LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 79TH LEGISLATIVE REGULAR SESSION

April 19, 2005

TO: Honorable Jane Nelson, Chair, Senate Committee on Health & Human Services

FROM: John S. O'Brien, Deputy Director, Legislative Budget Board

IN RE: **SB1760** by Gallegos (Relating to contracts with private entities to operate state hospitals for persons with mental illness.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for SB1760, As Introduced: a positive impact of $1,540,000 through the biennium ending August 31, 2007.

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
2006	$0
2007	$1,540,000
2008	($3,934,790)
2009	($3,934,790)
2010	($3,934,790)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings from *GENERAL REVENUE FUND* 1	Probable (Cost) from *GENERAL REVENUE FUND* 1
2006	$0	$0
2007	$1,540,000	$0
2008	$1,540,000	($5,474,790)
2009	$1,540,000	($5,474,790)
2010	$1,540,000	($5,474,790)

Fiscal Analysis

The bill would authorize the Department of State Health Services (DSHS) to contract with a private service provider to operate a state mental hospital under certain conditions, including a determination by the Health and Human Services Commission that the private provider would operate the hospital at a cost of at least five percent less than the cost to the department. Any contract entered into would be required to contain certain performance goals. DSHS would be required to monitor the care of patients and would only be authorized to enter into a contract with a private provider with a documented and verified successful record of providing mental health services over a five year period and managing a mental health facility with at least 250 consumers. DSHS would be required to issue a request for proposal not later than October 14, 2005.

The bill would require DSHS to enter into an agreement with a private entity to finance, design, build and operate a new facility to replace an existing facility. The agreement would be required to provide for the department to acquire the facility under a lease-purchase arrangement over a term not to exceed 20 years.

Methodology

It is assumed that a contract would be entered into for the private operation of an existing state facility by fiscal year 2007. DSHS estimates the savings associated with the operation based on the average annual cost to operate a state hospital ($31 million in General Revenue). The private provider would have to operate the facility for no more than $29.4 million to achieve a 5 percent savings of $1.6 million. DSHS further projects a monitoring cost of approximately $60,000 per year, for a net savings of $1,540,000 per year.

DSHS assumes for the purposes of the fiscal note that the cost of building and equipping a new 300 bed hospital would be $38 million and the lease-purchase agreement would be extended for 20 years. It is assumed that the annual cost to DSHS, including financing of the project, for the lease-purchase would be $5.5 million per year. DSHS projects that it would take approximately three years to design, finance, build, and equip a new hospital.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 529 Health and Human Services Commission, 539 Department of Aging and Disability Services, 537 Department of State Health Services

LBB Staff: JOB, CL, MB, KF