

SENATE AMENDMENTS

2nd Printing

By: Metcalf, Oliverson

H.B. No. 2867

A BILL TO BE ENTITLED

AN ACT

relating to the creation of the Sam Houston State University
College of Osteopathic Medicine.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

SECTION 1. Subchapter D, Chapter 96, Education Code, is
amended by adding Section 96.66 to read as follows:

Sec. 96.66. SAM HOUSTON STATE UNIVERSITY COLLEGE OF
OSTEOPATHIC MEDICINE. (a) In this section:

(1) "Board" means the board of regents of the Texas
State University System.

(2) "College" means the Sam Houston State University
College of Osteopathic Medicine established under this section.

(3) "University" means Sam Houston State University.

(b) The Sam Houston State University College of Osteopathic
Medicine is a college of the university and is under the management
and control of the board with degrees offered under the name and
authority of the university.

(c) The board may prescribe courses leading to customary
degrees and may adopt rules for the operation, control, and
management of the college as necessary for conducting a college of
osteopathic medicine of the first class.

(d) The provost of the university, on behalf of the board,
may execute and carry out an affiliation or coordinating agreement
with any other entity or institution.

1 (e) The board may solicit, accept, and administer gifts and
2 grants from any public or private source for the use and benefit of
3 the college.

4 (f) In addition to the college's facilities, the board may
5 enter into agreements under which additional facilities used in the
6 college's teaching and research programs, including libraries,
7 auditoriums, research facilities, and medical education buildings,
8 may be provided by a public or private entity.

9 (g) A teaching hospital considered suitable by the board may
10 be provided by a public or private entity. The hospital may not be
11 constructed, maintained, or operated with state funds.

12 (h) Notwithstanding any other law, the university is not
13 entitled to receive any formula funding for the college.

14 SECTION 2. Section 51.821(4), Education Code, is amended to
15 read as follows:

16 (4) "Participating medical school" means each of the
17 following entities:

18 (A) the medical school at The University of Texas
19 Health Science Center at Houston;

20 (B) the medical school at The University of Texas
21 Southwestern Medical Center;

22 (C) the medical school at The University of Texas
23 Health Science Center at San Antonio;

24 (D) the medical school at The University of Texas
25 Medical Branch at Galveston;

26 (E) the medical school at the Texas Tech
27 University Health Sciences Center at Lubbock;

1 (F) the medical school at the Texas Tech
2 University Health Sciences Center at El Paso;

3 (G) the Baylor College of Medicine;

4 (H) the college of osteopathic medicine at the
5 University of North Texas Health Science Center at Fort Worth;
6 [~~and~~]

7 (I) the medical school at The Texas A&M
8 University System Health Science Center; and

9 (J) the college of osteopathic medicine at Sam
10 Houston State University.

11 SECTION 3. Section 58.002(a)(1), Education Code, is amended
12 to read as follows:

13 (1) "Resident physician" means a person who is
14 appointed a resident physician by a school of medicine in The
15 University of Texas System, the Texas Tech University System, The
16 Texas A&M University System, or the University of North Texas
17 System or by the Sam Houston State University College of
18 Osteopathic Medicine or the Baylor College of Medicine and who:

19 (A) has received a Doctor of Medicine or a Doctor
20 of Osteopathic Medicine degree from the Baylor College of Medicine
21 or from an approved school of medicine; or

22 (B) is a citizen of Texas and has received a
23 Doctor of Medicine or a Doctor of Osteopathic Medicine degree from
24 some other school of medicine that is accredited by the Liaison
25 Committee on Medical Education or by the Bureau of Professional
26 Education of the American Osteopathic Association.

27 SECTION 4. Sections 59.01(1) and (3), Education Code, are

1 amended to read as follows:

2 (1) "Medical staff or students" means medical doctors,
3 doctors of osteopathy, dentists, veterinarians, and podiatrists
4 appointed to the faculty or professional medical staff employed for
5 student health services by The University of Texas System, The
6 Texas A&M University System, the Texas Tech University System, the
7 Sam Houston State University College of Osteopathic Medicine, or
8 the University of North Texas Health Science Center at Fort Worth,
9 either full time or who, although appointed less than full time
10 (including volunteers), either devote their total professional
11 service to such appointment or provide services to patients by
12 assignment from the department chairman; and interns, residents,
13 fellows, and medical or dental students, veterinary students, and
14 students of osteopathy participating in a patient-care program in
15 The University of Texas System, The Texas A&M University System,
16 the Texas Tech University System, the Sam Houston State University
17 College of Osteopathic Medicine, or the University of North Texas
18 Health Science Center at Fort Worth.

