From: UCSF-GME
Subject: From the Dean, Sam Hawgood - Update on School of Medicine Budget
Date: Thursday, March 26, 2009 12:19:39 PM

Dear Colleagues,

In my letter to you on January 23rd, I indicated we had formed a budget work group to assist the School's leadership in responding to the extraordinary financial challenges before us. This group has now met several times and is fully engaged in the budget process. I write now to update you on some of the work group activity and next steps.

Each of the SOM departments and ORUs have provided the budget work group with their fiscal year 2010 projections incorporating the expense and revenue assumptions developed and approved by the work group. Collectively these assumptions underscore the challenge we face. In aggregate, the School of Medicine will experience significant cuts in revenue in FY10: state funding is projected to be cut by $7.2 million; SFGH contract revenue is projected to be cut by $4.3 million; endowment income is projected to be cut by $2.5 million; and STIP revenue is expected to be reduced as fund balances decline. Fortunately, we project sponsored research and clinical income to increase modestly, 3.45 percent and 2 percent respectively. Indeed, one measure of our core strength released since my last communication shows the School was ranked number 2 in the country in NIH funding in 2008, an improvement from #3 in 2007 and #4 in 2006.

While the cuts in State and City support will be painful, significant increases in operating expenses will have a more dramatic impact -- $17.2 million of incremental operating expense in FY10. The employer contribution to UCRP will add approximately $7 million in FY 10 expense ($22 million annually at a 4 percent contribution). The data recharge will add approximately $3.8 million in annual expense (at $35 per FTE per month). Other benefit costs will add approximately $6.4 million in FY10 expense.

As expected, these financial challenges will have a significant negative impact on the School's financial performance in FY10 and beyond. Unless steps are taken the impacts described in the previous paragraph would lead to a combined loss of almost $50 million on a $1.3 billion operating budget and a reduction in the School's net assets of almost 11% in FY10. Most importantly, the financial stress is felt differently across the School, with those departments without strong clinical revenue streams or reserve cushions struggling most. Several departments have already begun reducing operating expenses and are looking at ways to improve

productivity. Implementing the action plans already developed by departments will reduce the operating loss to $36 million. With the information provided by our departments now in hand the budget work group will play a critical role in evaluating and prioritizing the needs of our most stressed units and in looking for ways we can further reduce the operating loss. Across the School, both payroll and non-payroll expenses must be evaluated for targeted reductions in FY10 operating budgets. We expect to complete the FY10 budgets and action plans by early May in coordination with the processes underway in the Campus and Medical Center.

The same financial stressors impacting the departments directly affect the Dean's Office and will need to be addressed through increased efficiency and decreased expenses. In addition to service functions, the Dean's Office provides much needed program support to many of the departments and units in the School for both ongoing operations and new program development. With decreases in patent income over the last decade and more recent reductions in State support, endowment, and short term interest income the discretionary funds available for this purpose are insufficient to provide support for both existing programs and all the new programs in our pipeline we might wish to support. The shortfall in available program support funds and a process for reviewing most existing and new programs was discussed with the School leadership this week. The budget workgroup is advising in a rigorous review of this program support to help identify areas where support can be reduced or investments postponed while minimizing the impact to our core missions. This work should be completed and reviewed with the affected departments and units by the end of April to incorporate impacts into final budget plans.

As I noted in my earlier letter, anxiety is understandable in these challenging times particularly while definitive action plans are still in the process of being developed. Collectively, the SOM leadership is working hard making the decisions necessary to manage these significant challenges and is committed to maintaining our stature as one of the most outstanding medical schools in the world. I will continue to provide you with up-dates on the planning and decision making process and plan on an open forum for School-wide discussion in early May.

Sincerely,

Sam Hawgood