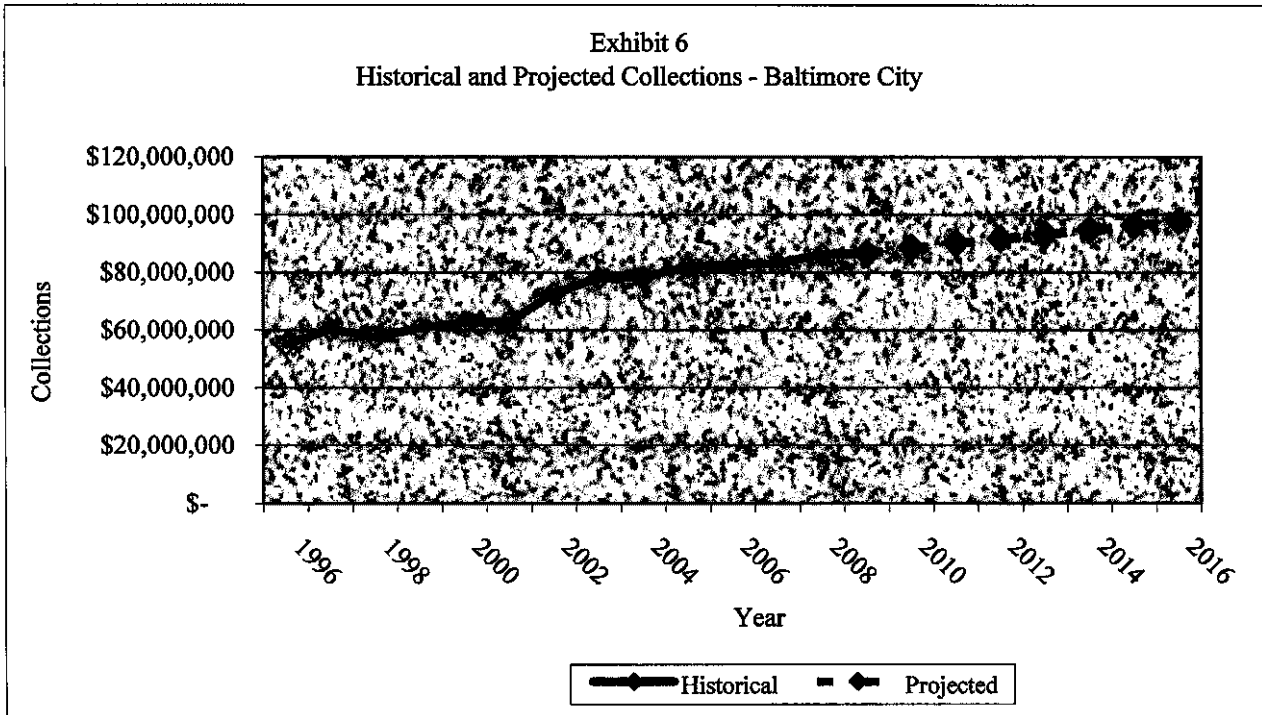


Exhibit 5
Cases Paying on Arrears Percentages - Baltimore City



Historical and Projected Collections – Baltimore City

Total collections have increased from \$54,879,288 in 1996 to \$86,215,837 in 2008 (the last historical year) and it is estimated to be \$86,571,887 for 2009 and gradually increasing to \$97,683,533 in 2016. Refer to Table 03.01 for details regarding the projected collections.



Projected Costs – Privatized versus State Operated – Baltimore City

Privatization is projected to be less costly than the State operated alternative. The assumptions and detailed projections are included in Attachment A and Table 1, respectively, to this report. 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. The lower the cost of collections expressed as a percentage of collections the greater the differences between State operated and privatized options.

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.

Exhibit 7A
Projected Cost of Privatization vs. State Operated - Baltimore City

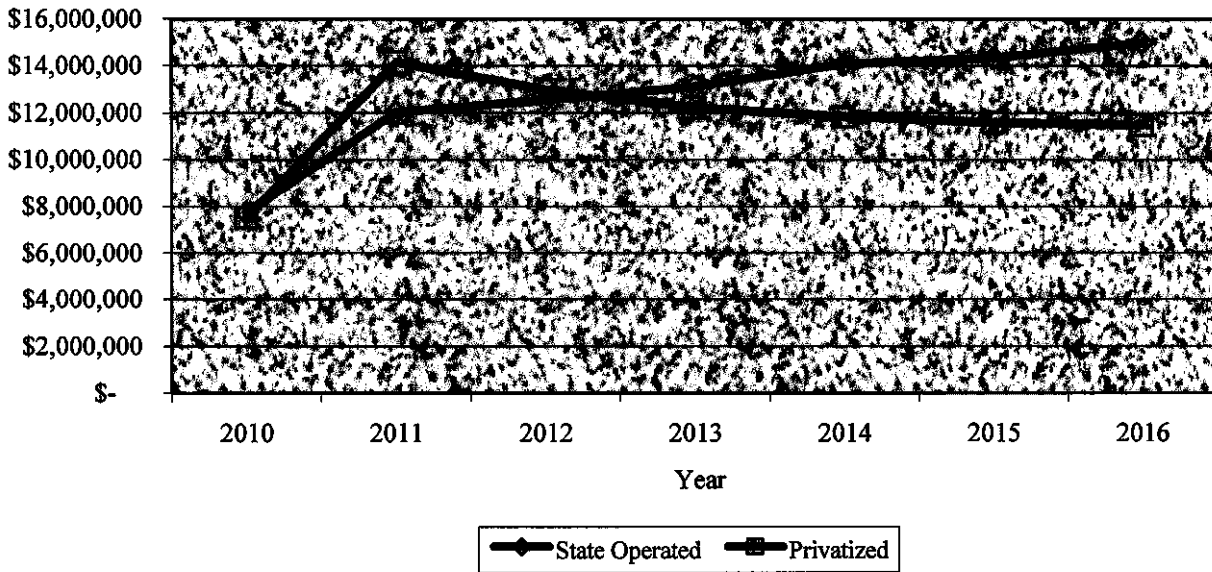
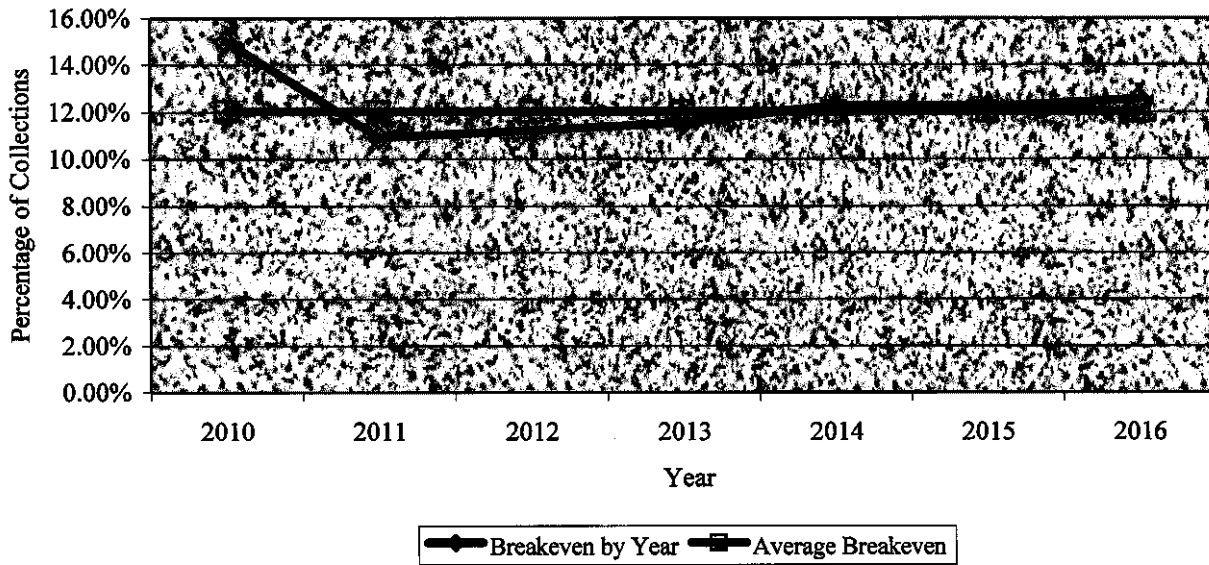


