

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION

March 18, 2015

TO: Honorable Jane Nelson, Chair, Senate Committee on Finance

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 assets following the dissolution of the Texas Medical Liability Insurance Underwriting Association.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for SB18, As Introduced: a negative impact of (\$42,599,644) through the biennium ending August 31, 2017.

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 to General Revenue Related Funds
2016	(\$15,309,822)
2017	(\$27,289,822)
2018	(\$33,230,492)
2019	(\$18,095,404)
2020	(\$18,095,404)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from General Revenue Fund 1	Probable Revenue Gain from General Revenue Fund 1	Probable Revenue Gain/(Loss) from Policyholder's Stabilization Reserve Fund For Nursing Homes and Assisted Living Facilities Outside the Treasury	Probable Revenue Gain from Permanent Fund Supporting Graduate Medical Education
2016	(\$15,309,822)	\$0	\$0	\$0
2017	(\$27,289,822)	\$0	\$0	\$0
2018	(\$39,289,822)	\$6,059,330	(\$6,059,330)	\$329,105,864
2019	(\$18,095,404)	\$0	\$0	\$21,194,418
2020	(\$18,095,404)	\$0	\$0	\$21,194,418

Fiscal Year	Probable Savings/(Cost) from Permanent Fund Supporting Graduate Medical Education
2016	\$0
2017	\$0
2018	\$0
2019	(\$21,194,418)
2020	(\$21,194,418)

Fiscal Analysis

This bill would implement recommendations in the reports "Align New Graduate Medical Education Funding with the Healthcare Needs of the State" and "Modify the Texas Medical Liability Joint Underwriting Association" in the Legislative Budget Board's Government Effectiveness and Efficiency Report submitted to the Eighty-fourth Texas Legislature, 2015.

The bill would direct the Texas Higher Education Coordinating Board (THECB) to establish the Critical Shortage Physician Program. In each fiscal year, THECB would provide grants to teaching hospitals to provide graduate medical residency positions in excess of federal direct and indirect graduate medical education funding caps. THECB would provide these institutions with grants for the establishment of new accredited residency programs or for existing programs. The grants could be used to support family practice, general internal medicine, general pediatrics, and obstetrics and gynecology specialties or other medical specialties determined to be in critical shortage. Any excess funds could be used by THECB to provide grants for start-up costs at teaching hospitals that are establishing or seeking accreditation for new residency programs in the specialties described above. 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 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 awarding grants under the Critical Shortage Physician Program.

The bill would direct THECB to establish the Texas Teaching Health Center Graduate Medical Education Program to award grants to teaching health centers for the purpose of establishing new primary care residency programs or increasing the number of residency positions in existing primary care residency programs. The definition of "teaching health center" would include federally qualified health centers and other similar organizations.

Grants could not be award for a term of more than three years and the maximum award to a recipient could not exceed \$500,000 during a state fiscal year. Grants could be used for curriculum development; recruiting, training, and retaining residents and faculty; obtaining accreditation; and faculty salaries in the development phase. The bill would establish reporting requirements for grant recipients. 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 direct THECB to establish the Graduate Medical Education Partnership Program. Under the program, THECB would award grants to teaching health centers that are seeking accreditation for residency programs and accredited residency programs at hospitals for medical schools with which teaching health centers have partnered. Grants could be awarded to facilitate mentoring relationships to help teaching health centers gain accreditation and to build

collaborative relationships between the partners. 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 amend the Insurance Code to dissolve the Texas Medical Liability Joint Underwriting Association. The association could process claims up to the dissolution date of August 31, 2017 but would be prohibited from issuing or renewing insurance policies after the effective date of the bill. The association and Texas Department of Insurance would develop a plan of dissolution. After ensuring sufficient resources are available for outstanding claims liabilities following dissolution, assets in the Policyholder's Stabilization Reserve Fund for Nursing Homes and Assisted Living Facilities would be transferred into the general revenue fund. The remaining funds of the association would be transferred to the Permanent Fund Supporting Graduate Medical Education.

The bill would create the Permanent Fund Supporting Graduate Medical Education. Distributions from the fund would support programs established by the bill and other programs established under Chapter 58 of the Education Code. 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.

