

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

**FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION**

**May 21, 2015**

**TO:** Honorable Dan Patrick, Lieutenant Governor, Senate

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

**IN RE: SB18** by Nelson (Relating to measures to support or enhance graduate medical education in this state, including the transfer of certain assets from the Texas Medical Liability Insurance Underwriting Association to the permanent fund supporting graduate medical education and the authority of the association to issue new policies.), **As Passed 2nd House**

**Estimated Two-year Net Impact to General Revenue Related Funds** for SB18, As Passed 2nd House: a negative impact of (\$34,253,398) through the biennium ending August 31, 2017.

The bill could result in a revenue gain to the Permanent Fund Supporting Graduate Medical Education through a transfer of funds from the Texas Medical Liability Joint Underwriting Association. The amount would be dependent on an actuarial study of the association and therefore cannot be determined at this time.

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:**

<b>Fiscal Year</b>	<b>Probable Net Positive/(Negative) Impact to General Revenue Related Funds</b>
2016	(\$12,594,110)
2017	(\$21,659,288)
2018	(\$28,414,822)
2019	(\$28,414,822)
2020	(\$28,414,822)

## All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from <i>General Revenue Fund</i> 1	Change in Number of State Employees from FY 2015
2016	(\$12,594,110)	4.0
2017	(\$21,659,288)	4.0
2018	(\$28,414,822)	4.0
2019	(\$28,414,822)	4.0
2020	(\$28,414,822)	4.0

## Fiscal Analysis

The bill would modify existing Graduate Medical Education programs administered by the Texas Higher Education Coordinating Board (THECB). The bill would expand the Graduate Medical Education Planning Grants Program to authorize the program to provide partnership grants to hospitals, medical schools, and community-based, ambulatory patient care centers. Funds would be available to entities to develop new graduate medical education programs with first-year residency positions, regardless of whether the entity had offered a graduate medical education program with first-year residency positions previously.

The bill would modify Grants for Unfilled Residency Positions to specify that grants could be made available for first-year residency positions that were unfilled as of July 1, 2013. Grants would be awarded for the duration of the residency, rather than for two consecutive fiscal years, as specified in current law.

The bill would direct THECB to award grants to new or existing graduate medical education programs under Grants for Program Expansion or New Program. Grants would be awarded for the duration of period in which a resident fills the position that is funded by the program.

For both Grants for Unfilled Residency Positions and Grants for Program Expansion or New Program, the bill would direct THECB to prioritize applications if the number of residency positions proposed by eligible applicants exceeded available appropriations. Specifically, the bill would prioritize awarding grants to medical specialties determined to be at critical shortage levels under certain conditions. The bill repeals the current provisions relating to establishing priority for grant awards for applications in excess of available appropriations. The bill would direct the Department of State Health Services (DSHS) to conduct research on the supply of physicians in Texas and the ability of the state's graduate medical education system to meet the state's health care needs. THECB would be required to consider this research when determining critical shortage levels.

The bill would require THECB to award additional grants to fund graduate medical education programs that had been awarded grants in fiscal year 2015, provided that the programs continued to meet grant requirements. This requirement would apply to the following programs: Unfilled Residency Positions, Grants for Program Expansion or New Program, and the Resident Physician Grant Program.

THECB could limit funding or seek reimbursement from grant recipients that did not comply with reporting or other requirements established in the bill.

The bill would create the Permanent Fund Supporting Graduate Medical Education. Distributions from the fund could be appropriated to support programs established under Chapter 58A of the Education Code or as otherwise directed by the Legislature. The fund would be a special fund in

the treasury outside of the General Revenue Fund and would consist of money transferred or appropriated by the Legislature, gifts and grants contributed to the fund, and investment returns. The Texas Safekeeping Trust Company would administer the fund and would determine the amount of money available for distribution from the fund. Distributions would be determined by policies adopted by the Texas Comptroller of Public Accounts (CPA). These policies would be designed to preserve the purchasing power of the fund and to provide a predictable stream of annual distributions. The management expenses of the fund would be paid from the fund.