Exhibit 7B
Breakeven as a % of Collections
Baltimore City

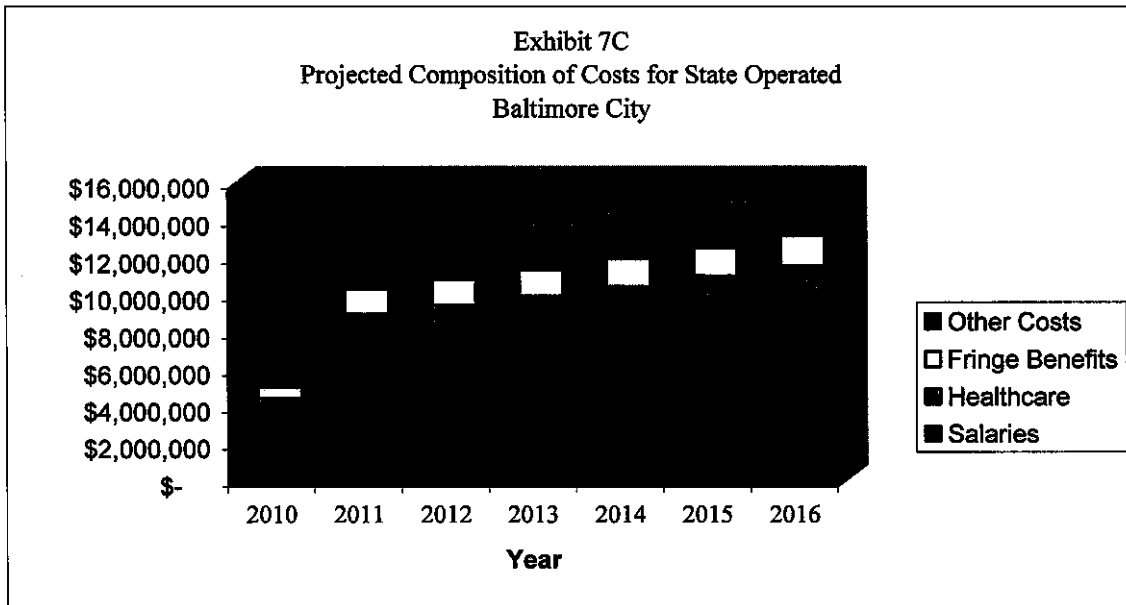


*2010 is a partial year.

Projected Costs of State Operated Option – Baltimore City

The primary costs of a State operated option pertain to salaries, healthcare and related fringe benefits. Other costs are higher in 2010 than in subsequent years because of non-recurring start-up costs and increase in 2014 due to assumed replacement of certain equipment.

Year	Salaries	Fringe Benefits	Healthcare	Other Costs	Total
*2010	\$ 3,144,779	\$ 629,494	\$ 1,271,025	\$ 2,681,142	\$7,726,440
2011	6,248,385	1,310,849	2,719,993	1,727,427	12,006,654
2012	6,521,298	1,364,992	2,910,393	1,744,701	12,541,384
2013	6,806,070	1,421,518	3,114,121	1,762,148	13,103,857
2014	7,103,214	1,480,530	3,332,109	2,158,510	14,074,363
2015	7,413,263	1,542,139	3,565,357	1,797,567	14,318,326
2016	7,736,772	1,606,459	3,814,932	1,815,542	14,973,705



*2010 is a partial year.

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 below.

Disadvantages of Moving Operations Back to State

- Lack of technological resources

Advantages of Keeping Operations Privatized

- Provided many technological advances that would not have occurred
- Provides flexibility with implementing new initiatives
- Best practices and successful applications

Disadvantages of Keeping Operations Privatized

- Communications
 - Lack of communications with other Maryland jurisdictions
 - Tension between State furnished employees and PSI employees
- Human Resources
 - Unqualified and inexperienced staff
 - Inadequate and improper training
 - No promotion for State furnished employees
 - High turnover
- Regulations and laws
 - Do not follow State rules
 - Lack of knowledge of regulations
- Work Environment
 - Frequent changes to procedures and work assignments
 - Poor morale
 - Divisive
 - Changes in physical location when vendors change
- Service
 - Profit driven
 - Lack of professionalism
 - Error prone
 - Lack of accountability
 - Beneficiary changes not processed timely
 - Service disruption when vendors change

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

Disadvantages of Keeping Operations Privatized - continued

- **Perspective**
 - Focused on short-term goals rather than procedures that produce lasting results
 - Profit focus
 - Lack of community outreach
- **Economic**
 - Funds paid to contractor do not stay in local community
 - Contractor focuses on collections that are easiest with highest amount to pursue
 - Administration of private contracts creates extra cost

