

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: House Bill 684 (House Committee Substitute)

SHORT TITLE: Psychiatric Hospital Bonds

SPONSOR(S):

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
	(In Millions)				
	<u>FY 2003-04</u>	<u>FY 2004-05</u>	<u>FY 2005-06</u>	<u>FY 2006-07</u>	<u>FY 2007-08</u>
Operating Expenditures					
Dix & Umstead Hosp.	(\$5.23)	(\$9.77)	(\$27.86)	(\$49.19)	(\$104.02)
New Psych. Hospital				\$21.66	\$52.00
Community Services	\$5.23	\$6.47	\$15.76	\$15.76	\$40.58
Debt Service					
New Psych. Hospital		\$3.30	\$12.1	\$11.77	\$11.44
<i>Note: No net impact to the General Fund is anticipated.</i>					
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Department of Health and Human Services					
EFFECTIVE DATE: When the bill becomes law.					

BILL SUMMARY:

The Project - House Bill 684 provides authorization for financing the construction of a 450,000 square foot, 432-bed psychiatric hospital in Camp Butner. The amount of authorized indebtedness is limited to the estimated cost of construction of \$110 million.

Special Indebtedness - Financing authorized by the bill includes: (1) an installment-purchase or lease-purchase contract with a single entity; (2) limited obligation bonds, or (3) an installment-purchase contract through the sale of certificates of participation. Certificates of participation are a form of contract indebtedness where the State, through a non-profit corporation, issues certificates that represent the holder's undivided interest in the right to receive installment payments from the State.

Securitization - In order to secure financing under the three forms of indebtedness listed above, a lien or security interest may be placed on the constructed facilities comprising the new hospital

and the land on which the facilities are located. If this indebtedness is used to finance the renovation of existing facilities, a lien could be placed on all or part of the existing facilities.

Under the forms of financing authorized by this bill, there would be no pledge of the State's taxing power or a pledge of the State's full faith and credit. As a result, voter approval is not necessary for issuance of these forms of debt. If the State defaulted on repayment of this debt, the State could not be forced to generate new tax revenue to service the debt. Instead, the land and facilities financed through special indebtedness could be liquidated to repay the debt. If the General Assembly chose not to appropriate funds for debt service for the new hospital, the State's credit rating could be adversely impacted.

Issuance – The Department of Health and Human Services must notify the Department of Administration of the need for special indebtedness. The Department of Administration then consults with the Office of State Treasurer on the merits of issuing debt for the authorized purpose. The Treasurer must contact the Office of State Budget and Management to determine whether revenues will be available to service the proposed debt. If the Treasurer determines that special indebtedness is desirable for financing the project, the Treasurer must certify this decision in writing to the Department of Administration.

The Department of Administration then calls a meeting of the Council of State for preliminary approval. Prior to issuance of debt, the Council of State must give final approval. The approval resolution must contain a description of the specific project, a maximum principal amount of the special indebtedness, a specified maturity or maximum maturity on the debt, specified interest rates or a maximum rate of interest on the debt, and any condition in addition to the provisions of this bill.

Upon approval by the Council of State, the Treasurer provides final written approval. To do so, the Treasurer is authorized to request additional information and reports to determine the appropriateness of issuing debt. The Treasurer is responsible for management and oversight of the issuance of debt. Once all the provisions of this bill have been met, the Treasurer must report to Joint Legislative Commission on Governmental Operations at least five days prior to issuing any special indebtedness.

UNC Research Programs – The bill directs the Department of Health and Human Services (DHHS) to preserve all existing educational and research programs in Dorothea Dix Hospital conducted by the University of North Carolina Medical School. As the Department closes Dix Hospital, DHHS must consult with the UNC Medical School regarding the transfer of these programs to the new hospital. The UNC Medical School would retain authority over the management of these education and research programs in the new psychiatric hospital.

Disposition of County Property – Upon selection of a particular site to construct the new hospital, this bill authorizes the selected county to use eminent domain, if necessary, to acquire land for the project. The county would transfer possession of this land to the State.

