LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 83RD LEGISLATIVE REGULAR SESSION

April 1, 2013

TO: Honorable Linda Harper-Brown, Chair, House Committee on Government Efficiency & Reform

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **HB1689** by Villarreal (Relating to pay-for-performance contracts for certain Health and Human Services Enterprise programs and services.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB1689, As Introduced: a negative impact of ($12,350,000) through the biennium ending August 31, 2015.

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
2014	($1,500,000)
2015	($10,850,000)
2016	($10,550,000)
2017	($10,250,000)
2018	($9,950,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from *General Revenue Fund* 1
2014	($1,500,000)
2015	($10,850,000)
2016	($10,550,000)
2017	($10,250,000)
2018	($9,950,000)

Fiscal Analysis

The bill would amend Finance Code to establish an advisory committee on pay-for-performance contracts to provide guidance to the board on the establishment of a pay-for-performance program. It is unclear under which board the advisory committee serves. The committee would be comprised of the executive commissioner of the Health and Human Services Commission, the executive director of the Texas Public Finance Authority, the Comptroller, and a representative of a nonprofit organization that has participated in pay-for performance contract programs. The bill would require the committee to develop criteria to be used for selecting programs and services to be included in the program; performance requirements; and criteria to be used in evaluating contractors chosen to provide services.

The bill would allow the board to enter a contract for the operation of a program chosen to be part of the pay-for-performance program, and specifies what must be contained in the contract.The bill would allow a third party entity to issue general obligation bonds to provide money for payments anticipated to be due under the contracts. The third party would remit the bond proceeds to the Comptroller for deposit to the credit of a special fund. The bill would direct that proceeds may only be used to make payments under contracts entered into under this subchapter, or to pay the principal or interest on the general obligation bonds. Payments would be made to the contractors when the contractor has met the performance requirements specified in the contract and the state’s return on investment under the contract is positive. The bill would require the third party entity to establish a method of calculating the return on investment. The bill would also require that on or before December 15 of each year following a program’s implementation, a report is sent to the Governor and the appropriate committees in the Legislature detailing certain metrics for measuring the effectiveness of the program.

The bill would take effect January 1, 2014, if the constitutional amendment authorizing the issuance general obligation bonds to finance pay-for-performance contracts for certain programs and services is approved by the voters. Otherwise, the bill would not take effect.

Methodology

Based on information provided by the Texas Public Finance Authority (TPFA), it is assumed that the voters would approve the proposed constitutional amendment and $100 million in General Obligation Bonds would be issued on January 1, 2014. It is estimated that the related debt service would be $1,500,000 out of the General Revenue Fund in fiscal year 2014 and $10,850,000 in fiscal year 2015. Other assumptions for the debt service estimate include the issuance of tax-exempt debt at a six percent interest rate and a 20 year level principal repayment schedule.

Article III, Section 49-j of the Texas Constitution limits the authorization of additional state debt if the percentage of debt service payable from the General Revenue Fund exceeds 5 percent of the average annual unrestricted General Revenue Fund revenues for the previous three fiscal years. As of the end of fiscal year 2012, the Bond Review Board (BRB) estimates the constitutional debt limit for issued, and authorized but unissued debt, to be 3.48 percent. The Bond Review Board estimates that the additional authorization of $100 million in not self-supporting general obligation bond authority would increase the ratio for issued, and authorized but unissued debt by 0.02 percent.

The Comptroller's Office, TPFA, and the BRB indicate that any additional costs associated with implementation of the legislation could be absorbed within existing resources. The Health and Human Services Commission cannot determine the fiscal impact at this time due to the unavailability of information regarding whether contracts issued as a result of the bill would realize a positive return on investment and would equal or exceed the state’s financing and administrative costs associated with the contracts.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts, 347 Public Finance Authority, 352 Bond Review Board, 529 Health and Human Services Commission

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