

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 82ND LEGISLATIVE REGULAR SESSION

March 13, 2011

TO: Honorable Byron Cook, Chair, House Committee on State Affairs

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

IN RE: HB1232 by Dukes (Relating to outsourcing a service performed by a state agency to a private commercial contractor.), **As Introduced**

No significant fiscal implication to the State is anticipated.

The bill would alter the factors the State Council on Competitive Government (CCG) must consider in comparing the costs of providing a state service through either a state agency or a private contractor. The bill would require the CCG to conduct a cost-benefit analysis of outsourcing considerations, including: (1) a private contractor's performance of the service and the cost of contractor supervision; (2) a state agency's performance of the service; (3) improving state agency performance by implementing a most efficient organization model or recommendations of state oversight entities; and (4) an estimate of the cost of returning the service from a selected contractor to the state agency. The bill would require the development of both short-term and long-term cost-benefit analyses. The bill's provisions would be applicable to a contract, contract amendment, or contract extension made on, or after, the bill's effective date that will result in the loss of 100 or more state employee positions or has a value of at least \$10 million.

The bill would also subject all related contracts, contractors, and subcontractors to audit by the state auditor and require that they reimburse the state auditor, as appropriate, for the cost of the audit.

Agencies noted that the bill's provisions for actions required upon the return of an outsourced service to a state agency following a contract termination could create costs to the state, which cannot be determined at this time. The bill would require a six-month waiting period for a service to be competitively re-bid after a contract termination, requiring an agency to expend funds to maintain services previously performed by a terminated contractor. Depending on the level of program infrastructure a state agency would be required to develop in such a situation, the cost to the state could be significant.

In accordance with Government Code 321.013, all additional duties and responsibilities prescribed by the bill would be evaluated for inclusion in the SAO's annual audit plan for Legislative Audit Committee approval.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 302 Office of the Attorney General, 304 Comptroller of Public Accounts, 308 State Auditor's Office, 313 Department of Information Resources, 529 Health and Human Services Commission, 551 Department of Agriculture, 582 Commission on Environmental Quality, 601 Department of Transportation, 696 Department of Criminal Justice, 701 Central Education Agency

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