

# Achieving a Financial Balancing Act

By Pamela Lewis, *Institutional Advancement*

"All in all," says Kevin Dillon, executive vice president for Finance and Administration, "The University of Texas Health Science Center at Houston did well in fiscal year 2005-06."

The university's financial goals are, always, Dillon notes, to:

- Support teaching, research and service;
- Achieve budgeted results (including commitments to UT System, such as staying off of System's "Financial Watch" status);
- Sustain and enhance institutional debt capacity, in order to support growth and strategic initiatives; and
- Maintain some level of reserves for emergencies, such as having 90 days of Medical Service Research and Development Plan expenditures retained, in cash.

Generally, says Dillon, "our best answer to the question, 'How'd we do, financially, last year?' is that FY2006's net income, after debt service transfers and capital asset

purchases (Education and General, Designated, Auxiliaries, Restricted), is \$18 million — 2.6% of nearly \$700 million of total, "current" revenues. Remove "Restricted" funds, and the margin is \$12 million.

That includes income from four fund groups, such as:

- Educational & General (state appropriation, tuition, certain sponsored programs);
- Designated (mostly practice plan, plus the large hemophilia pharmacy program, designated tuition, Federal Emergency Management Agency funds, most investment income);
- Auxiliary Enterprises (UT Professional Building and garage, student apartments, other parking, print shop, food services, etc.);
- Restricted (most sponsored research and gift funds).

For FY 2005, these same two figures were \$20 million for net income exclud-

ing restricted funds and \$9 million including restricted funds.

However, there is a "less simple" version, shown by the accompanying charts.

In summary, says Dillon, the UT Health Science Center had a good year financially in FY06:

- "We had a \$13 million (9%) increase in total state appropriation (vs. '05) and we didn't spend all of it. However, we're still not back to '02 levels — in nominal (let alone inflation-adjusted) terms — in state formula funding (but special item and Tuition Revenue Bond debt service areas have increased)."
  - Auxiliary Enterprises earned a \$7 million margin (about half that, after depreciation).
  - Investment income increased to \$18 million (or by \$3 million).
  - Operating gift income increased to \$22 million (or by \$4 million).
- "Compared to several of our 'neighbors'

— and many academic health science centers nationally — our financial position is strong. We've had three straight years of positive financial margin and that's important because trends 'count,' especially with UT System.

"The UT Health Science Center does have borrowing capacity, so we can more easily undertake and complete facilities such as the Replacement Research Facility, the UT Research Center on the South Campus, and other future projects," Dillon says.

"In the four years since we (and all similar institutions) adopted a completely new, 'enterprise' financial reporting model (in FY 2002), the net assets of the UT Health Science Center — its assets less liabilities, and thus one of the best single measures of financial strength — have grown from \$471 million to \$831 million (or 76%; more than 15% per year, compounded).

"To have accomplished this concurrent with significant state funding reductions, is remarkable," he concludes. ★

## FY 2005-06 Net Income (in millions):

	E&G	Designated	Auxiliary Enterprises	Restricted	Total
Operating Revenues:	\$228.3	\$244.8	\$24.3	\$144.7	\$642.1
Operating Expenses:	\$205.1	\$240.3	\$14.9	\$154.6	\$614.9
Operating Income:	\$23.2	\$4.5	\$9.4	(\$9.9)	\$27.2
Non-operating Revenues and Expenses:	\$1.8	\$11.2	\$0.7	\$27.9	\$41.6
Transfers:	(\$7.2)	(\$18.6)	(\$2.5)	(\$8.3)	(\$36.6)
Capital Asset Purchases:	\$3.8	\$6.5	\$0.3	\$3.5	\$14.1
Net Income:	\$14.0	(\$9.4)	\$7.3	\$6.2	\$18.1

## FY 2004-05 Net Income (in millions):

	E&G	Designated	Auxiliary Enterprises	Restricted	Total
Operating Revenues:	\$206.2	\$232.7	\$21.7	\$133.0	\$593.6
Operating Expenses:	\$198.4	\$228.5	\$13.8	\$139.5	\$580.2
Operating Income:	\$7.8	\$4.2	\$7.9	(\$6.4)	\$13.5
Non-operating Revenues and Expenses:	\$0.8	\$13.3	\$0.2	\$16.0	\$30.3
Transfers:	\$1.8	(\$6.8)	(\$1.2)	(\$16.5)	(\$22.7)
Capital Asset Purchases:	\$1.2	\$5.6	\$0.9	\$4.6	\$12.3
Net Income:	\$9.2	\$5.1	\$6.0	(\$11.5)	\$8.8

## FY 2005-06 Net Income (in millions), with depreciation instead of capital asset purchase:

	E&G	Designated	Auxiliary Enterprises	Restricted	Total
Operating Revenues:	\$228.3	\$244.8	\$24.3	\$144.7	\$642.1
Operating Expenses:	\$205.1	\$240.3	\$14.9	\$154.6	\$614.9
Operating Income:	\$23.2	\$4.5	\$9.4	(\$9.9)	\$27.2
Non-operating Revenues and Expenses:	\$1.8	\$11.2	\$0.7	\$27.9	\$41.6
Transfers:	(\$7.2)	(\$18.6)	(\$2.5)	(\$8.3)	(\$36.6)
Total Depreciation:	\$4.7	\$9.5	\$3.4	\$9.8	\$27.4
Net income:	\$13.1	(\$12.4)	\$4.2	(\$0.1)	\$4.8

## FY 2004-05 Net Income (in millions), with depreciation instead of capital asset purchase:

	E&G	Designated	Auxiliary Enterprises	Restricted	Total
Operating Revenues:	\$206.2	\$232.7	\$21.7	\$133.0	\$593.6
Operating Expenses:	\$198.4	\$228.5	\$13.8	\$139.5	\$580.2
Operating Income:	\$7.8	\$4.2	\$7.9	(\$6.4)	\$13.5
Non-operating Revenues and Expenses:	\$0.8	\$13.3	\$0.2	\$16.0	\$30.3
Transfers:	\$1.8	(\$6.8)	(\$1.2)	(\$16.5)	(\$22.7)
Total Depreciation:	\$3.4	\$6.8	\$2.5	\$7.1	\$19.8
Net Income:	\$7.0	\$3.9	\$4.4	(\$14.0)	\$1.3