

**LEGISLATIVE BUDGET BOARD**  
**Austin, Texas**

**FISCAL NOTE, 83RD LEGISLATIVE REGULAR SESSION**

**April 8, 2013**

**TO:** Honorable Kel Seliger, Chair, Senate Committee on Higher Education

**FROM:** Ursula Parks, Director, Legislative Budget Board

**IN RE:** SB143 by Nelson (relating to programs designed to enhance medical education in this state.), **Committee Report 1st House, Substituted**

**Estimated Two-year Net Impact to General Revenue Related Funds** for SB143, Committee Report 1st House, Substituted: a negative impact of (\$27,467,365) 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<br>to General Revenue Related Funds |
|-------------|---|
| 2014        | (\$13,239,928)  |
| 2015        | (\$14,227,437)  |
| 2016        | (\$23,604,092)  |
| 2017        | (\$24,720,747)  |
| 2018        | (\$30,684,092)  |

**All Funds, Five-Year Impact:**

| Fiscal Year | Probable Savings/(Cost) from<br><i>General Revenue Fund</i><br>1 | Probable Savings/(Cost) from<br><i>Physician Ed. Loan Repayment</i><br>5144 |
|-------------|--|---|
| 2014        | (\$13,239,928)   | \$0   |
| 2015        | (\$14,227,437)   | (\$3,125,000)   |
| 2016        | (\$23,604,092)   | (\$7,500,000)   |
| 2017        | (\$24,720,747)   | (\$13,125,000)  |
| 2018        | (\$30,684,092)   | (\$20,000,000)  |

| <b>Fiscal Year</b> | <b>Change in Number of State Employees from FY 2013</b> |
|--------------------|---|
| 2014               | 2.0   |
| 2015               | 2.0   |
| 2016               | 3.0   |
| 2017               | 3.0   |
| 2018               | 3.0   |

## **Fiscal Analysis**

The bill would require the Higher Education Coordinating Board (THECB) to establish the Resident Physician Expansion Grant Program. Under provisions of the bill, THECB would award grants to physician residency programs at teaching hospitals and other appropriate health care entities according to program criteria established in the bill. A grant award may be used only to pay direct costs associated with the position, including the salary of the resident position. THECB would provide grants only to support residency positions that are created and accredited on or after January 1, 2014 or were created and accredited before January 1, 2013, but as of that date had not yet been filled. THECB would be required to submit information regarding the program to the governor, lieutenant governor, the speaker of the house of representatives, the standing committee of the senate and house of representatives with responsibility for oversight of health and human services issues, and the Legislative Budget Board by January 1st of each year.

The bill would require THECB to establish the Graduate Medical Education Planning Grant Program. Under the program, THECB would award incentive payments to encourage medical schools, teaching hospitals, and other appropriate health care entities to investigate the cost and feasibility of developing accredited physician residency programs at hospitals that have not previously offered residency programs. THECB would adopt rules for administration of the program including eligibility criteria and methods for tracking the effectiveness of the grants. THECB may accept gifts, grants and donations for the purpose of these programs and may use a reasonable amount, not to exceed three percent, to pay administrative costs.

The bill would require THECB to establish the Primary Care Physician Incentive Program. Under this program, THECB would award incentive payments to medical schools that demonstrate improvement in the graduation rates of physicians who work in primary care in the state following completion of their residency training. The bill would require THECB to establish the Primary Care Innovation Program. Under this program, THECB would award incentive payments to medical schools that develop innovative programs designed to increase the number of primary care physicians in the state. In addition to money appropriated by the legislature, THECB may accept gifts, grants and donations for the purpose of these programs and may use a reasonable amount, not to exceed three percent, to pay administrative costs. Under provisions of the bill, THECB would establish these programs by January 1, 2014 and award grants under these programs no later than September 1, 2014.

The bill amends the Physician Education Loan Repayment Program to include physicians that provide health care services in a location other than a health professional shortage area to a designated number of patients who are recipients under the medical assistance program authorized under Chapter 32 of the Human Resources Code or the Texas Woman's Health Program (TWHP) according to criteria established by the board in consultation with the Health and Human Services Commission (HHSC). Funds would be allocated to these eligible physicians after funds have been allocated to physicians qualifying under the current program. HHSC would need to

develop policy and procedures for verifying the number of Medicaid and/or TWHP clients certain physicians have served and work with THECB to establish the number of Medicaid and TWHP recipients physicians need to see to receive funding and verify physicians meet the established criteria. The board would be required to enter an memorandum of understanding requiring this provision no later than October 1, 2013.

The bill would also provide that HHSC would seek any federal matching funds that are available to support Medicaid Services in the state and deposit these funds in the physician education loan repayment account. These funds would only be available to support loan repayment assistance to physicians that provide health care services to recipients under the medical assistance program authorized by Chapter 32, Human Resources Code and to enrollees under the child health plan program authorized by Chapter 62 of the Health and Safety Code.

## **Methodology**

This fiscal note includes cost estimates for the Resident Physician Expansion Grant Program, Graduate Medical Education Planning Grant Program, the Primary Care Physician Incentive Program, the Primary Care Innovation Program and estimates tied to changes to the Physician Education Loan Repayment Program.