19 (3) "Board" means the board of regents of The
20 University of Texas System, the board of regents of The Texas A&M
21 University System, the board of regents of the Texas Tech
22 University System, the board of regents of the Texas State
23 University System, or the board of regents of the University of
24 North Texas.

25 SECTION 5. Sections 59.02(a) and (c), Education Code, are
26 amended to read as follows:

27 (a) Each board may establish a separate self-insurance fund

1 to pay any damages adjudged in a court of competent jurisdiction or
2 a settlement of any medical malpractice claim against a member of
3 the medical staff or students arising from the exercise of the
4 member's [~~his~~] appointment, duties, or training with The University
5 of Texas System, The Texas A&M University System, the Texas Tech
6 University System, the Sam Houston State University College of
7 Osteopathic Medicine, or the University of North Texas Health
8 Science Center at Fort Worth.

9 (c) On the establishment of each fund, transfers to the fund
10 shall be made in an amount and at such intervals as determined by
11 the board. Each board may receive and accept any gifts or donations
12 specified for the purposes of this subchapter and deposit those
13 gifts or donations into the fund. Each board may invest money
14 deposited in the fund, and any income received shall be retained in
15 the fund. The money shall be deposited in any of the approved
16 depository banks of The University of Texas System, The Texas A&M
17 University System, the Texas Tech University System, the Texas
18 State University System, or the University of North Texas Health
19 Science Center at Fort Worth. All expenditures from the funds shall
20 be paid pursuant to approval by the boards.

21 SECTION 6. Section 61.003(5), Education Code, is amended to
22 read as follows:

23 (5) "Medical and dental unit" means The Texas A&M
24 University System Health Science Center and its component
25 institutions, agencies, and programs; the Texas Tech University
26 Health Sciences Center; the Texas Tech University Health Sciences
27 Center at El Paso; the Sam Houston State University College of

1 Osteopathic Medicine; The University of Texas Medical Branch at
2 Galveston; The University of Texas Southwestern Medical Center; The
3 University of Texas Medical School at San Antonio; The University
4 of Texas Dental Branch at Houston; The University of Texas M. D.
5 Anderson Cancer Center; The University of Texas Graduate School of
6 Biomedical Sciences at Houston; The University of Texas Dental
7 School at San Antonio; The University of Texas Medical School at
8 Houston; The University of Texas Health Science Center--South Texas
9 and its component institutions, if established under Subchapter N,
10 Chapter 74; the nursing institutions of The Texas A&M University
11 System and The University of Texas System; and The University of
12 Texas School of Public Health at Houston; and such other medical or
13 dental schools as may be established by statute or as provided in
14 this chapter.

15 SECTION 7. Section 61.501(1), Education Code, is amended to
16 read as follows:

17 (1) "Medical school" means the medical school at The
18 University of Texas Health Science Center at Houston, the medical
19 school at The University of Texas Southwestern Medical Center, the
20 medical school at The University of Texas Health Science Center at
21 San Antonio, The University of Texas Medical Branch at Galveston,
22 the medical school at The University of Texas at Austin, the medical
23 school at The University of Texas Rio Grande Valley, the medical
24 education program of The University of Texas Health Science Center
25 at Tyler, the medical school at the Texas Tech University Health
26 Sciences Center, the medical school at the Texas Tech University
27 Health Sciences Center at El Paso, the Sam Houston State University

1 College of Osteopathic Medicine, the Baylor College of Medicine,
2 the college of osteopathic medicine at the University of North
3 Texas Health Science Center at Fort Worth, or the medical school at
4 the Texas A&M University Health Science Center.