Advantages of Moving Operations Back to State

- **Communications**
 - Better communication with other Maryland jurisdictions
 - Better communication with staff and management
 - Clear guidelines and procedures
- **Human resources**
 - More qualified staff with proper training
 - Require fewer employees due to using properly trained State employees
 - Career advancement opportunities
 - Stable workforce
 - Job security
- **Regulations and laws**
 - Maryland laws, regulations, and standard operating procedures will be properly applied
 - Consistent application of regulations
 - New government guidelines and regulations allow better ways to collect
- **Work environment**
 - Better office equipment and working conditions
 - Better morale
 - Team focus
 - Improved security
 - Uniformity in delivery of services
 - Better customer service
 - Fewer errors
 - Better distribution of monies collected

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

Advantages of Moving Operations Back to State – continued

- **Perspective**
 - Focus on proper procedures and application of regulations
 - Dedication
 - Service focus
 - Focus on benefits to children
- **Economic**
 - All monies can be invested back into the State
 - Can pursue all types and amounts of support including those that reimburse the State

Concerns

- How will they clean-up improper work from prior contractor?
- Contract employees focus on their own gain instead of the welfare of the children.
- The General Assembly voted to discontinue privatization as of September 30, 2009.
- Why continue giving away money to the private vendor who is not performing?
- All monies can be reinvested in Baltimore City and across the State.
- State deficit will prevent investment in equipment and training.
- Rainy Day fund may be used for staffing
- The money poured into a private vendor is costly.
- The State wants to cut costs, not increase costs.

Input Provided by PSI

Refer to Table 15 for a complete discussion. A summary of PSI's input follows.

Collections

- In Baltimore City the percentage paid to PSI has decreased from 15.25% in 2004 to 8.95% in 2009.
- Baltimore City collections have increased by 15.34% since 2004, exceeding CSEA established goals.

Administrative Costs per Dollar Collected

- The contract requires that the program collect at least \$3.90 for each dollar spent on administrative cost. PSI has consistently exceeded this goal by collecting more than \$3.90. The State average is \$4.54 in 2008 and PSI collected \$5.62 in 2008.

Paternity Established

- The number of children with paternity established has increase 16.90% from 2003 to 2008. PSI has consistently exceeded the CSEA established goal for paternity establishment.

Percent of Cases under Order

- Baltimore City cases under order have increased by 23.35% since 2003. PSI has consistently exceeded the CSEA established goals for percent of cases under order.

Percent of Current Support Collected

- The percent of current support has increased by 6.6% from 2003 to 2008. PSI has exceeded the CSEA established goals for 2004, 2005, 2006 and 2008.

Percent of Cases Paying on Arrears

- PSI has not met the CSEA established goals for any year.

File Clean-up and Imaging at Baltimore City

- PSI took possession of 400,000 case files, but only 35,000 of 126,500 open cases had files.
- PSI organized and imaged files which are instantly available to workers and customer service.

- Required file space has been reduced from 13,000 square feet to 1,500 square feet.

Input Provided by PSI – continued

Other Operational Improvements

- PSI added PSILink, a workflow management tool that records actions taken on cases and directs them through the enforcement process.
- PSI piloted the State's first paperless application process in Department of Social Service District offices. Cases move immediately to Establishment and then Enforcement.

Services Added to Baltimore City

- PSI has developed and cultivated partnerships with 23 community based organizations that offer services needed by both custodial and non-custodial parents.
- PSI opened Baltimore's first community based child support center in Mondawmin Mall in 2007 and now there are 4 centers.
- Non-Custodial Parent Employment Program – known as "HUHY" was implemented in 2006. As of February 2009, 917 non-custodial parents have participated in the program; 717 have made payments totaling \$1,330,572.
- HUHY was recently recognized by the Federal Office of Child Support Enforcement as a model.
- PSI began an incarcerated non-custodial parent program in 2005. The Mondawmin Center Re-entry Partnership helps prerelease or released parents to modify their support orders.

Benefits of Privatization and State Operated Alternative – Baltimore City

Benefits of Privatization

- Costs are lower.
- Collection costs have continued to decrease.
- Collections have continued to increase.
- Current contractor has consistently met all CSEA established goals except for payments on arrears.
- More flexible in hiring
- More flexible in workforce reductions
- Private employees work year (approximately 1,832 hours) is longer than a comparable State employee (approximately 1,744 hours).
- Current contractor has a document imaging and management system that contributes to efficiencies.

Benefits of State Operated

- State employees have more years of experience with child support enforcement systems.
- State employees are focused on resolving long-term issues.
- State employees are not focused on short-term profit goals.
- State employees are focused on helping children.

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.

Overview of Child Support Enforcement Operations – Queen Anne’s County

PSI has managed the child support enforcement operations since January 1, 2004. During this time collections have increased from \$2,991,912 in 2004 to a projected \$3,766,029 in 2009.

Currently there are no state furnished employees (SFE), 6 PSI employees and no contractual/temporary employees located in the Queen Anne’s County Office of Child Support Enforcement for a total of 6 employees.

PSI is paid a percentage of revenues collected. The contractual percentage has decreased from 10.00% in 2004 to 8.25% in 2009.

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

A comparison of CSEA established goals versus actual results obtained by PSI follows on Exhibits 8A through 12. PSI has consistently met or exceeded CSEA goals with regards to collections (Exhibit 8B), paternity establishment (Exhibit 9) and support order establishment (Exhibit 10). PSI has consistently not met CSEA goals pertaining to cost effectiveness (Exhibit 8A), current collection percentages (Exhibit 11) and cases paying arrears (Exhibit 12).

