LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 85TH LEGISLATIVE REGULAR SESSION

May 3, 2017

TO: Honorable John Zerwas, Chair, House Committee on Appropriations

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **HB3762** by Phelan (Relating to the recovery of certain debts owed to this state; authorizing fees.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB3762, As Introduced: a negative impact of ($1,962,000) through the biennium ending August 31, 2019.

The fiscal implications of the bill on the collection of revenue associated with outstanding debt cannot be determined, because it is unknown whether collections by the State Obligation Recovery Center (SORC) would result in an increase or decrease in the rate of collection.

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
2018	($1,272,000)
2019	($690,000)
2020	($690,000)
2021	($690,000)
2022	($690,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from *General Revenue Fund* 1	Change in Number of State Employees from FY 2017
2018	($1,272,000)	9.3
2019	($690,000)	8.0
2020	($690,000)	8.0
2021	($690,000)	8.0
2022	($690,000)	8.0

Fiscal Analysis

The bill would amend the Government Code to provide the authority for the State Auditor to promulgate rules for the operation of the State Obligation Recovery Center (SORC); to require the State Auditor to select the third-party vendor to operate the SORC and implement the provisions of the bill by December 31, 2017.

The State Obligation Recovery Center (SORC) would be established as a benefits funded contractor selected by the State Auditor as a third-party to recover debts (excluding tax obligations) owed to the state and other governmental entities. SORC would not be a state agency, but executive branch state agencies would be required to use SORC to collect any debt. SORC would be authorized to collect outstanding debts for any delinquent accounts, charges, fees, loans, or other indebtedness due, or any obligations. To fund its operations SORC would collect a cost recovery charge of 20 percent of the principal amount of the obligation; this charge would be levied on the debtor.

The bill would also require the State Auditor to provide a written report to the legislature no later than October 1st of each year concerning the collection of referred debts made under the provisions of the bill during the preceding fiscal year.

The bill would take effect immediately upon receiving a two-thirds majority vote in both houses; otherwise, the bill would take effect September 1, 2017.

Methodology

In accordance with Section 321.013, Government Code, all additional duties and responsibilities prescribed by the bill would be proposed in the State Auditor's Office (SAO) annual audit plan submitted to the Legislative Audit Committee.

The SAO reports that implementation of the bill would result in the SAO fulfilling a management responsibility which would impair the SAO's independence under Government Auditing Standards 3.33 - 3.36. This would limit the SAO's ability to perform audit work under Government Auditing Standards for audit engagements relating to the operation of the State Obligation Recovery Center (SORC), established by the bill, or debt at any entity that refers, or would be eligible to refer, debt to the SORC. Contracting for outside auditing services for this would be a significant indeterminate cost to the state.

The SAO reports it would need to establish a distinct division within the SAO that would utilize a separate reporting structure and staff in order to implement the provisions of the bill while maintaining the SAO's main audit function to help preserve the SAO's independence. This analysis assumes SAO would be required to provide contract monitoring and oversight and that additional staff would be necessary for this purpose. The costs are based the SAO's fiscal year 2016 billing rate of $90 per hour and its estimated total number of work hours totaling 5,200 in fiscal year 2018 and 3,200 in each subsequent fiscal year. The cost per hour rate includes salaries and wages, other operating costs, benefit costs, and agency payroll contribution costs. The number of Full-Time-Equivalents (FTEs) are based on each FTE performing 1,600 direct hours per year.

This analysis assumes that SORC would not collect tax-related debt. The Comptroller indicated they would require $804,000 in fiscal year 2018 and $402,000 in each fiscal year thereafter in General Revenue and 6.0 full-time equivalents annually to administer functions related to the provisions of the bill. This analysis assumes three program specialist IIIs would be required to respond to inquiries from state agencies and debtors regarding the reporting of collections, debt balances, and issues relating to the offset of state payments to a debtor when the debtor has an obligation that is referred to the SORC for collection. The Comptroller would also require three accounts examiner IIIs to correct possible file maintenance of fees referred for collection, respond to inquiries, and coordination of collections with SORC. The Comptroller would also incur one-time technology costs in fiscal year 2018, described below.

The fiscal implications of the bill on the collection of revenue associated with outstanding debt cannot be determined, because it is unknown whether collections by the State Obligation Recovery Center (SORC) would result in an increase or decrease in the rate of collection. Costs could also vary depending on the disposition of various authorities delegated to SORC under the provisions of the bill.

Technology

The Comptroller indicates that approximately 2,680 hours of programming and security changes to the statewide accounting system would be required for a cost of $402,000 in General Revenue in fiscal year 2018. Warrants are issued payable to a state payee who is owed state funds; it is assumed the agency would deposit into the treasury those warrants intended for SORC distribution and offset. The Comptroller would then need to generate a single payment to SORC combining the daily SORC warrants, generate a detailed report of debtors to whom the warrants were issued, and distribute both the payment and report to SORC on a daily basis.

Local Government Impact

According to the Texas Municipal League, there could be a positive, indeterminate fiscal impact to municipalities because outstanding debt would be collected.

No significant fiscal implications to the local court system is anticipated due to the system having its own collection system in place through the collection improvement program and the authority to refer outstanding debts to a third-party collection entity already.

Source Agencies: 212 Office of Court Administration, Texas Judicial Council, 302 Office of the Attorney General, 304 Comptroller of Public Accounts, 308 State Auditor's Office, 405 Department of Public Safety, 452 Department of Licensing and Regulation, 454 Department of Insurance, 507 Texas Board of Nursing, 529 Health and Human Services Commission, 608 Department of Motor Vehicles, 710 Texas A&M University System Administrative and General Offices, 720 The University of Texas System Administration, 802 Parks and Wildlife Department

LBB Staff: UP, KK, JJ, JLE, LCO, RC, MWI, FR, GO, JGA