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FISCAL IMPACT REPORT

ORIGINAL DATE 02/08/13

SPONSOR Padilla LAST UPDATED _____ HB _____

SHORT TITLE Call Center Relocation to Foreign Countries SB 414

ANALYST Aledo-Sandoval

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

| | FY13 | FY14 | FY15 | 3 Year Total Cost | Recurring or Nonrecurring | Fund Affected |
|--------------|------|--------|--------|----------------------|------------------------------|------------------|
| Total | | \$22.0 | \$15.0 | \$52.0 | Recurring | General Fund |

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Attorney General's Office (AGO)
 Workforce Solutions Department (WSD)
 Economic Development Department (EDD)

SUMMARY

Synopsis of Bill

Senate Bill 414 (SB 414) creates a new law to address state investment in New Mexico call centers which relocate to foreign countries. SB 414 requires New Mexico call centers with 50 or more employees to notify the secretary of the Workforce Solutions Department (WSD) at least 120 days before relocating the call center, or an operational unit composed of at least 30 percent of the call center's operational volume, to a foreign country. The provisions in the bill apply to call centers which accept a direct or indirect grant, guaranteed loan, tax benefits or other state support beginning on or after July, 1, 2013. The bill would provide for a civil penalty of up to \$10 thousand per day for failure to comply with the notice requirement. SB 414 requires the secretary of WSD to compile and maintain a report containing a list of all relocated call centers and distribute the report to all state agencies at least semi-annually. During the period in which the call center is listed, the call center would be ineligible for any direct or indirect financial support from the state, including tax benefits.

The bill would also require those call centers listed on the report to remit to the appropriate agency the unamortized value of any direct or indirect grant, guaranteed loan, tax benefit or other financial support provided by the state.

The bill provides an exception to the repayment obligation where the WSD secretary, in consultation with the appropriate state agency, finds that lack of financial support would result in a substantial loss of jobs in the state.

Beginning July 1, 2015, SB 414 requires state-related customer service work performed under contract by private call centers be conducted within the state by New Mexico-based employees. After July 1, 2013, any workers hired by a call center in New Mexico to perform state-related work must be employed within the state.

SB 414 provides that none of its provisions will be construed to impair any contracts in force on the bill's effective date of July 1, 2013.

FISCAL IMPLICATIONS

The WSD asserts that it would not be permitted to use any of its federal funding sources to pay for the costs imposed by SB 414. The bill does not include funding for the WSD to compile, maintain, and distribute the required report. The WSD estimates the cost to write, publish, and distribute the data and make forms for such purposes of accounting for the employers/employees impacted at \$2 thousand.

In addition, the WSD would need to build a tracking and reporting system with the ability for companies with call center operations to register with the Department, and for call centers to be able to file a notice of relocation. The WSD states this tracking and reporting system would require development and integration into the overall structure and strategic plan of WSD IT, which will require design, testing, and implementation of a new system in the amount of nearly \$20 thousand with reoccurring maintenance/upkeep of approximately \$13 thousand annually.

SIGNIFICANT ISSUES

According to the EDD, SB 414 bill will result in call centers employing 50 or more employees refusing to locate in New Mexico.

The AGO points out that the bill may need to define “indirect” financial support to avoid legal disputes. The WSD adds that “tax benefit” and “substantial loss of jobs” should be defined as well. The AGO also states that the bill lacks an enforcement provision for the civil penalty. The WSD highlights that the bill does not indicate in which fund collected civil penalties will be deposited.

The WSD expressed concerns over the discretion the bill leaves up to the WSD secretary for determining, in consultation with the appropriate agency, whether a business should lose or keep tax deductions and credits, grant monies, or guaranteed loans. The only standard governing the secretary's decision is if the remittance of tax benefits would result in the substantial loss of jobs in the state. Without a definition for “substantial loss of jobs”, there is a risk that the WSD secretary could act arbitrary.

The WSD added that the agency currently administers two federal programs which play a role in reducing the impact of layoffs due to foreign trade activity, both programs are impacted by call centers in New Mexico. The WSD administers the Trade Adjustment Assistance program, a federal program that provides foreign trade-affected workers with opportunities to obtain the

skills, resources, and support they need to become reemployed. The WSD also administers the Work Opportunity Tax Credit program, a federal tax credit available to employers hiring individuals from certain target groups; veterans, Temporary Assistance for Needy Families (TANF) recipients, Supplemental Nutrition Assistance Program (SNAP) recipients, Supplemental Security Income (SSI) recipients, ex-felons, Designated Community Residents (living in Empowerment Zones or Rural Renewal Counties), Vocational Rehabilitation Referral, Summer Youth Employee (living in Empowerment Zones) who have consistently faced significant barriers to employment.

ADMINISTRATIVE IMPLICATIONS

The EDD states that this bill will impose additional administrative costs, in the event that state agencies are forced to attempt to clawback financial or other assistance granted by the state.

OTHER SUBSTANTIVE ISSUES

The EDD and the New Mexico Partnership (NMP) would typically be the entities to recruit new companies (including call centers) to the state. The report by the WSD would provide important information as to what call centers have left the state; as to be aware of the same company trying to reestablish in the state, seeking incentives. The EDD and the NMP utilize state incentive programs to get a call center to locate.

The AGO adds that the bill sets a maximum but no minimum period for listing call centers on the secretary's report.

MAS/svb