Exhibit 8A
 Cost Effectiveness - Queen Anne's County

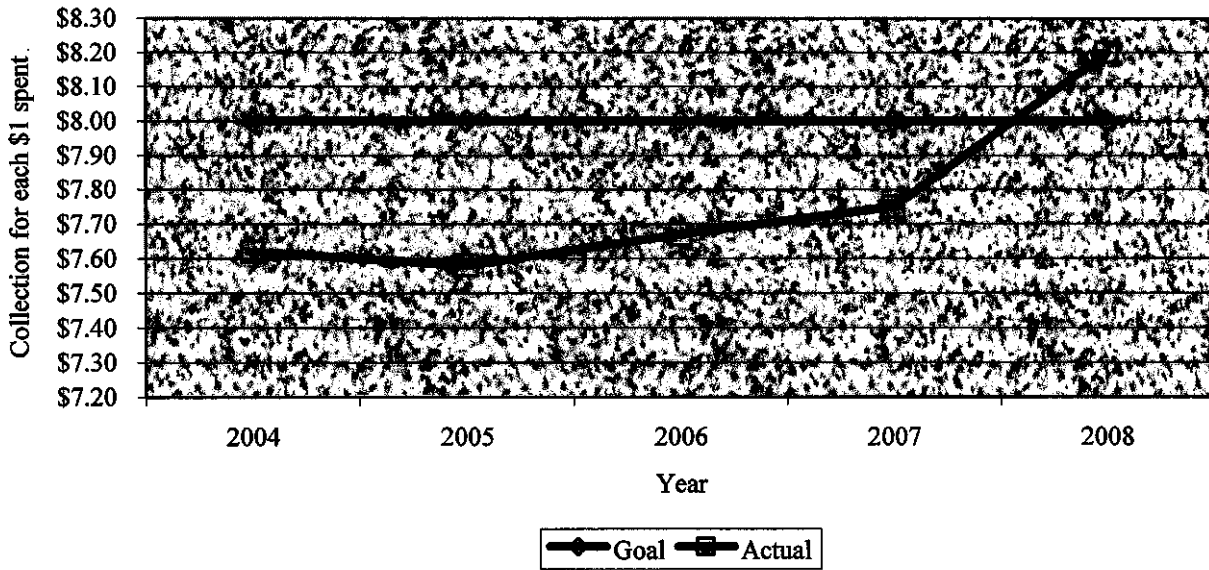


Exhibit 8B
 Collections - Queen Anne's County

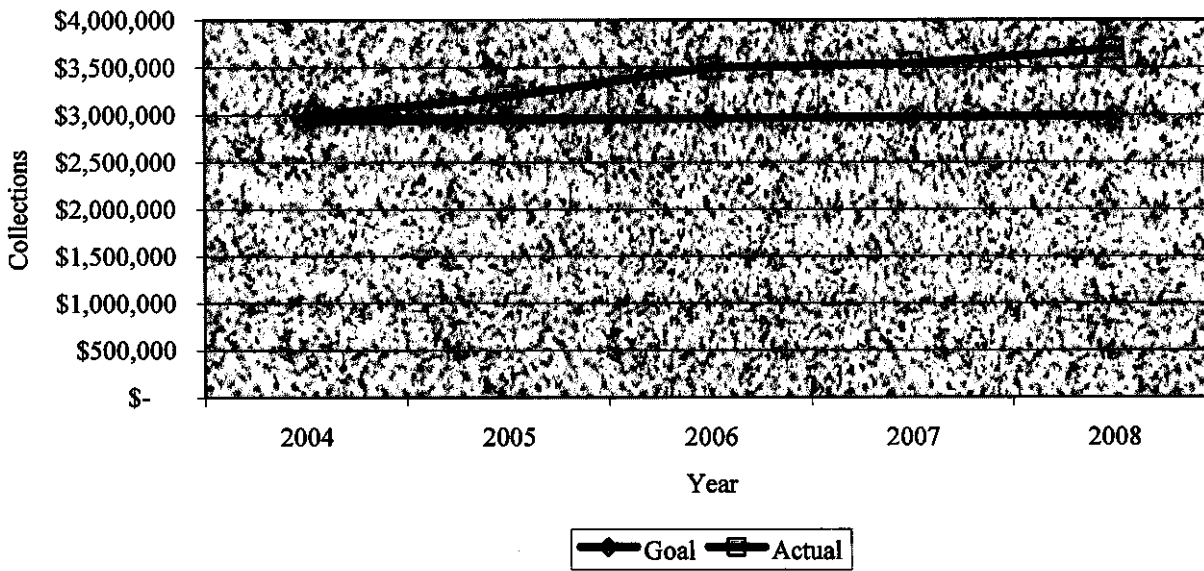


Exhibit 9
Paternity Establishment Percentages - Queen Anne's County

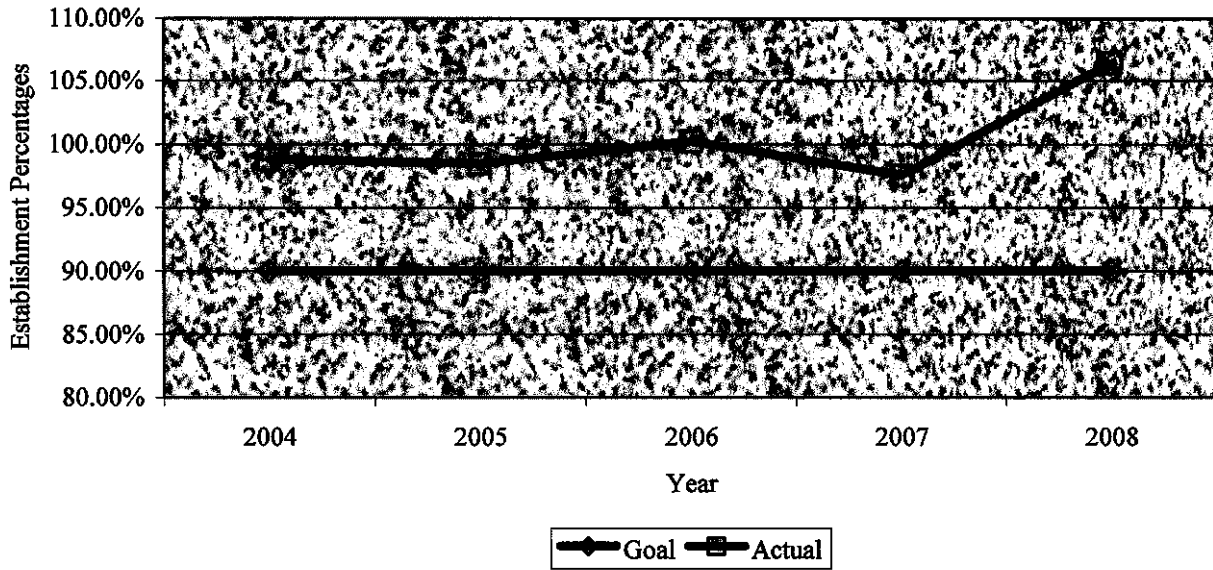


