

To UTHSC Faculty and Staff:

This communication is the first in a series of updates following the State of the Campus address given in June. That address remains posted on the UTHSC Website should you wish to review it (See link below). This update is focused on the financial status of UTHSC. Subsequent updates will discuss our research, clinical, educational and outreach missions.

<http://mediaserver.uthsc.edu/UTHSCMS/Viewer/?peid=334e0d79b6de4d61afbbe12e07c0d8351d>

As covered in the State of the Campus address, we are in a positive financial position relative to our peer institutions. When combined with UTHSC-governed not-for-profit corporations (our faculty practices), this year's budget is the largest budget in our history. It is, however, a very different budget compared with our pre-recession budgets. Specifically, the state's contribution to our budget is a much smaller proportion while grants, contracts, and our clinical 501(c)3 corporations make up a larger share of the budget. Thus, we earn much more of our revenue in the market and are more like a non-profit corporation that must earn its way every year than a state agency. Mr. Ferrara manages a very complex multi-source budget.

Our current state allocation is significantly less than our 2008 state allocation, but reflects growth over preceding years. Our budget has been strong enough that over the past two years, we have provided a 9% increase in compensation to our faculty and staff. It is notable that increasing compensation in these times is something many of our peer institutions have been unable to do. Further, we have been able to increase compensation while holding our tuition increase last year to 4%. I am pleased we are improving the compensation structure for all, but am mindful that the state or orange dollar resources that support reoccurring salaries are finite and must be used carefully.

Non-state resources have been growing. Specifically:

- We have been successful in a series of large grants and gifts. For example, our Pediatrics Department is the beneficiary of a research support fund backed by St. Jude. In another example, we have received almost \$9 million in gifts and grants from BlueCross BlueShield of Tennessee. Many other gifts and private grants have been obtained, including support from the Plough, Assisi, and Hyde, Foundations to name a few.
- We brought in almost \$200 million in FY12 in sponsored program support. The sponsored programs category encompasses grants, contracts and direct gifts for both research and educational purposes. UTHSC has the highest sponsored program total in the UT system.

- We raised our clinical practices to an all-time financial high in terms of revenue. Perhaps more importantly, through clinical practice agreements with partner hospitals and faculty practices, UTHSC now directly receives more than \$13 million annually in academic payments. These academic payments are our largest source of discretionary revenue to grow our academic programs. When we complete our hospital alignment strategy, we hope to have more than \$20 million annually in academic payments.

In addition, we have substantially renovated all of our educational buildings, and are embarking on a building campaign for both our educational and research enterprises. This year, we were able to begin construction on a translational science research building. Plus, following the demolition of several outdated buildings on our campus, we can begin to construct the clinical simulation building. This important educational center will be built on the current site of the Feurt building.

Finally, we are now in a position to make major research investments to develop a self-sustaining research enterprise. Next week, I will begin to communicate in detail on our upcoming research investments. Today, I am prepared to say that we will again be returning a portion of indirect payments (F&As) from research grants in the near future.

We are a very different financial institution than five years ago, earning the vast majority of our revenue in the open market.

In the near future, I will be communicating with the campus in detail on our research, clinical, educational and outreach endeavors. A series of communications will be distributed, followed by town hall meetings to discuss any concerns and receive feedback. This communication strategy seems to work well. I look forward to an ongoing dialogue on our shared issues.

Steve J. Schwab, MD

Chancellor