Cost Savings and Hospital Closure – The bill requires all savings associated with the closure of any psychiatric hospitals to be directed to repaying debt service on the new psychiatric hospital before reverting to the General Fund. Nonrecurring savings would be deposited in the Mental Health Trust Fund for System Reform and recurring savings would be retained by DHHS. Both

sources of funds would be dedicated first to repaying the debt. The balance of non-recurring cost savings, after payment of the annual debt service, would remain in the Mental Health Trust Fund for the purposes of the Trust Fund. All remaining recurring savings would be retained by DHHS for the purpose of complying with the Olmstead v. L.C. and E.W. case and implementation Mental Health Reform.

In practical terms, funds saved from the closure of the two hospitals will: (1) pay the annual debt service on the new hospital; (2) pay the operating expenses of the new hospital, and (3) the remaining balance will go to community programs for the expansion of mental health services in the community.

Dix Hospital Property Study Commission – The bill establishes the Dorothea Dix Property Study Commission. If the State finds itself in the position of selling the land and facilities on which Dorothea Dix Hospital is currently located, the Dorothea Dix Property Study Commission must consider the sale prior to any action by the State. Before the sale occurs, the Study Commission will make a recommendation on disposition of the property to the Joint Legislative Commission on Governmental Operations.

ASSUMPTIONS AND METHODOLOGY:

The bill calls for a 450,000 square foot, 432-bed psychiatric hospital. The cost of constructing this hospital is estimated to be \$110 million. Construction is assumed to begin in November 2004 and complete in November 2006.

Debt service payments were estimated based on a simulation provided by the Office of State Treasurer. The estimated debt service assumes that the State will finance the full \$110 million through special indebtedness. The estimated repayment includes an average interest rate of 6.0% and a maximum maturity of 20 years. The earliest expected date of issuance would be November 2004. Estimated annual debt services payments range from \$5.83 million to \$12.1 million.

The following chart displays the current expenditures associated with operating Dix and Umstead Hospitals for the next five years. The chart also shows the shift of operating dollars from the two existing hospitals to the newly constructed psychiatric hospital and to the community for increased local mental health services.

The New Psychiatric Hospital and Realignment of Operating Expenditures					
Operating Expenditures	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08
Dix and Umstead Hospitals	\$107,415,928	\$103,652,980	\$85,567,980	\$60,313,621	\$0
New Psychiatric Hospital	\$0	\$0	\$0	\$21,666,667	\$52,000,000
Hospital Debt Service		\$3,300,000	\$12,100,000	\$11,770,000	\$11,440,000
Butner ADATC and Dix Campus Operation			\$3,917,693	\$9,402,462	\$9,402,462
Expenditures Realigned to Community Services	\$5,231,780	\$6,475,000	\$15,760,000	\$15,760,000	\$40,585,518

In calculating the numbers in the chart above, DHHS made the following assumptions:

- The operating costs of Dix and Umstead Hospitals do not include lapse salaries/benefits, which are budgeted annually.
- In FY 2005-06 and subsequent years, DHHS separated the estimated budget for running the Butner Alcohol and Drug Abuse Treatment Center (ADATC) and for maintaining the Dix Campus.
- The Butner ADATC expenditures were estimated from the average appropriation to the Jones ADATC and the Keith ADATC.
- The Dix Campus operating expenditures were estimated according to current appropriations for maintain the Dix Campus facilities used by various DHHS agencies and 15% of the appropriation for the hospital facilities.
- The estimated operating costs for the new hospital are based on the average appropriation for Dix and Umstead, excluding the Butner ADATC and the Dix Campus operation.

This analysis assumes that the cost savings from the closure of Dix and Umstead Hospitals would not revert to the General Fund. Instead, the cost-savings would be used to pay the debt service for the new hospital; the operating expenditures associated with the new hospital; and the expansion of community-based mental health services. Considering that DHHS is anticipating annual cost-savings from the closure of Dix and Umstead Hospitals that exceed the cost of annual debt service payments for the new hospital, **no net impact to the General Fund is expected.**

SOURCES OF DATA: Department of Health and Human Services

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