The bill would amend the Insurance Code to require the Texas Department of Insurance (TDI) to complete an actuarial study pertaining to the Texas Medical Liability Joint Underwriting Association (JUA) not later than 90 days after the effective date of the bill. The study would determine the amount of assets necessary for JUA's (1) known and unknown insurance claims and costs associated with those claims; and (2) the administrative expenses of the association. Within 60 days of the completion of the study the association would be required to transfer the amount of assets not necessary for the purposes estimated by the study. The association would transfer this excess amount to the Permanent Fund Supporting Graduate Medical Education or to an account created by the Comptroller of Public Accounts until creation of the fund. After completion of the study, TDI would also be required to determine whether a necessity exists to suspend JUA's ability to issue new policies. A determination to suspend the issue of new policies would remain in effect until September 1, 2017, or an enactment of the legislature that becomes law, whichever occurs earlier.

## **Methodology**

For the purposes of this fiscal note, this analysis assumes that grants made under the two expanded residency programs in the bill would provide an average of \$75,000 per resident. This amount is higher than the existing per resident amount of \$65,000 associated with the Unfilled Positions and Program Expansion/New Program grant programs as they are currently administered. A higher per resident amount may provide a greater incentive for critical shortage specialties that are identified in the bill for prioritization under certain conditions.

For the purposes of this fiscal note, it is assumed that approximately 125 residency slots would receive funding in fiscal year 2016 at the per-resident amount of \$75,000. As these 125 residents progress to their second year of residency and a new cohort of residents begins, this estimate assumes that 250 residents would be funded in fiscal year 2017. In fiscal year 2018, it is estimated that 375 residents would be funded. Based on these assumptions, expansion of the residency programs would result in a cost of \$9.4 million in fiscal year 2016, \$18.8 million in fiscal year 2017, and \$28.1 million in fiscal year 2018 and after.

The amounts estimated above would ultimately be impacted by the per-resident funding and the number and capacity of participating entities. Expenditures and grants would also be subject to appropriations.

For the purposes of this fiscal note, grants awarded for graduate medical education positions in the 2014-2015 that would continue to receive funding in the 2016-17 biennium are not included in the fiscal impact estimate. If funding is provided for additional years of residency beyond the third year, the number of first-year slots that are supported could change.

For the purposes of this fiscal note, it is assumed that the expansion of the Planning and Partnership Grant Program would support 7 grantees in fiscal year 2016 and in fiscal year 2017. It is estimated that each grant would be \$250,000 per fiscal year. Total grants awarded through the Partnership Grant Program are estimated to be \$1,750,000 in fiscal years 2016 and 2017.

THECB estimates administrative costs of \$599,644, including salary, benefit, and other costs, to hire 4.0 FTEs in the 2016-17 biennium to administer the programs, as modified by the bill.

TDI estimates that the costs of conducting an actuarial study and making a determination about the issuance of new policies at JUA could be absorbed within existing resources. CPA estimated that there would be no fiscal impact to the agency to manage the Permanent Fund Supporting Graduate Medical Education.

Because the amount of assets available for transfer would be based on the actuarial study, the potential revenue gain to the Permanent Fund Supporting Graduate Medical Education cannot be determined at this time. It is assumed that revenue generated from the investment returns would be used for graduate medical education programs established in Chapter 58A of the Texas Education Code.

This legislation would do one or more of the following: create or recreate a dedicated account in the General Revenue Fund, create or recreate a special or trust fund either within or outside of the Treasury, or create a dedicated revenue source. The fund, account, or revenue dedication included in this bill would be subject to funds consolidation review by the current Legislature.

**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, 768 Texas Tech University System Administration, 769 University of North Texas System Administration, 781 Higher Education Coordinating Board, 783 University of Houston System Administration, 304 Comptroller of Public Accounts, 454 Department of Insurance, 529 Health and Human Services Commission, 537 State Health Services, Department of, 758 Texas State University System

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