THECB would be required to adopt rules for the Critical Shortage Program, Teaching Health Center Program, and Partnership Program by December 31, 2015. It is assumed that THECB would begin awarding grants in fiscal year 2016.

Methodology

For the purposes of this fiscal note, it is assumed that grants made under the Critical Shortage Physician Program would provide an average of \$132,000 per resident. It is assumed that 50 residency slots would receive funding in fiscal year 2016. As these 50 residents progress to their second year of residency and a new cohort of residents begins, this estimate assumes that 100 residents would be funded under the Critical Shortage Program in fiscal year 2017. In fiscal year 2018, when the program has been fully implemented, it is estimated that 150 residency slots would be funded under the Critical Shortage Physician Program. Total grants awarded through the Critical Shortage Physician Program are estimated to be \$6,600,000 in fiscal year 2016, \$13,200,000 in fiscal year 2017, and \$19,800,000 in fiscal year 2018 and thereafter.

It is assumed that grants made under the Teaching Health Center Program would provide an average of \$150,000 per resident. It is assumed that 36 residency slots would receive funding in fiscal year 2016. As these 36 residents progress to their second year of residency and a new cohort of residents begins, this estimate assumes that 72 residents would be funded under the Teaching Health Center Program in fiscal year 2017. In fiscal year 2018, when the program has been fully implemented, it is estimated that 108 residency slots would be funded under the Teaching Health Center Program. Total grants awarded through the Teaching Health Center Program are estimated to be \$5,400,000 in fiscal year 2016, \$10,800,000 in fiscal year 2017, and \$16,200,000 in fiscal year 2018 and thereafter.

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.

It is assumed that the Partnership Grant Program would support 10 pairs of grantees each fiscal year for a total of 20 grants each fiscal year. It is estimated that each grant would be \$150,000 per fiscal year. Total grants awarded through the Partnership Grant Program are estimated to be \$3,000,000 in fiscal years 2016 through 2020.

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 established by the bill.

At the end of calendar year 2014, according to the annual statement of the Texas Medical Liability Joint Underwriting Association, the association held \$288.9 million in cash and investment assets. The fair market value of these assets (if sold) was estimated at approximately \$357.6 million. The association also held \$15.5 million in reserves for losses and loss adjustment expenses. After accounting for these liabilities, the net assets of association at the end of 2014 were approximately \$342.2 million. To account for costs associated with dissolving the association, this estimate assumes \$3 million in total liquidation costs for six years after dissolution of the association and a \$4 million cost at the association until dissolution.

Reserves associated with the Policyholder's Stabilization Reserve Fund for Nursing Homes and Assisted Living Facilities, which represented \$6.0 million of the assets of the association (unadjusted for their fair market value) are state funds held outside of the state Treasury. In accordance with statute, these assets would be transferred to the General Revenue Fund upon dissolution for a use related to ensuring access to affordable liability insurance for nursing facilities.

Based on this information, the estimated remainder of the funds available for transfer to establish a corpus in the Permanent Fund Supporting Graduate Medical Education would total \$329.1 million. The actual amount transferred to the Permanent Fund Supporting Graduate Medical Education is subject to change based on the liabilities of the association at dissolution, the market value of assets at sale, and expenses incurred to dissolve the association.

For the purpose of this fiscal note, it is assumed that the Permanent Fund Supporting Graduate Medical Education would be invested similarly to other endowment funds (such as the Permanent Public Health Fund and the Tobacco Settlement Fund) managed by the Treasury Safekeeping Trust Company and would earn a rate of return equal to the 5 year annualized total return of these endowment funds, or 6.44 percent, starting in fiscal year 2019. It is also assumed that the full amount of the investment returns would be used for graduate medical education programs starting in fiscal year 2019, offsetting a portion of the General Revenue costs of those programs.

The Texas Department of Insurance assumes that any impact the bill would have on the department could be absorbed within existing resources. The Texas Comptroller's Office anticipates no administrative costs as a result of the bill.

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 with 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: 304 Comptroller of Public Accounts, 454 Department of Insurance, 529 Health and Human Services Commission, 537 State Health Services, Department of, 710 Texas A&M University System Administrative and General Offices, 720 The University of Texas System Administration, 758 Texas State University System, 768 Texas Tech University System Administration, 769 University of North Texas System Administration, 781 Higher Education Coordinating Board, 783 University of Houston System Administration

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