The following estimate for the Resident Physician Expansion Grant Program assumes an entering cohort in each year to achieve a 1.1 to 1 ratio of Texas first-year entering positions to medical school graduates. Based on information provided by the Higher Education Coordinating Board (THECB), the program will admit 220 resident physicians in Fiscal Year 2014, and will admit 339 resident physicians in fiscal year 2015. Beginning in fiscal year 2016 it is estimated 348 resident physicians would enter the program each year. Each resident will be supported at \$15,000, 10% of the estimated \$150,000 cost of a resident. Funding for each residency would be maintained for four years. Based on these assumptions costs associated with the program would be \$3.3 million (220 X \$15,000) in fiscal year 2014, \$8.4 million in fiscal year 2015 (339 X \$15,000 and 220 X \$15,000). The costs would increase to \$13.6 million in fiscal year 2016, \$18.8 million in fiscal year 2017 and \$20.7 million in fiscal year 2018.

For costs associated with the Graduate Medical Education Planning Grant Program, it is assumed that ten grants in the amount of \$150,000 per year would be awarded to eligible medical schools, teaching hospitals, and appropriated health care entities to investigate the costs and feasibility of developing accredited physician residency programs at hospitals that have not previously offered residency programs beginning in fiscal year 2014.

For costs associated with the Primary Care Physician Incentive Program, THECB estimated that funding would be provided to the medical schools based on the goal of having 50 percent of medical students enter a primary care residency program, approximately 850 students annually, at an amount of approximately \$5,000 per student or \$4.3 million per year.

For purposes of this fiscal note, it is assumed that four \$1 million, two year grants would be used to support the Primary Care Innovation Program. Costs associated with this program would be \$4 million in fiscal year 2014, 2016 and 2018.

It is assumed the changes to the Physician Education Loan Repayment Program, would allow 125 new participants in the program. This analysis was based on a similar program, the Children's Medicaid Loan Repayment Program, which was last funded in the 2010-11 biennium. Based on the statutorily defined award amounts for the program of \$25,000 for the first year, \$35,000 for the second year and \$45,000 and \$55,000 respectively for the third and fourth year, there would be

costs of \$3.1 million (125 X \$25,000) in fiscal year 2015 in general revenue-dedicated Fund 5144, Physician Education Loan Repayment Program Account. It is also assumed that these physicians would participate in the program for all four years. Beginning in fiscal year 2016, the costs would increase to \$7.5 million as a new cohort of 125 is added (\$3.1 million) and participants already in the program would receive awards of \$35,000 (\$4.4 million). The costs would increase as more cohorts are added and participants already in the program receive larger award amounts for the third and fourth year of service.

The Health and Human Services Commission (HHSC) has indicated that they would seek federal matching funds via an existing or new federal waiver. If the federal waiver was granted, HHSC could draw federal matching funds to the extent that physicians participated in the eligible waiver program. HHSC is not able to draw federal funds and transfer into another agency's account; to draw down the federal funding, HHSC must incur an expenditure. HHSC assumes the federal government would provide Federal Medical Assistance Percentage (FMAP) matching funds and the state share would be an intergovernmental transfer (IGT) or an interagency contract (IAC) from state appropriations at the THECB. With the receipt of IGT or IAC from the THECB, HHSC could incur an expenditure and draw down the federal matching funds for the grant programs. Depending on federal approval, the number of participants in the loan repayment program, and the amount of funding the THECB makes available to be matched, there could be a significant fiscal impact to Federal Funds at HHSC, but there is not enough information at this time to make that determination. There is no fiscal impact to state funds at HHSC as a result of implementing the bill. To the extent that HHSC receives federal matching funds, the state cost of the physician loan repayment program could be offset.

The cost to the Coordinating Board would be in the additional staff required to administer the new programs in the bill. One Program Director and one Administrative Assistant III would initially be required to implement and maintain the new programs, expanding to include a second Program Director in fiscal year 2016. The total cost for the two FTES, including salary and benefits, is estimated to be \$119,928. Beginning in fiscal year 2016, the second program director would be required to administer, manage and monitor the grants. The total costs beginning in fiscal year 2016 for the three FTEs is \$189,092. There would also be \$50,000 in professional services in the first year of each biennium (2014, 2016 and 2018) associated with contracting with reviewers to evaluate grant proposals under the Primary Care Innovation Program and to hire out of state, nationally recognized experts in graduate medical education to help ensure that the programs are developed appropriately.

### **Technology**

There would be one-time technology costs of \$20,000 or \$10,000 per FTE in fiscal year 2014 and a one time cost of \$10,000 associated with the second program director hired in fiscal year 2016.

### **Local Government Impact**

No fiscal implication to units of local government is anticipated.

**Source Agencies:** 710 Texas A&M University System Administrative and General Offices, 720 The University of Texas System Administration, 758 Texas State University System, 769 University of North Texas System Administration, 529 Health and Human Services Commission, 768 Texas Tech University System Administration, 781 Higher Education Coordinating Board, 783 University of Houston System Administration

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