LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 79TH LEGISLATIVE REGULAR SESSION

March 29, 2005

TO: Honorable Allan Ritter, Chair, House Committee on Economic Development

FROM: John S. O'Brien, Deputy Director, Legislative Budget Board

IN RE: **HB817** by Davis, Yvonne (Relating to restrictions on the use of state funds to benefit private entities that outsource jobs to foreign countries.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB817, As Introduced: a positive impact of $98,000,000 through the biennium ending August 31, 2007.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2006	$0
2007	$98,000,000
2008	$93,188,777
2009	$93,188,777
2010	$77,892,970

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue Gain from *GENERAL REVENUE FUND* 1	Probable Revenue (Loss) from *AVAILABLE SCHOOL FUND* 2	Probable Revenue (Loss) from *AVAILABLE UNIVERSITY FUND* 11
2006	$0	$0	$0
2007	$98,000,000	$0	$0
2008	$98,000,000	($4,811,223)	($1,120,255)
2009	$98,000,000	($4,811,223)	($3,528,803)
2010	$98,000,000	($20,107,030)	($7,412,616)

Fiscal Analysis

This bill would restrict the use of state funds to benefit private entities that outsource jobs to foreign countries.

The bill would prohibit a state governmental entity, as defined and limited in the bill, from investing state funds in, or purchasing obligations of, a domestic private entity that, at any time during the previous two years, created employment suitable for performance in the United States in a country other than the United States and, as a result, eliminated or failed to create similar employment in the United States.

In addition, a domestic private entity would not be eligible for a credit, exemption, or discount in relation to a tax or fee imposed by the state if the entity, at any time during the previous two years, created employment suitable for performance in the United States in a country other than the United States and, as a result, eliminated or failed to create similar employment in the United States. A person who had their credit, exemption, or discount denied would be allowed to ask the denying agency to reconsider the denial.

The bill would apply only to an investment made by a state governmental entity on or after September 1, 2006 and to a tax or fee credit, exemption, or discount provided or denied on or after September 1, 2006.

Methodology

This analysis is based on an impact of one percent of investment returns and use of tax credits and exemptions.

The fiscal year 2004 ending balances for four major state investment funds (Teacher Retirement System Pension Fund, Permanent School Fund, Employee Retirement System Pension Fund and Permanent University Fund) is approximately $131.4 billion. A one percent reduction in the annual rate of return earned by these funds as a result of the investment restrictions in this bill would result in a reduction in fund balances of approximately $1.6 billion in fiscal year 2007 increasing to approximately $7.7 billion reduction in fund balances in fiscal year 2010. The estimated reduction in Permanent School Fund balance would reduce the transfers to the Available School Fund by an estimated $4.8 million in both fiscal years 2008 and 2009, and $20.1 million in fiscal year 2010. The estimated reduction in the Permanent University Fund balance would reduce the transfers to the Available University Fund by an estimated $1.1 million in fiscal year 2008, $3.5 million in fiscal year 2009, and $7.4 million in 2010. In addition, the agencies or institutions of higher education would incur additional administrative costs to monitor the investments as required by this bill. These expenses would further reduce fund balances.

Approximately $9.8 billion in state tax exemptions and credits which may be reduced by the bill were identified. For each one percent reduction in these state tax exemptions and credits, general revenue to the state would be increased by approximately $98 million annually beginning in fiscal year 2007.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts, 323 Teacher Retirement System, 327 Employees Retirement System, 701 Central Education Agency, 720 The University of Texas System Administration

LBB Staff: JOB, JRO, WP, DLBe