5 SECTION 8. Section 63.002(c), Education Code, is amended to
6 read as follows:

7 (c) The amount available for distribution from the fund may
8 be appropriated only for programs that benefit medical research,
9 health education, or treatment programs at the following
10 health-related institutions of higher education:

11 (1) The University of Texas Health Science Center at
12 San Antonio;

13 (2) The University of Texas M. D. Anderson Cancer
14 Center;

15 (3) The University of Texas Southwestern Medical
16 Center;

17 (4) The University of Texas Medical Branch at
18 Galveston;

19 (5) The University of Texas Health Science Center at
20 Houston;

21 (6) The University of Texas Health Science Center at
22 Tyler;

23 (7) The University of Texas Health Science
24 Center--South Texas and its component institutions, if established
25 under Subchapter N, Chapter 74;

26 (8) The Texas A&M University Health Science Center;

27 (9) the University of North Texas Health Science

1 Center at Fort Worth;

2 (10) the Texas Tech University Health Sciences Center;

3 (11) the Texas Tech University Health Sciences Center
4 at El Paso; ~~and~~

5 (12) the Sam Houston State University College of
6 Osteopathic Medicine; and

7 (13) Baylor College of Medicine, if a contract between
8 Baylor College of Medicine and the Texas Higher Education
9 Coordinating Board is in effect under Section 61.092.

10 SECTION 9. (a) As soon as practicable after the effective
11 date of this Act, the Sam Houston State University College of
12 Osteopathic Medicine shall:

13 (1) enter into the agreement with the Joint Admission
14 Medical Program Council required by Section 51.829, Education Code;
15 and

16 (2) select an appropriate faculty member to represent
17 the college on the council.

18 (b) The Sam Houston State University College of Osteopathic
19 Medicine shall provide internships and mentoring under the Joint
20 Admission Medical Program not later than the 2022-2023 academic
21 year to admit participating students to the college under the
22 program.

23 SECTION 10. The Sam Houston State University College of
24 Osteopathic Medicine is eligible to receive funding under
25 Subchapter A, Chapter 63, Education Code, beginning with
26 allocations for the state fiscal year that begins September 1,
27 2019.

1 SECTION 11. This Act takes effect immediately if it
2 receives a vote of two-thirds of all the members elected to each
3 house, as provided by Section 39, Article III, Texas Constitution.
4 If this Act does not receive the vote necessary for immediate
5 effect, this Act takes effect September 1, 2019.

ADOPTED

MAY 13 2019

Leta Spaul
Secretary of the Senate

By: Metcalf | Creighton

H.B. No. 2867

Substitute the following for H.B. No. 2867:

By: Beanda Creighton

C.S.H.B. No. 2867

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13 (3) "University" means Sam Houston State University.

14 (b) The Sam Houston State University College of Osteopathic
15 Medicine is a college of the university and is under the management
16 and control of the board with degrees offered under the name and
17 authority of the university.

18 (c) The board may prescribe courses leading to customary
19 degrees and may adopt rules for the operation, control, and
20 management of the college as necessary for conducting a college of
21 osteopathic medicine of the first class.

22 (d) The provost of the university, on behalf of the board,
23 may execute and carry out an affiliation or coordinating agreement
24 with any other entity or institution.

1 (e) The board may solicit, accept, and administer gifts and
2 grants from any public or private source for the use and benefit of
3 the college.

4 (f) In addition to the college's facilities, the board may
5 enter into agreements under which additional facilities used in the
6 college's teaching and research programs, including libraries,
7 auditoriums, research facilities, and medical education buildings,
8 may be provided by a public or private entity.

9 (g) A teaching hospital considered suitable by the board may
10 be provided by a public or private entity. The hospital may not be
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13 entitled to receive any formula funding for the college.