Exhibit 10
Support Order Establishment Percentages - Queen Anne's County

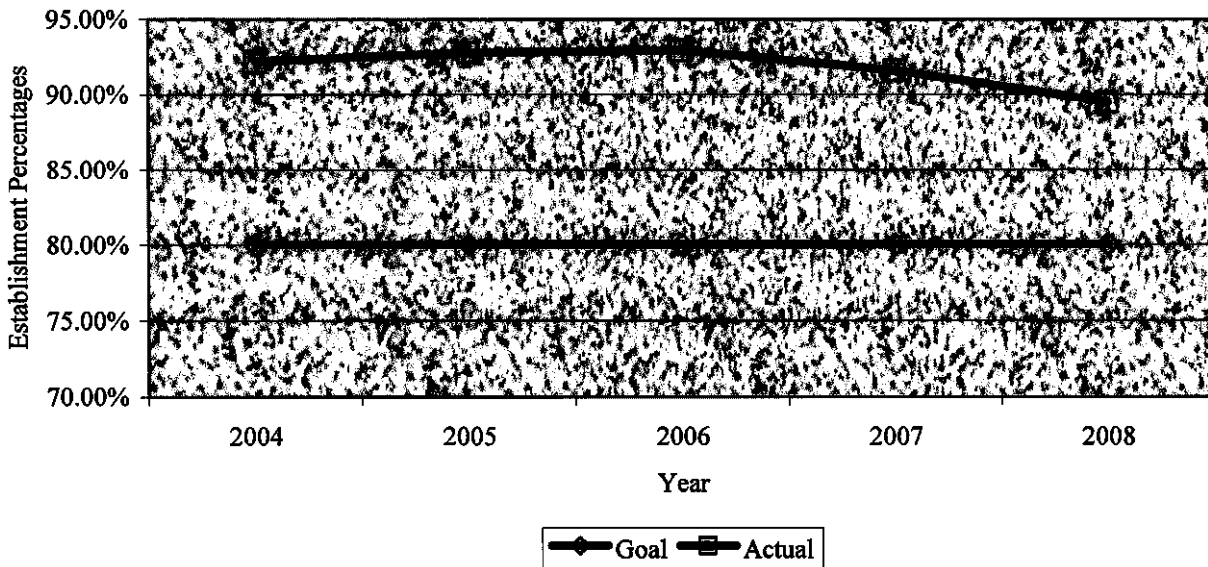


Exhibit 11
Current Collection Percentages - Queen Anne's County

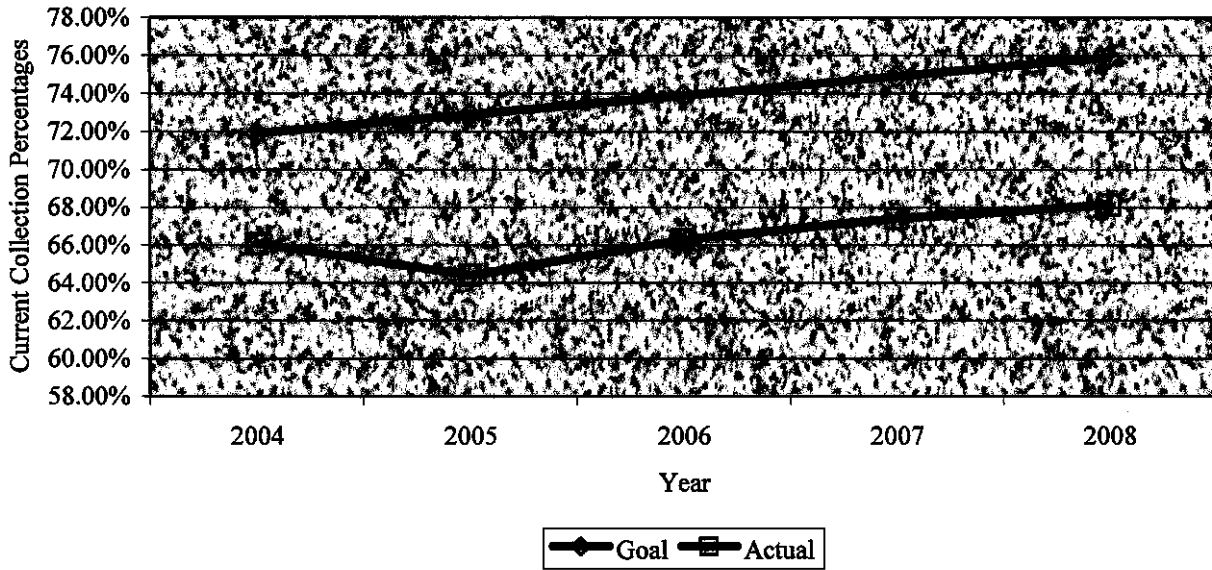
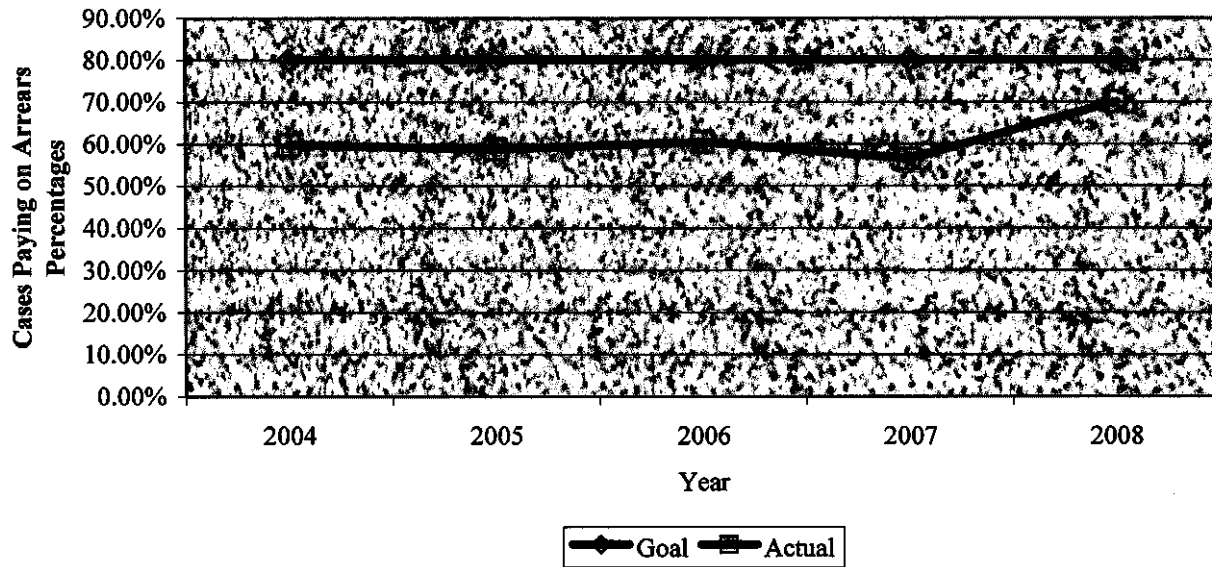
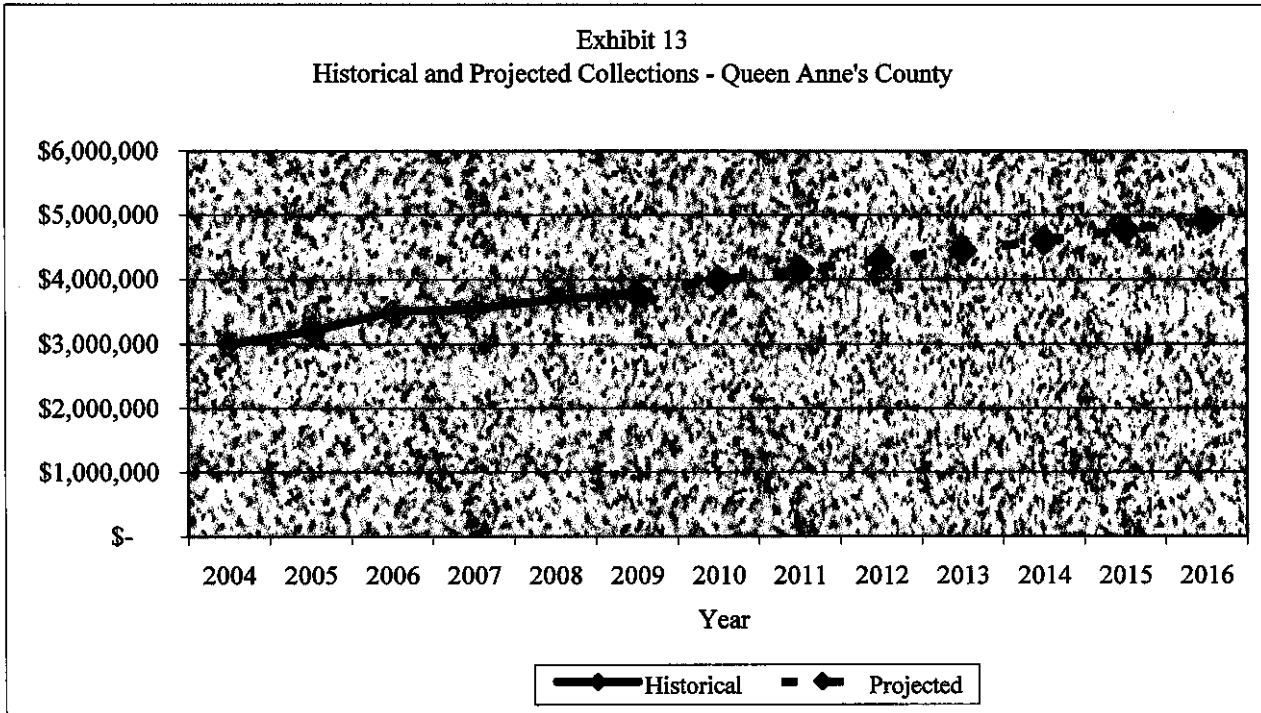


