

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 86TH LEGISLATIVE REGULAR SESSION

April 15, 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: **HB2867** by Metcalf (Relating to the creation of the Sam Houston State University College of Osteopathic Medicine.), **As Engrossed**

No significant fiscal implication to the State is anticipated. However, the bill permits the institution to request non-formula support, which could, if funded, result in significant costs to the state.

The bill would create a new college of osteopathic medicine that would be a college of Sam Houston State University, under the management and control of the board of regents of the Texas State University System with degrees offered under the name and authority of Sam Houston State University.

The bill would permit the Sam Houston State University College of Osteopathic Medicine to enter into agreements under which additional facilities used in the operation of the college may be provided by a public or private entity. The bill further authorizes the board to solicit, accept, and administer gifts and grants from any public or private source for the use and benefit of the college. The bill would permit, but does not require, the College of Osteopathic 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.

The bill would prohibit Sam Houston State University from receiving any formula funding for the College of Osteopathic Medicine.

It is assumed that startup costs for land and facilities for the College of Osteopathic Medicine are adequately covered by non-state funds available to Sam Houston State University. The land on which the College of Osteopathic Medicine will be constructed was donated to the institution and is valued at approximately \$3.0 million. Construction is currently underway on the main medical college facility in Conroe, which will provide approximately 107,000 square feet at a total cost, including medical equipment for the facility, estimated at \$65.0 million. Sam Houston State University's financial plan includes financing construction of the medical college facility with short-term construction loans. Once complete, Sam Houston State University intends to issue \$65.0 million in bonds financed at 5.0 percent interest over an amortization period of 30 years, with debt service scheduled to begin in fiscal year 2022. The bonds would be supported by revenues from the College of Osteopathic Medicine, which would consist primarily of tuition and fees charged to medical students.

It is assumed that operational costs of the College of Osteopathic Medicine can be adequately covered by the college's revenues, philanthropic support, and institutional funds. A donor has pledged \$10.0 million of support for the medical college's first five years of operations, and the college anticipates additional philanthropic support to cover operating costs.

It is assumed that the majority of operating costs would be covered by tuition and fee revenue. Sam Houston State University's financial plan anticipates setting tuition and fees at \$55,000 per student per year beginning in fiscal year 2021, increasing by 4.0 percent each fiscal year thereafter. Based on enrollment projections and the college's target class size, the College of Osteopathic Medicine anticipates total tuition revenue of \$4.1 million in fiscal year 2021, \$10.7 million in fiscal year 2022, \$19.3 million in fiscal year 2023, \$28.9 million in fiscal year 2024, \$33.4 million in fiscal year 2025, and \$37.1 million in fiscal year 2026. By fiscal year 2026, the college's class size would stabilize and revenue growth thereafter would be incremental. These revenue estimates are based on enrollment of the first entering class of 75 in fiscal year 2021. The college's entering classes would grow to 112 students in fiscal year 2022 and to a final target size of 150 students in fiscal year 2023. Based on these enrollment projections, and including first-year entering students as well as those continuing through the program, the College of Osteopathic Medicine would reach full enrollment of 600 students in fiscal year 2026.

If tuition revenue and philanthropic support do not fully cover startup costs, Sam Houston State University reports that the university intends to allocate amounts necessary to cover the remainder of startup costs from other institutional funds.

The bill expressly prohibits Sam Houston State University from receiving any formula funding for the College of Osteopathic Medicine. Therefore, it is assumed that the creation of the College of Osteopathic Medicine would not result in future formula funding costs to the state.

However, the bill would not prohibit Sam Houston State University from requesting non-formula funding from the state, which could include non-formula support items (formerly called special items), tuition revenue bond debt service, and workers' compensation insurance, as well as state-funded grants available through the Higher Education Coordinating Board, such as Graduate Medical Education (GME) Expansion Grants. If the institution failed to enroll a sufficient number of students, if tuition or fees were reduced, or if costs of operating the medical school increased more than anticipated, the institution could request non-formula funding from the state.

The non-formula funding that the college could request or receive cannot be determined at this time. However, two recent examples of new public medical schools in Texas indicate that startup and operational costs for a new medical school can be significant. Counting non-formula support item funding specifically for the medical school only, Texas Tech University Health Sciences Center, later Texas Tech University Health Sciences Center at El Paso, received \$5.0 million in General Revenue for its El Paso medical campus in 2006-07 biennium, \$48.0 million in General Revenue in the 2008-09 biennium, \$65.6 million in General Revenue in the 2010-11 biennium, \$46.7 million in General Revenue in the 2012-13 biennium, \$56.1 million in General Revenue in the 2014-15 biennium, \$56.1 in the 2016-17 biennium, and \$50.0 million in General Revenue in the 2018-19 biennium. Similarly, The University of Texas Rio Grande Valley received non-formula support item funding for its School of Medicine of \$61.4 million in General Revenue in the 2016-17 biennium and \$42.0 million in General Revenue in the 2018-19 biennium.

The bill specifies that Sam Houston State University's College of Osteopathic Medicine would become eligible for Permanent Health Fund (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.

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.

Local Government Impact

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

Source Agencies: 758 Texas State University System, 781 Higher Education Coordinating Board

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