

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 86TH LEGISLATIVE REGULAR SESSION

April 11, 2019

TO: Honorable Brandon Creighton, Chair, Senate Committee on Higher Education

FROM: John McGeady, Assistant Director Sarah Keyton, Assistant Director
Legislative Budget Board

IN RE: HB826 by Zerwas (Relating to the creation of the University of Houston College of Medicine at the University of Houston.), **As Engrossed**

Estimated Two-year Net Impact to General Revenue Related Funds for HB826, As Engrossed: an impact of \$0 through the biennium ending August 31, 2021.

General Revenue-Related Funds, Ten-Year Impact:

| Fiscal Year | Probable Net Positive/(Negative) Impact to General Revenue Related Funds |
|-------------|---|
| 2020 | \$0 |
| 2021 | \$0 |
| 2022 | \$0 |
| 2023 | \$0 |
| 2024 | (\$6,150,929) |
| 2025 | (\$6,150,929) |
| 2026 | (\$12,252,004) |
| 2027 | (\$12,252,004) |
| 2028 | (\$21,036,728) |
| 2029 | (\$21,036,728) |

All Funds, Ten-Year Impact:

| Fiscal Year | Probable Savings/(Cost) from <i>General Revenue Fund</i> 1 |
|-------------|--|
| 2020 | \$0 |
| 2021 | \$0 |
| 2022 | \$0 |
| 2023 | \$0 |
| 2024 | (\$6,150,929) |
| 2025 | (\$6,150,929) |
| 2026 | (\$12,252,004) |
| 2027 | (\$12,252,004) |
| 2028 | (\$21,036,728) |

Fiscal Analysis

The bill would create a new college of medicine that would be a college of the University of Houston (UH) under the management and control of the University of Houston Board of Regents (Board) with degrees offered under the name and authority of the University of Houston.

The bill would permit the UH College of Medicine to enter into agreements under which additional facilities used in the operation of the College of Medicine may be provided by a public or private entity. The bill would permit, but does not require, the College of Medicine to create a teaching hospital. However, the bill contains a provision similar to the statutory authority of other medical schools and health science centers that the hospital may not be constructed, maintained, or operated with state funds. University of Houston reports that without state support for this purpose, it does not intend to create a teaching hospital.

The bill would make the University of Houston eligible to receive distributions from the Permanent Health Fund.

The bill would take effect immediately with a vote of two-thirds of all members elected to each chamber of the Legislature. Otherwise, the bill would take effect September 1, 2019.

Methodology

The institution reports that the start-up and timing of the College of Medicine's development, upon which the following formula estimates are based, are contingent upon the \$20.0 million of funding in House Bill 1 as Introduced being appropriated to the University of Houston in the 2020-21 biennium. It is also assumed that the funding needed to construct a facility for the College of Medicine can be adequately covered by \$80.0 million of institutional funds the University of Houston has set aside for this purpose. It is assumed that the University of Houston would be included in all Health Related Institution (HRI) formula, except mission specific formulas, at the same rate as other institutions.

Based on information submitted by the institution, it is assumed that in the first year the College of Medicine is operational, fiscal year 2021 (Fall 2020), it would enroll 30 students. It is assumed that annual enrollments of first-year students would remain at 30 students in fiscal year 2022, increasing to 60 first-year students annually in fiscal years 2023 and 2024, and 120 first-year students annually in fiscal years 2025 and 2026, reaching total enrollment of 360 students in all program years in the College of Medicine by fiscal year 2026.

Based on these enrollment assumptions, the first biennium the College of Medicine would be eligible for formula funding allocations using base year data reported to the Higher Education Coordinating Board would be the 2024-25 biennium, using fiscal year 2022 as the base year for formula calculations.

Instruction and Operations (I&O) Formula. Using an annual All Funds rate of \$9,431 per full-time student equivalent (FTSE) and a weight of 4.753 for all medical students enrolled in the UH College of Medicine, the current I&O rate and Medical Education weight for health related institutions in the 2018-19 biennium, it is estimated that the All Funds formula costs for these students would be \$2,689,472 in each fiscal year of the 2024-25 biennium, \$8,068,416 in each fiscal year of the 2026-27 biennium, and \$16,136,832 in each fiscal year of the 2028-29 biennium.

Infrastructure Formula. It is assumed that the College of Medicine would receive \$1,222,000 in each fiscal year from fiscal year 2020 to fiscal year 2029, based on information submitted by the institution.

Research Enhancement Formula. The total research expenditures reported by the College of Medicine in future base years cannot be determined at this time. However, the Research Enhancement Formula provides base funding of \$1,412,500 each fiscal year to each eligible health related institution, plus 1.16 percent of each institution's annual research expenditures in the base year.

Graduate Medical Education (GME) Formula. It is assumed that the College of Medicine will support 142 medical residents in fiscal year 2022, 266 residents in fiscal year 2026, and 389 residents in fiscal year 2028, the base years for the 2024-25, 2026-27, and 2028-29 biennia, respectively. These estimates are based on a Memorandum of Understanding (MOU) that the University of Houston has signed with Healthcare Corporation of America to create 142 first-year residency positions by 2022 and 389 total new residencies by 2025. Based on these assumptions and the current GME Formula rate of \$5,824 per resident per year, the cost would be \$826,957 in each fiscal year of the 2024-25 biennium, \$1,549,088 in each fiscal year of the 2026-27 biennium, and \$2,265,396 in each fiscal year of the 2028-29 biennium.

Permanent Health Fund (PHF). The bill specifies that the University of Houston College of Medicine would become eligible for PHF distributions. It is assumed that participation in the Permanent Health Fund would not result in any additional cost to the fund, but instead would result in a reallocation of funds among participating institutions.

Each fiscal year, 70.0 percent of the total amount to be distributed from the Permanent Health Fund is distributed equally between all eligible institutions. Based on the fiscal year 2018 total amount for the PHF distributed equally between thirteen health related institutions, the University of Houston College of Medicine would have received \$1,166,577 in Other Funds. Future PHF distributions depend on performance of the Permanent Health Fund and the number of participating institutions and therefore cannot be determined at this time. The remaining 30.0 percent of the PHF distribution is allocated based on each institution's proportion of instructional expenditures, research expenditures, and uncompensated care expenditures as a percentage of the total expended by all health related institutions. Since UH College of Medicine expenditures in future years cannot be determined, this fiscal note makes no estimate associated with this portion of the PHF distribution.

It is assumed that any remaining costs, including faculty and construction costs, associated with the new medical school would be covered by existing institutional resources or constitutional funds allocated for that purpose.

Local Government Impact

No significant fiscal implication to units of local government is anticipated.

Source Agencies: 781 Higher Education Coordinating Board, 783 University of Houston System Administration

LBB Staff: WP, JGAn, DEH, TSI, ESC