

Date of Hearing: April 2, 2019

ASSEMBLY COMMITTEE ON HIGHER EDUCATION

Jose Medina, Chair

AB 1606 (Gray) – As Introduced February 22, 2019

SUBJECT: University of California: school of medicine: San Joaquin Valley Regional Campus Medical Education Endowment Fund

[Note: This bill is double-referred to the Assembly Committee on Revenue and Taxation and will be heard by that committee as it relates to issues under its jurisdiction.]

SUMMARY: This bill transfers - into an established endowment fund for operating a future University of California (UC) branch medical campus in the San Joaquin Valley – the estimated annual revenues from deleting the state’s conformity to a federal income tax deduction for net wagering losses.

EXISTING LAW:

- 1) Establishes UC, to be administered by the Board of Regents, with full powers of organization and government, subject only to such legislative control as may be necessary to insure the security of its funds and compliance with the terms of the endowments of the university and such competitive bidding procedures as may be made applicable to the university by statute for the letting of construction contracts, sales of real property, and purchasing of materials, goods, and services. (California Constitution Article IX, Section 9)
- 2) Establishes the University of California, San Francisco (UCSF), San Joaquin Valley Regional Campus Medical Education Endowment Fund to support the annual operating costs of a future branch campus of the UCSF School of Medicine in the San Joaquin Valley (SJV). (Education Code (EC) Section 92162.)
- 3) Stipulates that, upon the determination of the State Controller, in consultation with the University of California, that the endowment fund has adequate principal to annually yield sufficient investment earnings to cover the annual costs for the development, operation, and maintenance of a branch campus of the University of California, San Francisco, School of Medicine, supporting 50 students per class, or 200 students total, in the San Joaquin Valley over the succeeding 10 years and to fund the estimated costs of obtaining approval and accreditation from the Liaison Committee on Medical Education, UC shall seek approval and accreditation from the Liaison Committee on Medical Education for an expanded branch campus of the UCSF, School of Medicine in the SJV. (EC Sect. 92164.)
- 4) Stipulates that UC is not required to take any action towards developing the branch campus unless the endowment fund has a balance of \$500 million dollars. (EC Sect. 92166.)
- 5) Provides for conformity of state income tax deductions to federal income tax deductions, except where the state tax deduction is specifically disallowed. (Revenue and Taxation Code Section 17201 et seq.)

FISCAL EFFECT: Unknown

COMMENTS:

Recent Legislation. As described above, AB 2202 (Gray), Chapter 756, Statutes of 2018, established the endowment fund and stipulates that the fund shall not be deemed sufficient to support the annual operating costs of a branch UC medical campus in the SJV – supporting 50 students per class (200 students total) - until a balance of \$500 million is achieved and maintained in the fund. Per AB 2202, the endowment fund may receive donations and contributions from public and private entities, partnerships between public and private entities, fees, cash advances, and transfers from the state General Fund.

Purpose. This bill would provide an annual stream of funding into the endowment by removing the state income tax deduction, which currently conforms to a federal income tax deduction, for net gambling losses. At the time of this analysis, the Franchise Tax Board had not yet determined the revenue impact of this bill. While the committee may wish to consider the merits of providing a funding stream for the endowment fund, the appropriateness of adopting the proposed change to the state tax code will be considered by the Assembly Committee on Revenue and Taxation.

Background. According to a March 2018 UC report, "Improving Health Care Access in the San Joaquin Valley [SJV]," the SJV is one of the fastest growing, poorest, and least healthy regions of California. (The SJV includes eight counties – Fresno, Kern, Kings, Madera, Merced, San Joaquin, Stanislaus, and Tulare.) More than four million people live in this region, with about 40 percent covered by Medi-Cal. Among the state's 58 counties, Fresno, Kern, Madera, and Tulare rank 52nd, 53rd, 49th, and 50th, respectively, for health outcomes.

A workforce assessment conducted prior to the UC report indicates that the SJV has a significantly lower supply of health care providers compared to the state as a whole. For example, in 2015, the SJV had 138 active physicians per 100,000 residents, which was far below the statewide average of 237 physicians per 100,000 residents. Relative to the rest of the state, the SJV is currently facing a shortage of 4,100 physicians.

The SJV has an obvious shortage of physicians, as well as other health care professionals. The UC report notes that the two strongest predictors of where physicians will practice are (a) where the physician finishes their residency training and (b) where the individual was raised. The report cites studies showing that medical students are far more likely to practice in communities similar to where they were raised. One study found that a rural background increased the odds of practice in a rural area by 2.4 times.

The UC report provided a scenario for the eventual establishment of an independent medical school in the SJV, specifically by starting as a branch campus of UCSF. The report estimated that start-up costs for the first ten years of a branch campus, inclusive of capital expenses, would be approximately \$157 to \$167 million. Beyond the first ten years, an annual operating budget supporting 50 students per class would be approximately \$36 to \$40 million annually. Tuition revenues would support roughly \$12 million of this annual budget, leaving a funding gap of \$22 to \$28 million to be filled through another stable and sustainable revenue source. The report suggested that one option to meet this revenue goal would be establishing an endowment fund and reaching a fund balance of \$400 to \$450 million. Last year, AB 2202 was enacted to establish such an endowment fund, which would receive the revenue stream created by this bill.

REGISTERED SUPPORT / OPPOSITION:

Support

California Medical Association

Opposition

None on file.

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