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20 System or by the Sam Houston State University College of
21 Osteopathic Medicine or the Baylor College of Medicine and who:

22 (A) has received a Doctor of Medicine or a Doctor
23 of Osteopathic Medicine degree from the Baylor College of Medicine
24 or from an approved school of medicine; or

25 (B) is a citizen of Texas and has received a
26 Doctor of Medicine or a Doctor of Osteopathic Medicine degree from
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11 the University of North Texas Health Science Center at Fort Worth,
12 either full time or who, although appointed less than full time
13 (including volunteers), either devote their total professional
14 service to such appointment or provide services to patients by
15 assignment from the department chairman; and interns, residents,
16 fellows, and medical or dental students, veterinary students, and
17 students of osteopathy participating in a patient-care program in
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6 University of Texas Medical School at San Antonio; The University
7 of Texas Dental Branch at Houston; The University of Texas M. D.
8 Anderson Cancer Center; The University of Texas Graduate School of
9 Biomedical Sciences at Houston; The University of Texas Dental
10 School at San Antonio; The University of Texas Medical School at
11 Houston; The University of Texas Health Science Center--South Texas
12 and its component institutions, if established under Subchapter N,
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23 medical school at The University of Texas Health Science Center at
24 San Antonio, The University of Texas Medical Branch at Galveston,
25 the medical school at The University of Texas at Austin, the medical
26 school at The University of Texas Rio Grande Valley, the medical
27 education program of The University of Texas Health Science Center

1 at Tyler, the medical school at the Texas Tech University Health
2 Sciences Center, the medical school at the Texas Tech University
3 Health Sciences Center at El Paso, the Sam Houston State University
4 College of Osteopathic Medicine, the Baylor College of Medicine,
5 the college of osteopathic medicine at the University of North
6 Texas Health Science Center at Fort Worth, or the medical school at
7 the Texas A&M University Health Science Center.

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20 (4) The University of Texas Medical Branch at
21 Galveston;

22 (5) The University of Texas Health Science Center at
23 Houston;

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25 Tyler;

26 (7) The University of Texas Health Science
27 Center--South Texas and its component institutions, if established

1 under Subchapter N, Chapter 74;

2 (8) The Texas A&M University Health Science Center;

3 (9) the University of North Texas Health Science
4 Center at Fort Worth;

5 (10) the Texas Tech University Health Sciences Center;

6 (11) the Texas Tech University Health Sciences Center
7 at El Paso; ~~and~~

8 (12) the Sam Houston State University College of
9 Osteopathic Medicine; and

10 (13) Baylor College of Medicine, if a contract between
11 Baylor College of Medicine and the Texas Higher Education
12 Coordinating Board is in effect under Section 61.092.

13 SECTION 8. The Sam Houston State University College of
14 Osteopathic Medicine is eligible to receive funding under
15 Subchapter A, Chapter 63, Education Code, beginning with
16 allocations for the state fiscal year that begins September 1,
17 2019.

18 SECTION 9. This Act takes effect immediately if it receives
19 a vote of two-thirds of all the members elected to each house, as
20 provided by Section 39, Article III, Texas Constitution. If this
21 Act does not receive the vote necessary for immediate effect, this
22 Act takes effect September 1, 2019.

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 86TH LEGISLATIVE REGULAR SESSION

May 13, 2019

TO: Honorable Dennis Bonnen, Speaker of the House, House of Representatives

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 Passed 2nd House**

<p>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.</p>
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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

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

LEGISLATIVE BUDGET BOARD

Austin, Texas

FISCAL NOTE, 86TH LEGISLATIVE REGULAR SESSION

April 16, 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.), **Committee Report 2nd House, Substituted**

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.

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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

LBB Staff: WP, TSI, JGAn, DEH

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**

<p>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.</p>
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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.

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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

LBB Staff: WP, JGAn, DEH, TSI

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 86TH LEGISLATIVE REGULAR SESSION

March 19, 2019

TO: Honorable Chris Turner, Chair, House 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 Introduced**

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.

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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.

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Local Government Impact

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

LBB Staff: WP, JGAn, DEH, TSI

LEGISLATIVE BUDGET BOARD

Austin, Texas

HIGHER EDUCATION IMPACT STATEMENT

86TH LEGISLATIVE REGULAR SESSION

April 16, 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.), **Committee Report 2nd House, Substituted**

HB 2867 would create a new college of osteopathic medicine at 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.

Included in this higher education impact statement is an estimate for the need for the new or expanded institution, along with information on geographic access to existing institutions, student demand for the institution and programs, the possible duplication of programs with other institutions in the geographical region, and the long-term costs to the state for the institution, including any facilities construction and maintenance. This impact statement also addresses whether the proposed legislation would change the governance of an institution, and what the economic impacts of the change to the state and the affected institutions and systems might be.

