

- SUBJECT:** Establishing a billing procedure for the Statewide Cost Allocation Plan
- COMMITTEE:** Appropriations — favorable, without amendment
- VOTE:** 17 ayes — Junell, West, Gallego, Glaze, Gutierrez, Hamric, Heflin, Maxey, Moreno, Puente, Allen, Eiland, Giddings, Luna, McReynolds, Pickett, Pitts
- 0 nays
- 10 absent — Coleman, Delisi, Mowery, S. Turner, Farrar, Flores, Hochberg, Janek, T. King, Smith
- WITNESSES:** For — None
- Against — None
- On — Ken Welch, Comptroller's Office
- BACKGROUND:** Several state agencies provide general support services to many other state agencies. Examples include payroll and vendor/contractor payments (Comptroller's Office), building maintenance (General Services Commission), computer support (Department of Information Resources), and security (Department of Public Safety). Provider agencies may bill recipient agencies for any actual costs. Unbilled indirect costs, such as overhead, must be recovered through the Statewide Cost Allocation Plan (SwCAP), contracted for by the Governor's Office as provided by Government Code, ch. 2106. State agencies administering federal programs that allow reimbursement of indirect costs charge their costs to the appropriate federal agency. State agencies providing state support services recover their costs either through direct billings or through the SwCAP. Any unrecovered portions of their costs are funded by appropriations from the general revenue fund.
- DIGEST:** HB 2701 would mandate development of a billing procedure in the SwCAP to ensure the recovery of indirect costs of statewide support services from recipient state agencies, in addition to costs recovered from federal agencies. The comptroller would have to transfer the amounts charged the agencies to general revenue. Payments could be waived in the general appropriations act

for agencies funded by general revenue. The comptroller would have to adopt rules to prescribe the timing and procedures for the transfers.

This bill would take effect September 1, 2001.

**SUPPORTERS
SAY:**

HB 2071 would provide a much-needed correction of both an oversight and a long-standing problem that would increase general revenue by \$33 million in both fiscal 2002-03 and fiscal 2004-05.

In recent biennia, indirect cost recovery for statewide support services has been conducted piecemeal through the budget process. Costs recovered from the federal government have been deposited into unappropriated general revenue, but some agencies that recovered their costs through fees have not been reimbursing general revenue, perhaps because of statutory ambiguity. In 1999, the services transfers provision directing the reimbursement of the general revenue fund for statewide support costs by certain dedicated accounts and special funds was omitted from the general appropriations act for the current biennium. Despite having an updated SwCAP in place, no statewide indirect cost recovery occurred in fiscal 2000, nor is any occurring in fiscal 2001, from dedicated accounts or special funds except for the amounts recovered from federal programs.

HB 2071 would remedy this situation and would clarify the statute by setting up a mechanism to allocate back to general revenue the indirect costs that state agencies recover through fees and billings.

This is an important fund equity issue. The beneficiary agencies are obligated to pay for the indirect costs of services rendered by the provider agencies. To avoid cash-flow and collection problems and possible service disruptions, the best alternative is to reimburse the state by depositing the costs recovered through the SwCAP into general revenue.

**OPPONENTS
SAY:**

Philosophically, improving indirect cost recovery makes sense. In practice, however, HB 2071 would take the most money away from agencies that sorely need it. The Texas Department of Transportation, Texas Natural Resource Conservation Commission, and colleges and universities would have to contribute more than 90 percent of the savings transferred into general revenue. In fact, higher education institutions might not even be subject to the statute, because they may not meet its definition of "state

agency.” If the Legislature is not going to reallocate the recovered money back to the provider agencies that incurred the costs, it would be better to leave the money where it is.

OTHER
OPPONENTS
SAY:

Rather than allocate indirect costs to agencies by formula, a more equitable method would be to bill agencies for their share of indirect costs, either as incurred or during the ensuing fiscal year. The State Aircraft Pooling Board and the State Office of Administrative Hearings now have this arrangement, as do many other states.

NOTES:

According to the bill’s fiscal note, it would increase state general revenue by \$16.6 million per year over the next five fiscal years, with a corresponding reduction in other funds.

The companion bill, SB 1486 by Haywood, was considered in a public hearing by the Senate Finance Committee on April 26 and left pending.