

Subject: Chancellor's Budget Update

I am pleased to report that Governor Haslam signed the state's budget into law last week. Within this budget is a very strong UTHSC appropriation. While this state appropriation does not meet 2008 appropriation levels, it is another substantial increase. Indeed, when all components of our state budget are added, it is the largest state operating budget in the history of UTHSC. Tempering this outstanding news is the sequester-driven decrease in Graduate Medical Education (GME) and other federal programs. Nonetheless, there is an enormous amount to be grateful for in our state's support of UTHSC.

Within this budget the governor and legislature rewarded a very strong UTHSC performance with another operating fund increase and provided for a 1.5% increase in employee compensation. We lobbied heavily on capitol hill with the strong support of President DiPietro for both of these items. In addition, the budget includes \$66 million to renovate the Nash, Crowe and Mooney buildings, the historic quadrangle complex. It also includes the initial funds from a \$15 million commitment to children's science to match the generous St. Jude gift (\$15 million) and the Le Bonheur matching contributions to our research and education programs. Mindful of our students, we are working hard to keep our tuition within the SEC mean for all of our colleges.

When combined with our own internally funded buildings (Translational Science Research Building) and renovation, these state building funds amount to almost \$250 million in campus improvements over the past three years. This is in addition to extensive renovations. Equally important, we will demolish three unused buildings this year and build new structures to replace them.

Our clinical programs, clinical academic payments, sponsored programs income, and philanthropy are at record highs. These, as well as other one-time funds we have raised, place us in an excellent go-forward position for recruiting. Growth is now under way in all of our colleges.

However, what has gone very well in the state and clinical budget is not matched by federal contributions to UTHSC. The effect of the sequester is beginning to be felt. We now feel downturns in the NIH budget and decreases in the indirect portion of GME (indirect GME pays faculty for instance). This is felt most strongly on those campuses where GME is a very large part of the campus budget, such as Knoxville and Chattanooga. To a certain extent, clinical and hospital income, which is increasing, partially offsets these GME decreases at some campuses. Finally, the effect of non-participation by Tennessee in Medicaid expansion will not be felt directly this year as disproportionate share payments to our partner hospitals (DISH payments) have been

extended for one year. In addition, the governor may be successful in alternate funding for Tennessee's working poor.

Overall this has been a very good financial year for UTHSC. Our all-source budget is our largest ever. However, we remain very concerned about the effect of the federal sequester on UTHSC and the impact of the state's non-participation in Medicaid expansion on our future. We are actively working on strategies to deal with these negative financial events.

We have advanced proposals to the UT President and the Trustees for next year's tuition and have requested to add a UTHSC component to the raise package for employees. We await their deliberations.

I am grateful to our President and Trustees, as well as Governor Haslam and the legislature, for their confidence in UTHSC. Most importantly, I thank all of you, UTHSC faculty and staff, for your contributions that make our continued success possible.

Steve J Schwab, MD
Chancellor