LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 86TH LEGISLATIVE REGULAR SESSION

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TO: Honorable Dade Phelan, Chair, House Committee on State Affairs

FROM: John McGeady, Assistant Director Sarah Keyton, Assistant Director
Legislative Budget Board

IN RE: **HB632** by Phelan (Relating to a pilot program for the recovery of delinquent state obligations owed to certain state agencies.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB632, As Introduced: a cost of ($1,627,600) through the biennium ending August 31, 2021. According to the Comptroller of Public Accounts, the fiscal impact of the bill on revenue cannot be determined, as the bill could result in some gain to the Foundation School Fund and a loss to other funds and accounts to which nontax obligations are currently deposited. The Comptroller also indicates that the bill's provisions could result in a smaller share of net debt collections being received by the state as a result of payments to the contractor.

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
2020	($847,480)
2021	($780,120)
2022	($280,120)
2023	($280,120)
2024	($280,120)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from *General Revenue Fund* 1	Change in Number of State Employees from FY 2019
2020	($847,480)	3.0
2021	($780,120)	3.0
2022	($280,120)	3.0
2023	($280,120)	3.0
2024	($280,120)	3.0

Fiscal Analysis

The bill would amend the Government Code to require a pilot program for the recovery of delinquent state obligations owed to certain agencies. The bill would require the Office of Attorney General (OAG) to select a contractor or contractors to collect nontax delinquent obligations owed to state agencies. The contractor would conduct an assessment of all nontax delinquent obligations owed to state agencies and identify 75 agencies with the highest percentage of recoverable obligations for participation in the program. Selected agencies would refer debts to the contractor for collection after a final notice to the debtor.

The contractor would collect a cost recovery charge of 30 percent of the principal amount of the obligation, which would be levied on the debtor. If the contractor collected less than the total amount owed, the amount collected would be allocated proportionally between the total amount of the obligation and the recovery fee. If the contractor was unable to recover an obligation, the bill would authorize the contractor to forward the obligation to a collections agency, which could impose an additional collection charge.

The contractor would remit collections to the Comptroller of Public Accounts (CPA) for deposit into the Foundation School Fund.

The bill would take effect immediately if it receives a vote of two-thirds of all the members elected to each house. If the bill does not receive the vote necessary for immediate effect, the bill would take effect on the 91st day after the last day of the legislative session.

Note: This legislation would do one or more of the following: create or recreate a dedicated account in the General Revenue Fund, create or recreate a special or trust fund either in, with, or outside of the Treasury, or create a dedicated revenue source. Legislative policy, implemented as Government Code 403.095, consolidated special funds (except those affected by constitutional, federal, or other restrictions) into the General Revenue Fund as of August 31, 1993 and eliminated all applicable statutory revenue dedications as of August 31, 1995. Each subsequent Legislature has reviewed bills that affect funds consolidation. The fund, account, or revenue dedication included in this bill would be subject to funds consolidation review by the current Legislature.

Methodology

According to the CPA, the impact of the bill on revenue cannot be determined. The CPA indicates that the bill could result in some gain to the Foundation School Fund and a loss to other funds and accounts to which nontax obligations are currently deposited. For example, the OAG estimates that the bill could reduce General Revenue for each fiscal year by $10,620,665 to the Texas Higher Education Coordinating Board (THECB), $2,530,605 to the Railroad Commission, $11,703,480 to the Texas Commission on Environmental Quality, and $3,430,385 to other miscellaneous agencies. THECB indicates that the decrease in loan funds for its programs could negatively impact the student loan program's ability to pay its bond debt obligations annually. THECB assumes that the CPA would be required to use first available General Revenue to offset any shortfall in the student loan program debt obligations, as THECB is required by statute, bond resolutions and covenants to only use loan funds in support of the loan program.

The Texas Department of Transportation estimates that the bill would reallocate $30 million each fiscal year that is currently deposited to the State Highway Fund, and under the provisions of the bill would be deposited to the Foundation School Fund, less any applicable collection fees.

The CPA also indicates that the bill's provisions could result in a smaller share of net debt collections being received by the state as a result of payments to the contractor.

The OAG estimates that the bill would require an organized collections management and tracking system at a cost of $220,480 in General Revenue for fiscal year 2020 and $55,120 in General Revenue for subsequent fiscal years.

According to the CPA, the bill would require the agency to hire three additional FTEs to handle increased payment services workload in the warrant hold and offset program, at a cost of $627,000 in General Revenue in fiscal year 2020, and $225,000 in subsequent fiscal years.

Agencies participating in the pilot program could be required to update internal systems to implement the pilot program. For example, the Health and Human Services Commission (HHSC) indicates that updates to the Accounts Receivable Tracking System relating to implementing the pilot program would cost $500,000 in fiscal year 2021. The fiscal implications of similar updates for all participating state agencies could not be determined.

This analysis assumes that certain dedicated funding would be not eligible for participation in the pilot program. For example, many programs within the Department of Public Safety deposit collected fees to the Texas Mobility Fund, which cannot be reduced unless the Legislature replaces the funds with another source, as required by the Texas Constitution.

The analysis also assumes that unemployment compensation debt would not be referred through the pilot program, as such referrals may violate federal law. The Texas Workforce Commission indicates that if these debts were referred to the contractor, the state would not be conforming with federal law, leading to the loss of federal funds and increases in unemployment taxes to employers. According to TWC, this could reduce administrative grant funding for unemployment insurance by approximately $130.0 million in each fiscal year, and increase the Federal Unemployment Tax Act tax paid by Texas employers by $5.2 billion in each fiscal year.

Technology

Technology costs are estimated to be $622,480 in fiscal year 2020, $555,120 in fiscal year 2021, and $55,120 in subsequent fiscal years, relating to a collections management and tracking system for the OAG, database coding and programming changes for the CPA, and updates to the Accounts Receivable Tracking System for HHSC.

Local Government Impact

If a county, municipality, school district, river authority, water district, or federal government became delinquent, the bill would require the entity to pay additional cost recovery charges to the contractor, and collection charges if the contractor refers the debt to a collection agency, which would result in additional costs.

Source Agencies: 302 Office of the Attorney General, 304 Comptroller of Public Accounts, 320 Texas Workforce Commission, 405 Department of Public Safety, 455 Railroad Commission, 529 Health and Human Services Commission, 582 Commission on Environmental Quality, 601 Department of Transportation, 701 Texas Education Agency, 781 Higher Education Coordinating Board

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