HB 2867 would not directly change the governance of the institution, but would codify recent changes already implemented by the institution and system. In August 2018, the THECB approved the institution to implement a doctor of osteopathic medicine (DO) program and establish its College of Osteopathic Medicine. SHSU received approval from the THECB with the understanding that SHSU would not seek, nor accept if offered, formula funding for the osteopathic medical students enrolled in the courses in the DO program. HB 2867 codifies that action, which includes a change in governance structure. It authorizes the provost of SHSU to enter affiliation agreements with any other entity or institution, and it allows the Board to solicit, accept, and administer gifts and grants from any public or private source for the use and benefit of the college.

HB 2867 also authorizes the Board of Regents of the Texas State University System to prescribe courses leading to the customary degrees and allows for the adoption of rules for the operation, control, and management of the college as necessary for conducting a college of osteopathic medicine of the first class. The SHSU Board of Regents may enter into agreements under which additional facilities used in the college's teaching and research programs, including libraries, auditoriums, research facilities and medical education buildings, may be provided by a public or private entity. HB 2867 also allows a teaching hospital considered suitable by the Board of Regents to be provided by a public or private entity. However, it restricts funding for such a hospital, stating that, "The hospital may not be constructed, maintained, or operated with state funds." HB 2867 restricts state funding for the DO program.

Background Information - Need for a New Medical School

Texas is the second most populous state in the nation. The Texas Demographic Center estimated the state's general population to be 28.3 million in 2018. The state's changing demographics include significant increases among two populations: people over 65 years of age and Hispanics. The population of Texans over 65 years of age is projected to more than triple in size from 2010 to 2050, approaching 7.9 million. Additionally, the Hispanic population is projected to increase to nearly 2.3 times its size in 2010 to 21.5 million by 2050. Growth in these population sectors will present challenges to the health care system and will challenge the system in different ways, e.g., patterns in patient visits and need for medical procedures.

The aging population is expected to have greater financial security, have more health insurance coverage, require access to more health care services related to declines in visual and auditory acuity, and need help with daily living activities. The increasing Hispanic population is expected to be younger, carry less health insurance coverage, and have an increased incidence of chronic lifelong health conditions, such as diabetes and obesity. These two population sectors will exert continuing demands on the existing and future physician workforce. Escalating health care costs and greater specialized care complicate patients' decisions related to health care services. Other factors that influence the health care delivery system include declining employer-based financial support for health insurance and potential reductions in federal support for Medicare and Medicaid programs.

The Texas physician workforce faces additional challenges, including the high rate of Texas' uninsured population. The lack of insurance is associated with delayed or postponed treatment, which results in more complex and higher cost services. In 2015, 19 percent of the Texas population was uninsured, compared to 11 percent nationally. In 2017, federal tax legislation removed the penalty associated with the individual mandate to purchase health insurance. While the repeal of the individual mandate will not take effect until 2019, it may result in an increase in the uninsured population in Texas.

Even though Texas attracts many physicians to the state, the need for more physicians is a concern because the Texas physician workforce has faced a shortage for several decades. This concern remains, despite that from 2008 to 2017, newly licensed Texas physicians increased 30 percent, with such growth likely to continue in the coming years. The Texas Medical Board reported that applications for new licenses continued to rise as well, and in 2017, the agency received 5,576 applications, up from 4,026 applications in 2004. In addition, the ratio of practicing physicians to population in Texas increased from the 2007 level of 157 per 100,000 to the 2017 level of 194 per 100,000. Still, Texas is well below the national average of 237 physicians per 100,000 and ranks 41st among states in this category.

The increases in the Texas physician workforce have occurred in medical specialties and subspecialties that are not considered primary care specialties. Texas continues to have fewer primary care physicians than other states, with just 65.4 active primary care physicians per 100,000; Texas ranks 47th among states in this category and is below the national ratio of 82.5 per 100,000. A 2018 Texas Department of State Health Services, Center on Health Professions Workforce report shows there are shortages of primary care physicians in every region of Texas. The report also predicts that the shortages will worsen in the coming years.

