

## **Department of Planning and Budget 2018 Fiscal Impact Statement**

**1. Bill Number:** HB1209

<b>House of Origin</b>	<input checked="" type="checkbox"/> Introduced	<input type="checkbox"/> Substitute	<input type="checkbox"/> Engrossed
<b>Second House</b>	<input type="checkbox"/> In Committee	<input type="checkbox"/> Substitute	<input type="checkbox"/> Enrolled

**2. Patron:** Heretick

**3. Committee:** Commerce and Labor

**4. Title:** Relocation of call centers to a foreign country; notification requirements.

**5. Summary:** Requires certain call centers that intend to relocate operations from the Commonwealth to a foreign country to give the Commissioner of Labor and Industry at least 120 days' prior notice. The measure requires the Commissioner to compile a semiannual list of all employers that relocate a call center from the Commonwealth to a foreign country and to distribute the list to state agencies. Subject to exceptions, an employer that appears on the list is (i) ineligible for five years for any direct or indirect grants of state funds, any loans from or guaranteed by the state, or any tax credit or reduction in tax liability and (ii) required to repay any financial incentives the employer has previously received. The measure requires new state agency contracts for the performance of state business-related call center and customer service work to provide that such work shall be performed entirely within the Commonwealth.

**6. Budget Amendment Necessary:** See item 8, below.

**7. Fiscal Impact Estimates:** Indeterminate. See Item 8.

**8. Fiscal Implications:** It is anticipated that this bill will result in indeterminate, but potentially significant additional costs to the Departments of Medical Assistance Services, Deaf and Hard of Hearing, and Social Services. Additionally, the Department of General Services anticipates that this bill will increase costs on all public bodies falling under the Virginia Public Procurement Act. The Department of Labor and Industry anticipates being able to absorb any additional costs it may incur in executing the provisions of this bill.

Department of Labor and Industry:

The Department of Labor and Industry (DOLI) anticipates being able to absorb the provisions of this bill with current resources if violations of the notification provisions are minimal. DOLI also anticipates that providing a list of the call centers that move overseas to other state agencies can be absorbed with current resources.

### Department of Medical Assistance Services

The Department of Medical Assistance Services (DMAS) contracts with several vendors to perform call center and customer service related services. These contracts can include operations in other states. These arrangements are typically associated with efforts to increase efficiencies to control costs or handle overflow calls when existing staff in Virginia cannot handle the call volume. Under the bill, these contracts would have to be modified to ensure that all such centers are located in Virginia, resulting in significant costs to the contractors that would then be passed on to DMAS.

A number of DMAS contracts would be impacted by this bill; these include: the choice counseling and enrollment broker services for the Commonwealth Coordinated Care Plus (CCC Plus) and MEDALLION 4.0 Programs; consumer directed services contract; and the Cover Virginia call center contract.

In addition, DMAS contracts with several health plans for the Commonwealth's Medicaid managed care programs: Medallion 4.0 and Commonwealth Coordinated Care Plus. These health plans operate multiple call center or customer service lines including care coordination call centers, general member services and nurse lines. Some of these lines provide twenty-four hours a day seven days a week access to health care experts, providing medical advice, and medical or mental health crisis intervention. Again, to the extent that these contractors have call centers and customer service related operations outside the state of Virginia it is likely that the provisions of this bill will generate additional costs to the contract.

DMAS maintains that the bill's requirement that all such contracts would need to be revised would result in increases based on the contractor's need to hire and train additional staff in locations within Virginia and temporary part-time employees to handle high-peak call volume instead of using out-of-state overflow call centers. DMAS is unable to estimate the full impact of the bill without further input and analysis from each contractor. However, given DMAS' current multimillion dollar contracts involving call centers and the lack of flexibility the contractors would have to leverage cost via efficiencies and location, the agency anticipates the additional cost would likely be significant.

### Department for the Deaf and Hard of Hearing

The Department for the Deaf and Hard of Hearing (DDHH) currently contracts with a national provider for the provision of telecommunication relay services. This provider does not have any operations in Virginia. The estimated cost of this contract is approximately \$2.6 million each year. Prior to awarding this contract, DDHH was required (by Appropriation Act language) to locate replay center operations in Virginia. During this time, the cost of the annual contract exceeded \$10 million as only one replay services provider was willing to locate its operations in Virginia. That company has since exited the business and the Appropriation Act requirement removed. Based on its previous experience and the current service market, DDHH indicates that it is extremely unlikely that any relay services contractor would be willing to locate in Virginia without significant costs being incurred.

### Department of Social Services

The requirement that new state agency contracts for the performance by a Contractor of state business-related call center and customer service work be performed entirely within the Commonwealth would likely limit competition and/or significantly increase the cost of contracts with a call center and customer service work component. The Department of Social Services (DSS) has out of state call center contracts with the Electronic Benefits Transfer (EBT) Financial Processing Services for the Supplemental Nutrition Assistance Program (SNAP) and the Electronic Child Care services. Currently, there are a limited number of suppliers that provide EBT services for SNAP and Child Care. The suppliers for these services have contracts with several states and use a centralized call center which enables DSS to realize a lower contract cost. If the Commonwealth required contractors to relocate to Virginia, there would likely be increased costs for service due to non-shared overhead costs that the vendor would try to recoup. Furthermore, the establishment of a call center typically requires agencies to pay a large implementation fee, so it is possible that DSS would incur yet another implementation fee and costs of re-procurement for these services. In FY 2017, DSS spent \$3 million on the SNAP EBT and \$1.8 million on the Electronic Child Care services contracts. There are no available estimates of what it could cost to renegotiate or replace these contracts.

### Department of General Services

This bill adds an additional contractual requirement for executive branch agencies to ensure that all contracts for state business-related call center and customer service contract work entered into on and after July 1, 2018, shall be performed by the contractor or its agents or subcontractors entirely within the Commonwealth for the contractor's primary call center and customer service workplace. This bill would create an in-state preference which would restrict competition resulting in increased procurement costs by awarding only to a vendor based on their primary call center and customer service location. Additionally, in-state preferences could foster reciprocity from other states. If reciprocity is imposed on Virginia businesses by other states, it would likely reduce out of state sales and result in a reduction to state revenues. The requirements of this bill will likely place an additional burden and increased cost on all public bodies falling under the Virginia Public Procurement Act.

This bill affects all executive branch agencies, to include any agency, institution, board, bureau, commission, council, public institution of higher education, or instrumentality of state government. This bill does not apply to higher education institutions operating under Management Agreements and Memoranda of Understanding in the operational area of procurement (currently 11 Level III and Level II institutions). Additionally, the bill will not apply to the Virginia Port Authority.

- 9. Specific Agency or Political Subdivisions Affected:** Department of Labor and Industry; Department of Medical Assistance Services; Department for the Deaf and Hard of Hearing; Department of Social Services; Department of General Services; state agencies.

- 10. Technical Amendment Necessary:** No.

**11. Other Comments:** The following agencies utilize agency controlled call centers.

The Virginia State Police handles all of its own calls and maintains that all of its operations must be in Virginia.

The Department of Motor Vehicles (DMV) maintains three locations with contact center capabilities. The main locations are in South Boston and Altavista, Virginia. These are two high unemployment areas of the state. Additionally, there is a small operation in Richmond, Virginia. The contact center agents are DMV employees. DMV Contact Center agents respond to customer calls, emails and social media requests. Contact Center agents provide information and transaction processing to the public, business and other government agencies. DMV does not plan to outsource this customer service function.

The Virginia Information Technologies Agency does not anticipate a fiscal impact from this bill.