

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 80TH LEGISLATIVE REGULAR SESSION

April 25, 2007

TO: Honorable Steve Ogden, Chair, Senate Committee on Finance

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

IN RE: SB1615 by Averitt (Relating to the collection of delinquent obligations owed to the state.), **Committee Report 1st House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for SB1615, Committee Report 1st House, Substituted: a positive impact of \$1,000,000 through the biennium ending August 31, 2009.

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
2008	\$500,000
2009	\$500,000
2010	\$500,000
2011	\$500,000
2012	\$500,000

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue Gain from <i>GENERAL REVENUE FUND 1</i>	Probable (Cost) from <i>GENERAL REVENUE FUND 1</i>	Probable Revenue Gain from <i>GR DEDICATED ACCOUNTS 994</i>	Probable (Cost) from <i>GR DEDICATED ACCOUNTS 994</i>
2008	\$1,060,000	(\$560,000)	\$800,000	(\$800,000)
2009	\$1,110,000	(\$610,000)	\$880,000	(\$880,000)
2010	\$1,160,000	(\$660,000)	\$950,000	(\$950,000)
2011	\$1,220,000	(\$720,000)	\$1,000,000	(\$1,000,000)
2012	\$1,280,000	(\$780,000)	\$1,100,000	(\$1,100,000)

Fiscal Year	Probable Revenue Gain from <i>OTHER FUNDS 997</i>	Probable (Cost) from <i>OTHER FUNDS 997</i>
2008	\$220,000	(\$220,000)
2009	\$240,000	(\$240,000)
2010	\$260,000	(\$260,000)
2011	\$280,000	(\$280,000)
2012	\$300,000	(\$300,000)

Fiscal Analysis

This bill would implement recommendations from the *LBB Government Effectiveness and Efficiency Report* entitled "Establish a Centralized Third-party Debt Collection Contract."

The bill would amend Section 2107.003, Government Code, to modify the collection of state agency debts. The bill would amend Subsection (a) to require state agencies other than the Comptroller of Public Accounts (CPA) to report uncollected and delinquent obligations to the Office of Attorney General (OAG) for collection on or before the 90th day after the obligation became past due. The bill would amend Subsection (b) to allow the OAG to provide legal services for collection of the obligation and permit state agencies to contract with a third-party to collect the debt if economical and in the best interest of the state to do so. The bill would amend Subsection (c) and add Subsection (c-1) to clarify the authority of the CPA to pursue debts. The bill would add Subsections (d) and (e) to limit compensation for a third-party collection agent to 30 percent of the sum of the collected amount of the obligation, any penalty, and any interest and to prohibit a debt collector from filing suit to collect the debt. The bill would add Subsections (f) to allow a state agency the authority to determine which obligations to pursue. The bill would add Subsections (g) and (h) to allow a state agency to share confidential information under certain circumstances and to prohibit a contractor from disclosing this information. The bill would add Subsections (i) and (j) to establish required insurance of a contractor and to establish that contractor is subject to Chapter 392, Finance Code.

The bill would amend Section 2107.004, Government Code, to specify the CPA's authority to pursue delinquent obligations, and require the CPA to report such obligations to the OAG when the CPA has determined that its collection efforts have failed.

The bill would amend Section 2254.102(c), Government Code, which addresses contingent fee contracts for legal services, to exempt contracts established under Section 2107.003, Government Code.

The bill would take effect September 1, 2007 and would only affect contracts enacted after the effective date.

Methodology

The collection of debts currently classified as uncollectable could lead to a revenue gain of \$4.3 million in All Funds in the 2008-09 biennium. Although \$1.8 billion in uncollectible debt was reported in fiscal year 2004 (the most recent year with available data), approximately 98 percent is either currently being pursued or is governed by federal legislation, which precludes state effort to collect the debt. After subtracting those amounts, the remaining uncollectible debt reported for fiscal year 2004 is \$31.6 million. The average growth rate for uncollectible debt for fiscal years 2000 through 2004 was 8.8 percent. Assuming a 4 percent collection rate (which is the rate that the CPA collects on similar debt) and an 8.8 percent annual growth in uncollectible debts, the bill could lead to a revenue gain in the 2008-09 biennium of \$2.2 million in General Revenue Funds, \$1.7 million in General Revenue-Dedicated Funds, and \$460,000 in Other Funds.

It is assumed that funds collected by a vendor would be remitted to the state agency that incurred the debt in the form of an appropriated receipt. Section 8.03 of Article IX in the current version of the General Appropriations Bill would appropriate these revenues to the state agency for use during the fiscal year in which they are received. It is expected that most revenues gained by this bill would be expended in the same year. However, the CPA estimates an annual revenue gain in General Revenue Funds of \$500,000 for CPA debt that would not be expended as appropriated receipts, leading to the positive impact of \$1.0 million in the 2008-09 biennium.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: JOB, CT, HC, JI, JM