In addition, there is a national call for more physicians. The Association of American Medical Colleges issued a call to increase medical school enrollments nationally by 30 percent. Texas existing medical schools responded to the call and increased entering first-year medical school enrollments 52.9 percent, from 1,342 in fall 2002 to 2,052 in fall 2017.

In 2017, the Texas Legislature passed Senate Bill 1066, which requires an institution proposing a doctor of medicine (MD) or doctor of osteopathic medicine (DO) degree program to provide a "specific plan regarding the addition of first-year residency positions for the graduate medical education program to be offered in connection with the new degree program." The plan must propose an increase in the total number of first-year residency positions in the state.

In its review of the SHSU proposal for a DO program, the THECB found that such a program would likely prepare physicians for entry into primary care and would prepare physicians to pursue medical careers in geographically underserved areas. The institution's stated goal is to graduate more primary care physicians that will practice in underserved areas of Texas (especially in East Texas).

Student Demand

Texas has 12 medical schools that currently enroll students; 10 are public; one, Baylor College of Medicine (Houston), is independent, although it receives state funding; and one, The University of the Incarnate Word, is private and does not receive state funding at this time. Of these 12 medical schools, 10 are allopathic medical schools, granting the MD degree, and two are osteopathic medical schools, granting the DO degree. Eight of the 10 public medical schools are located in health-related institutions, which offer many health-related degree programs; the other two are part of public, general academic institutions.

Since 2002, the number of unduplicated applicants to Texas public medical schools has steadily

increased. With the opening of two new medical schools in 2016, the number of applicants increased by 11.6 percent from the previous year (Figure 1). From 2006 to 2017, the number of applicants increased by 44.6 percent, while the number of enrolled first-year students increased by 30 percent. Applicants typically apply to more than one medical school. Texas offers applicants a coordinated submission process where one application may be submitted to all Texas public medical schools through the Texas Medical and Dental Schools Application Service.

Fiscal Impact

While the bill would authorize the creation of the Sam Houston State University College of Osteopathic Medicine in the Texas Education Code (TEC), the SHSU College of Osteopathic Medicine is expressly prohibited from seeking or receiving formula funding from the state. Instead, the institution intends to generate sufficient revenue to operate its medical school by charging tuition and fees comparable to private osteopathic medical schools, which have annual tuition costs of approximately \$60,000, making the four-year degree cost for each student approximately \$240,000 for the duration of the program.

Similarly, based on information provided by the institution, 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.

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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 million in General Revenue 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.

Adding SHSU's College of Osteopathic Medicine to Section 58.002 (a) (1) would add the institution to the existing list of Texas medical schools and would not incur a cost to the state.

Adding SHSU's College of Osteopathic Medicine (COM) to Section 59.01 Medical Malpractice Coverage for Certain Institutions, (1) and (3) would not likely incur a cost to the state, but could incur a cost to the institution.

Adding SHSU COM to Section 59.02. Medical Professional Liability Fund (a) and (c) to include the institution would not likely incur a cost to the state, but could incur a cost to the institution.

Adding SHSU COM to Section 61.003 to the definition of a "medical or dental unit" would not likely incur a cost to the state, nor incur a cost to the institution.

Adding SHSU COM to Section 61.501(1) to include SHSU College of Osteopathic Medicine in the list of Texas medical schools would not likely incur a cost to the state, nor incur a cost to the institution.

Adding SHSU COM to Section 63.002 (c) to include SHSU College of Osteopathic Medicine in the Permanent Health Fund would not incur a new cost to the state, as the endowment fund exists, but could decrease funding to other participating institutions, as funding is provided to institutions based on available proceeds. Adding SHSU COM to the list of institutions receiving funding would provide additional funding to the institution. HB 2867 authorizes the institution to participate in this fund distribution beginning September 1, 2019.

Final Considerations

After reviewing the available data and considering the needs of the institution and the state, THECB staff's assessment is that there is an ongoing fiscal impact as a result of establishing a new medical school.

Source Agencies: 781 Higher Education Coordinating Board

LBB Staff: WP, DEH, TSI