Exhibit 12
Cases Paying Arrears on Percentages - Queen Anne's County



Historical and Projected Collections – Queen Anne’s County

Total collections have increased from \$2,991,912 in 2004 to \$3,692,046 in 2008 (the last historical year) and it is estimated to be \$3,766,029 for the year ending September 30, 2009 and gradually increasing to \$4,911,255 in 2016. See Table 03.02 for details regarding projected collections.



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

Privatization is projected to be more costly than the State operated alternative. The assumptions and detailed projections are included in Attachment A and Table 1, respectively, to this report. 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. The lower the cost of collections expressed as a percentage of collections the greater the differences between State operated and privatized options.

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.

Exhibit 14A
Projected Cost of Privatization vs. State Operated - Queen Anne's County

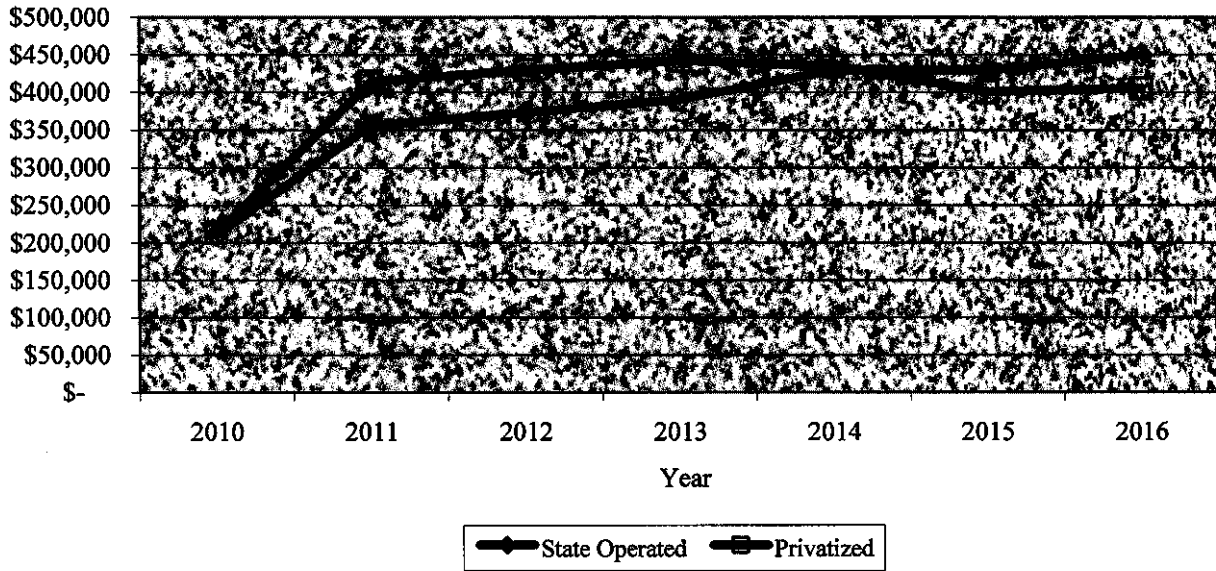
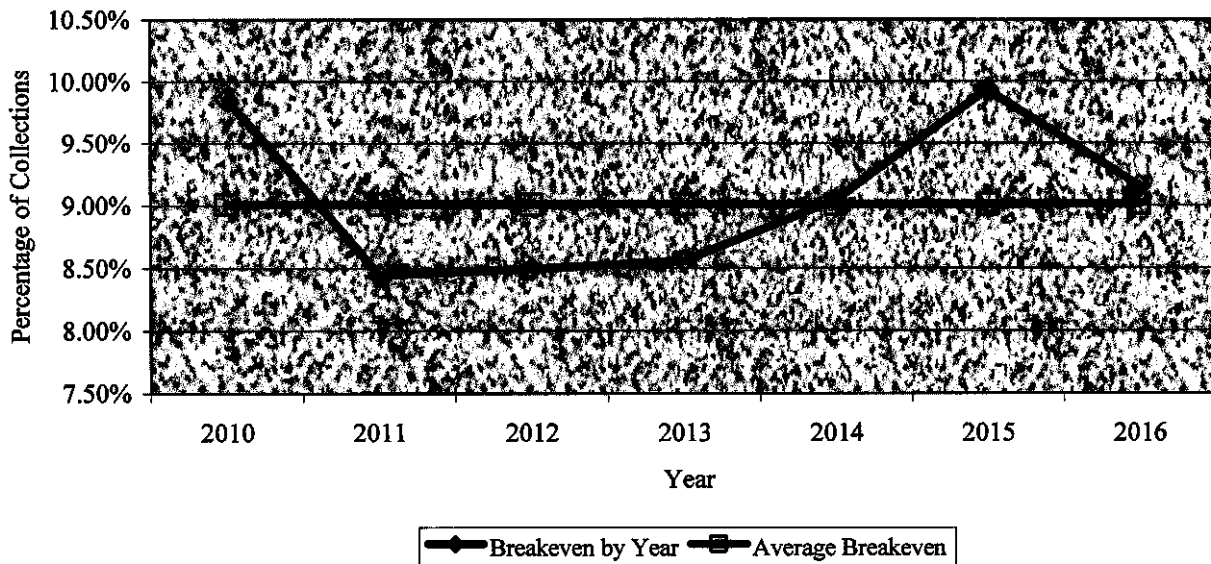


