

**LEGISLATIVE BUDGET BOARD**

**Austin, Texas**

**FISCAL NOTE, 82ND LEGISLATIVE REGULAR SESSION**

**April 13, 2011**

**TO:** Honorable John Davis, Chair, House Committee on Economic & Small Business Development

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

**IN RE: HB785** by Davis, Yvonne (Relating to restrictions on the use of state funds to benefit private entities that outsource jobs to foreign countries.), **As Introduced**

**The fiscal implications of the bill cannot be determined because the private entities that would create employment suitable for performance in the U.S. in a country other than the U.S. and, as a result, eliminate or fail to create similar employment in the U.S. is not known.**

The bill would amend the Government Code relating to restrictions on the use of state funds to benefit private entities that outsource jobs to foreign countries. This bill would restrict state investments in and the provision of tax benefits to 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 U.S. in a country other than the U.S. and, as a result, eliminated or failed to create similar employment in the U.S.

Under provisions of the bill, 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 U.S. in a country other than the U.S. and, as a result, eliminated or failed to create similar employment in the U.S. A person who had their credit, exemption, or discount denied would be allowed to ask the denying agency to reconsider the denial.

In order to be eligible for a credit, exemption, or discount in relation to a tax or fee imposed by the state, a domestic private entity would be required to have submitted during the six-month period before applying for the credit, exemption, or discount, a report to the Texas Workforce Commission on the number of jobs the entity had created in Texas and the number of jobs suitable for performance in the U.S. that the entity created in a country other than the U.S. during the 12-month period before the date of the report.

The bill would apply only to an investment made by a state governmental entity on or after September 1, 2012, and to a tax or fee credit, exemption, or discount provided or denied on or after September 1, 2012.

This bill would take effect September 1, 2011.

Based on the analysis of the Comptroller, it is assumed that additional administrative costs would be incurred with respect to the determination of eligibility for credits, exemptions, or discounts, to help design, test and implement the changes that will be needed for procedures. The agency anticipates costs associated with system programming, and printing/postage costs for taxpayer notification via mail. For fiscal year 2012 the agency anticipates a one-time technology cost of \$3,596,000. For fiscal years 2013-2016 the agency estimates ongoing maintenance costs of \$6,000 each year.

Based on the analysis of TWC, the agency assumes staffing costs will be required to administer the

program in order to manage the ongoing receipt and reconciliation of information from domestic private entities compared to all businesses in Texas. TWC estimates that 1 Program Specialist III would be required to implement, administer, and manage the provisions of the bill. Total impact to TWC for FY 2012 = \$125,580. This includes: \$58,000 (Salaries/Wages) + \$39,821 (Other Operating Expenses) + \$11,600 (Administrative and Indirect Costs) + \$16,159 (Benefits). For FY 2013 TWC estimates \$87,489. This includes \$58,000 (Salaries/Wages) + \$1,730 (Other Operating Expenses) + \$11,600 (Administrative and Indirect Costs) + \$16,159 (Benefits).

TWC estimates one-time nonrecurring costs in FY 2012 of \$31,360 to create a database. Cost of database (\$25,360) is based on a 440-hour project at \$57.64 per hour. ( $440 \times 57.64 = \$25,360$ ). In addition, TWC assumes there will be a \$6,000 cost to revise existing notices to notify entities of the bill's requirements and is based on two revisions of 50 hours at \$60 per hour ( $2 \times 50 \times \$60$ ). Based on the analysis of TWC, it is assumed that TWC would point domestic private entities to a webpage providing the bill's requirements.

According to information provided by the Teacher Retirement System, the bill would decrease potential pension investment earnings by 2.0 percent per year. Based on the analysis of the Employees Retirement System, the agency anticipates it will have start-up costs of \$267,957 in fiscal year 2012 and \$134,331 in fiscal year 2013 associated with the implementation of this bill that can be borne by the investment trust fund.

The analysis by The University of Texas System Administration (UTIMCO) assumes there will be two general costs areas associated with implementing the provisions of this bill. UTIMCO estimates the increased administrative costs to be approximately \$252,000 per year. This analysis assumes that duties and responsibilities associated with implementing the provisions of the bill could be accomplished by utilizing existing resources. In addition, UTIMCO cannot estimate the impact of the opportunity costs on direct investments at this time but according to its analysis, if UTIMCO can no longer invest in indirect holdings because it cannot enforce the restriction on investments, UTIMCO would be required to change its investment strategy to exclude indirect holdings. The estimated opportunity cost of eliminating its indirect holdings is \$3.7 billion.

### **Local Government Impact**

The fiscal implications of the bill on local government entities cannot be determined at this time.

**Source Agencies:** 304 Comptroller of Public Accounts, 320 Texas Workforce Commission, 323 Teacher Retirement System, 327 Employees Retirement System, 701 Central Education Agency, 720 The University of Texas System Administration

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