Department of Planning and Budget
2020 Fiscal Impact Statement

1. **Bill Number:** HB439

House of Origin	☒	Introduced	☐	Substitute	☐	Engrossed
Second House	☐	In Committee	☐	Substitute	☐	Enrolled

2. **Patron:** Heretick

3. **Committee:** Labor and Commerce

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

5. **Summary:** This bill 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 will 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, Social Services and the Department of Health.

   <u>Department of Medical Assistance Services</u>

   While the Department of Medical Assistance Services (DMAS) does not have any call-center operations located in foreign countries, there are several existing contracts that operate outside Virginia. 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 this bill, any new 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 or a the loss of a contractor that provided operating efficiencies. 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. DMAS contracts with several health plans to deliver 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 call centers 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. To the extent that these contractors have call centers and customer service related operations outside the state of Virginia, it is anticipated that the provisions of this bill will generate additional indeterminate costs to the health plan contracts.

DMAS assumes all new fee-for-service call center contracts would include this requirement thus resulting in contractual increases. Increases are the result of hiring and training additional staff in locations within Virginia and the increased temporary 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 $1.7 million each year. Prior to awarding this contract, DDHH was required (by Appropriation Act language) to locate relay center operations in Virginia. During this time, the cost of the annual contract exceeded $10 million as only one relay 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 2019, the Department spent approximately $2.3M on the SNAP EBT and approximately $1.3M on the Electronic Child Care services contracts. There are no available estimates of what it could cost to renegotiate or replace these contracts.

Virginia Department of Health

This bill requires that all contracts entered into on and after July 1, 2020, for the performance by a contractor of state business-related call center and customer service work provide that such work 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. The Virginia Department of Health (VDH) has out of state contracts for Poison Control Centers and Poison Hotline services. Any new contract for poison control centers must provide free consultation, 24-hour emergency telephone or other means of communication, to the public and to health care providers regarding the ingestion or application of substances as per § 32.1-111.15 of the Code of Virginia. The code also requires these centers to provide prevention education and information about poison control services; training for health care providers in toxicology and medical management of poison exposure cases; and poison control surveillance through the collection and analysis of data from reported poison exposures to identify poisoning hazards, prevent poisonings, and improve treatment of poisoned patients. VDH estimates that if it were required to locate all call centers for new contracts within the Commonwealth would have a significant cost, however the fiscal impact cannot be determined at this time.

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, 2020, 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 and is anticipated to result in increased costs by restricting competition. It is unknown whether there are enough businesses in the Commonwealth to handle the type and volume of call centers and customer service centers required by the Commonwealth. 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.

Department of Labor and Industry

This bill requires the Department of Labor and Industry 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. This bill does not require DOLI to enforce the provisions of the bill. It is anticipated that DOLI can absorb any costs associated with compiling the list required by this bill with existing resources.

Department of Transportation

The Department of Transportation currently uses an out-of-state contractor to support the collection of unpaid tolls. If constrained to Virginia only, contractors competent in this specific industry are very limited. This would likely lead to less competition and increased costs. Cost increases would ultimately be passed through to the patrons in the form of higher administrative fees

Department of Taxation

The Department of Taxation considers implementation of this bill as routine, and does not require additional funding. The bill would have an unknown positive General Fund revenue impact. A revenue gain would be generated when call centers make repayments of tax incentives and their state tax incentives are discontinued. The extent to which call centers would leave Virginia and be affected by this bill is unknown.

Secretary of Commerce and Trade

The bill requires that an employer that appears on the list compiled DOLI repay any financial incentive or governmental support the employer has previously received from any agency of the Commonwealth to the Secretary of Commerce and Trade for deposit into the general fund of the state treasury. Additionally, the bill authorizes the Secretary of Commerce and Trade to waive the ineligibility of a company on list that DOLI is required to compile to receive a grant, loan, or tax reduction or credit from any agency in the Commonwealth for five years. It is anticipated that the Secretary of Commerce and Trade can absorb any fiscal impact associated with performing these responsibilities.

Virginia State Police

Virginia State Police anticipates that this bill will not result in a fiscal impact to the agency.

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

10. **Technical Amendment Necessary:** No.

11. **Other Comments:** The Department of Motor Vehicles and the Virginia Information Technologies Agency are currently reviewing this bill for any potential impacts to their agencies.