Exhibit 14B
Breakeven as a % of Collections
Queen Anne's County

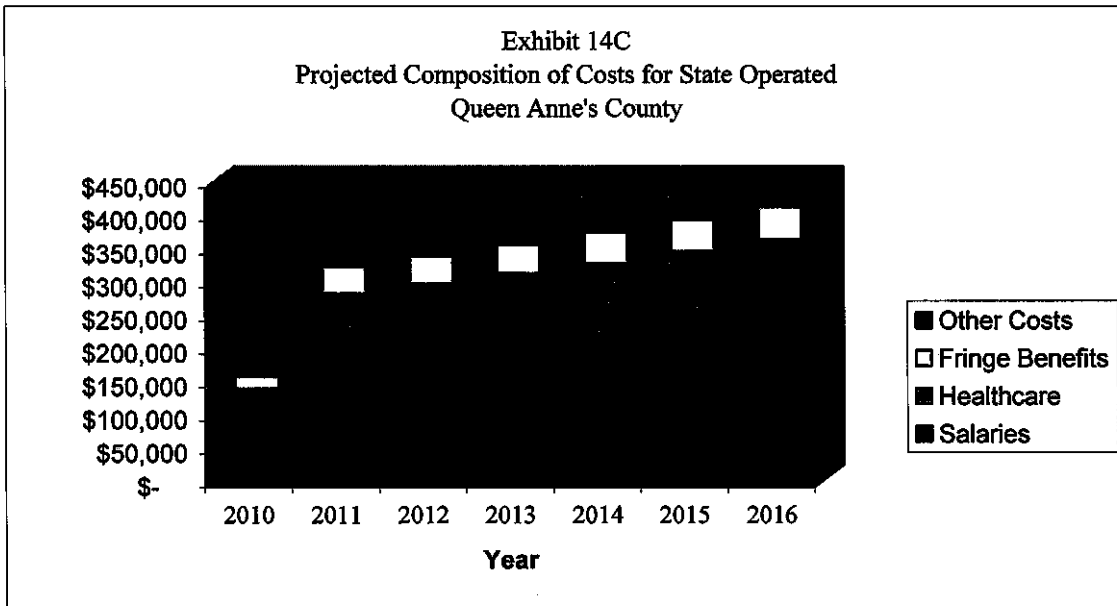


*2010 is a partial year.

Projected Costs of State Operated Option – Queen Anne’s County

The primary costs of a State operated option pertain to salaries, healthcare and related fringe benefits. Other costs are higher in 2010 than in subsequent years because of non-recurring start-up costs.

Year	Salaries	Fringe Benefits	Healthcare	Other Costs	Total
*2010	\$ 97,699	\$ 19,584	\$ 40,350	\$ 53,304	\$ 210,937
2011	194,062	40,779	86,349	34,957	356,147
2012	202,536	42,461	92,393	35,695	373,085
2013	211,379	44,217	98,861	36,437	390,894
2014	220,606	46,050	105,781	56,485	428,922
2015	230,234	47,964	113,186	42,437	428,936
2016	240,280	49,962	121,109	38,111	449,462



*2010 is a partial year.

Benefits of Privatization and State Operated Alternative – Queen Anne’s County

Benefits of Privatization

- Collection costs as a percentage of collections have continued to decrease.
- Collections have continued to increase.
- Current contractor has consistently met all CSEA established goals except for current collections and payments on arrears.
- More flexible in hiring
- More flexible in workforce reductions
- Private employees work year (approximately 1,832 hours) is longer than a comparable State employee (approximately 1,744 hours)

Benefits of State Operated

- State employees have more years of experience with child support enforcement systems.
- State employees are focused on resolving long-term issues.
- State employees are not focused on short-term profit goals.
- State employees are focused on helping children.

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.

Attachment A

Assumptions

Projection period: 7 years with 2010 being a partial year 1 and 2016 being the last year.

Table 1 Systems Life Cost Profile – Baltimore City

- 1. Salaries and wages – new:** 157 new employees will be needed if operations are transferred to the State. This number is approximately the same as the number of private contractor employees currently used. Refer to Tables 10.01 – 10.07 and 11.01 – 11.32 for projected salaries and wages projected by employee classification. Salaries and wages are based upon the State of Maryland Standard Salary Schedule per Table 06.01. New employees are assumed to begin at the base rate. Future salaries and wages assume an inflationary increase consistent with Fiscal Estimate Instructions and Guidelines for Estimating Costs issued by the Department of Legislative Services per Table 9. This increase includes a combination of promotions, increments and reclassifications. Salaries and wages include fringe benefits of 18.74% plus health care and annual 401 (a) contributions consistent with Fiscal Estimate Instructions and Guidelines for Estimating Costs issued by the Department of Legislative Services per Table 9. Refer to Table 11.01 – 11.32 for details regarding fringe benefits, health care, and annual 401 (a) contributions.
- 2. Salaries and wages – existing:** 32 existing State employees will continue to be needed if State operated. 32 employees are approximately the same as currently used. Refer to Table 10.01 – 10.07 for projected salaries and wages projected by employee classification. Salaries and wages are based upon the State of Maryland Standard Salary Schedule per Table 06.01. Future salaries and wages assume an inflationary increase consistent with Fiscal Estimate Instructions and Guidelines for Estimating Costs issued by the Department of Legislative Services per Table 9. This increase includes a combination of promotions, increments and reclassifications. Salaries and wages include fringe benefits of 18.74% plus healthcare and annual 401 (a) contributions also consistent with Fiscal Estimate Instructions and Guidelines for Estimating Costs issued by the Department of Legislative Services per Table 9.
- 3. Communications:** \$300 per telephone for each new and existing employee plus installation costs of \$270 per telephone. These assumptions are consistent with Fiscal Estimate Instructions and Guidelines for Estimating Costs issued by the Department of Legislative Services per Table 9.

Attachment A

Assumptions

Table 1 - Systems Life Cost Profile – Baltimore City - continued

4. **Contractual Services:** 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. Refer to Table 02.01 – 02.05 for details. The State operated amounts for 2010 are based upon estimates prepared by the Department of Human Resources Department of Budget and Finance. Refer to Table 08.01 for details. The amounts for years 2011 – 2016 assume an inflationary increase consistent with Fiscal Estimate Instructions and Guidelines for Estimating Costs issued by the Department of Legislative Services per Table 9.

5. **Equipment – Additional:** Each new and existing State employee will need a desktop PC and software costing \$1,200 each. The new office will also need 178 single line telephones and 11 multi-line telephone plus 100 file cabinets, 19 adding machines, 5 shredders, 5 copier-fax –printers, and 30 high speed printers. This additional equipment will need to be replaced during the 4th year of service.

6. **Equipment – Document Management:** The State will need imaging hardware and software, storage area network, and related equipment. The costs of the hardware, software, development and installation were projected using estimates provided by the current private contractor reduced by \$475,000. Refer to Table 13.05.

7. **Fixed Charges:** The State will need office space. Office space was projected by multiplying 189 employees by 100 square feet times \$21 per square foot. These costs were increased for inflation in subsequent years consistent with Fiscal Estimate Instructions and Guidelines for Estimating Costs issued by the Department of Legislative Services per Table 9.

Attachment A

Assumptions

Table 1 Systems Life Cost Profile – Queen Anne’s County

1. **Salaries and Wages – New:** 6 new employees will be needed if operations are transferred to the State. This number is approximately the same as the number of private contractor employees currently used. Refer to Table 11.33 – 11.40 for projected salaries and wages projected by employee classification. Salaries and wages are based upon the State of Maryland Standard Salary Schedule per Table 06.01. New employees are assumed to begin at the base rate. Future salaries and wages assume an inflationary increase consistent with Fiscal Estimate Instructions and Guidelines for Estimating Costs issued by the Department of Legislative Services per Table 9. This increase includes a combination of promotions, increments and reclassifications. Salaries and wages include fringe benefits of 18.74% plus health care and annual 401 (a) contributions consistent with Fiscal Estimate Instructions and Guidelines for Estimating Costs issued by the Department of Legislative Services per Table 9. Refer to Table 11.33 – 11.40 for details regarding fringe benefits, health care, and annual 401 (a) contributions.

2. **Communications:** \$300 per telephone for each new and existing employee plus installation costs of \$270 per telephone. These assumptions are consistent with Fiscal Estimate Instructions and Guidelines for Estimating Costs issued by the Department of Legislative Services per Table 9.

3. **Equipment – Additional:** Each new and existing State employee will need a desktop PC and software costing \$1,200 each. The new office will also need 5 single line telephones and 1 multi-line telephone plus 4 file cabinets, 3 adding machines, 1 shredder, 1 copier-fax –printer, and 1 high speed printer. This additional equipment will need to be replaced during the 4th year of service.

4. **Fixed Charges:** The State will need office space. Office space was projected by multiplying 6 employees by 100 square feet times \$14 per square foot. These costs were increased for inflation in subsequent years consistent with Fiscal Estimate Instructions and Guidelines for Estimating Costs issued by the Department of Legislative Services per Table 9.

Attachment A

Assumptions

Table 2 – Forecasting Collections – Payments

1. **Baltimore City – Collections:** Collections were projected using a monthly trend analysis. Collections were projected to increase an average of approximately 1.017% annually from 2009 through 2016 compared to an average increase of approximately 1.020% annually from 2004 through 2009.

2. **Baltimore City – Collection Cost:** Projected collections multiplied by a compensation rate declining from 15.25% in 2010 to 8.95% in 2016 which is consistent with the historical trend. In 2009 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.

3. **Queen Anne’s County – Collections:** Collections were projected using a monthly trend analysis. Collections were projected to increase an average of approximately 1.039% annually from 2009 through 2016 compared to an average increase of approximately 1.048% annually from 2004 through 2009.

4. **Queen Anne’s County – Collection Cost:** Projected collections multiplied by a compensation rate declining from 10.00% in 2010 to 8.25% in 2016 which is consistent with the historical trend. The compensation rate has declined from 10.00% in 2004 to 8.25% in 2009. In 2009 the current contractor is paid 8.25% of collections. 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.

Attachment A

Assumptions

Table 10 – Yearly Compensation Forecast Summary – Baltimore City

1. **Compensation Total:** 157 new employees will be needed if operations are transferred to the State and 32 existing State employees will continue to be needed if State operated. This number is approximately the same as the number of private contractor employees and State furnished employees currently used. Salaries and wages are based upon the State of Maryland Standard Salary Schedule per Table 06.01. New employees are assumed to begin at the base rate. Future salaries and wages assume an inflationary increase consistent with Fiscal Estimate Instructions and Guidelines for Estimating Costs issued by the Department of Legislative Services per Table 9. This increase includes a combination of promotions, increments and reclassifications. Salaries and wages include fringe benefits of 18.74% plus health care and annual 401 (a) contributions consistent with Fiscal Estimate Instructions and Guidelines for Estimating Costs issued by the Department of Legislative Services per Table 9. Refer to Tables 10 and 11 for a detailed salary and wage projection by employee.

Table 11.02 – Yearly Compensation Forecast Detail – Queen Anne’s County

1. **Compensation Total:** 6 new employees will be needed if operations are transferred to the State. This number is approximately the same as the number of private contractor employees currently used. Salaries and wages are based upon the State of Maryland Standard Salary Schedule per Table 06.01. New employees are assumed to begin at the base rate. Future salaries and wages assume an inflationary increase consistent with Fiscal Estimate Instructions and Guidelines for Estimating Costs issued by the Department of Legislative Services per Table 9. This increase includes a combination of promotions, increments and reclassifications. Salaries and wages include fringe benefits of 18.74% plus health care and annual 401 (a) contributions consistent with Fiscal Estimate Instructions and Guidelines for Estimating Costs issued by the Department of Legislative Services per Table 9. Refer to Table 11.33 – 11.40 for details regarding salaries, fringe benefits, health care, and annual 401 (a) contributions.