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The University of Texas System
(as prepared)

Texas House Select Committee on Hurricane Ike Destruction

Texas Senate Intergovernmental Relations Committee-Subcommittee on Flooding and Evacuations

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Thank you for the opportunity to comment on behalf of The University of Texas System in regard to the impact of Hurricane Ike on our campuses and the short and long term efforts of the UT System to cope with this catastrophic event and mitigate against future damage.

Looking Back

After Tropical Storm Allison in 2001, which inflicted $166 million of damages on The University of Texas M.D. Anderson Cancer Center and The University of Texas Health Science Center at Houston, we undertook a reconstruction program which moved to higher floors heavy equipment and the animal colony which had been completely destroyed at Health Science Center Houston. This required significant reconstruction and strengthening of the facility. In addition, flood gates that could be closed in the face of potential rising waters were constructed and buildings were reconstructed to be water tight at lower levels.

As a consequence of these efforts, the effect of Hurricane Ike on these two campuses was limited to $23 million at the M.D. Anderson Cancer Center and $7.41 million at Health Science Center Houston, with much of those losses resulting from business interruption. M.D. Anderson's hospital was able to pull up its flood gates and continue to care for 450 patients throughout the disaster. Power was available through the Texas Medical Center even though power was seriously limited in the remainder of Harris County.

Tropical Storm Allison also taught us lessons about the value of insurance. Following Allison, hurricane and flood insurance coverage was largely unavailable until approximately one year ago, when the UT System was able to purchase a $100 million policy with a $50 million deductible provision funded by contributions from all our campuses. We were very fortunate to obtain even this amount of insurance coverage and, given the losses in Hurricane Ike, the availability of similar insurance in the future is uncertain.

Hurricane Ike to Today

Let me emphasize that The University of Texas System and its Regents are firmly and absolutely committed to a vibrant and productive University of Texas Medical Branch campus on Galveston Island. We have 100 buildings, $160 million in annual research money, the new National Lab, and important educational programs in medicine, nursing, allied health professions and graduate studies. We are also committed to the presence of a hospital and emergency room on the island, the final size and shape of which is currently being examined. We hope to restore a Level I Trauma Center at the hospital when facilities such as a blood bank are restored and adequate funding is available.

We are very proud of the efforts of the faculty and staff at UT Medical Branch, who coped with extraordinary conditions during and immediately after Hurricane Ike, during which they sought to preserve as much of the campus as possible. It is an understatement to say that their efforts were heroic in the face of limited emergency power, loss of potable water, and the inability to use 117 elevators. The absence of elevators alone greatly complicated the ability to care for the animal colony which was located on upper floors and to which supplies and water had to be delivered regularly. Among the most devastating damage was that to the first floor of the John Sealy Hospital, where many service areas were destroyed, including the pharmacy, the kitchen, and sterilizing areas.

Under the System-wide disaster mitigation plan, we were able to engage contractors within 12-18 hours of the disaster. At the time of my first visit to the campus shortly after the storm there were already over 1000 contract workers on site to restore access to the 60-70 buildings impacted by water and wind. We were also able to establish computer operations for UT Medical Branch at our UT Arlington computer center so that there was no interruption in payroll payments to employees and clinical appointments for patients receiving care at mainland clinics could be continued. It is noteworthy that the newly constructed National Laboratory and newer research buildings had been built in a manner to minimize damage and mitigate the effects of the hurricane. This is an important lesson as we look ahead to long-term mitigation efforts.

The faculty and staff at the campus also deserve the highest praise for their efforts to reopen the 16 bed maternity ward within 30 days of the hurricane and are in the first stages of opening a 200 bed.

In the end, however, Hurricane Ike has had a disastrous impact on The University of Texas Medical Branch at Galveston, producing approximately $400 million in capital losses and $300 million in business interruption costs. The latter are the result of the loss of revenue from patient care and other services for an extended period of time. Unfortunately these losses resulted in the painful reduction in force of approximately some 3800 full-time equivalent positions at UTMB. The reductions took place only after careful program by program assessment of those activities which could be sustained. The lack of monies to pay

salaries due to the absence of patients, coupled with the realities that reopening a larger hospital on Galveston Island, if undertaken, will require several years to accomplish, and can only be done with financial support from a regional or county hospital or health care district, compelled this action in order to assure the ongoing fiscal viability of the remainder of the medical education, research and health care enterprise.

Looking Ahead

I do wish to make some comments regarding the needs of UTMB and the UT System as we look ahead to the upcoming 81st Legislative Session, as well as offer some suggestions with regard to mitigation of the effects of these disasters in the future. In order to do so, however, I must first briefly review the funding sources available to respond to such a disaster.

For all our campuses, including UTMB, State appropriations for operations are made directly to the campus rather than through UT System administration. The UT System does not receive from the State and does not maintain a pool of operating monies for the various campuses.

Although The University of Texas System benefits from the Permanent University Fund and the Available University Fund, those funds are limited in how they may be used. For example, under the Texas Constitution the Available University Fund may only be used for operations at The University of Texas at Austin and for UT System administration. The Available University Fund cannot be used for operations at any of our other campuses. Proceeds of Permanent University Fund bonds are available under the constitution for all but two of our campuses, but those proceeds may not be used for business operations, including salaries. In addition, as the value of the Permanent University Fund has declined in the current economic conditions the Fund's constitutionally-limited debt capacity for capital expenditures has also declined, making this financing mechanism unavailable.

For these reasons, the UT System's response to the Hurricane Ike disaster is largely dependent upon cash reserves at the UT Medical Branch and the borrowing capacity of that campus. Both of these sources of funds are extremely limited and declining.

UTMB does receive payment for the provision of correctional managed care (CMC) services under a contract with the Correctional Managed Health Care Committee, but does not receive any direct State appropriations for this purpose. UTMB wishes to continue providing these services in the immediate future and is reviewing its ability and the effects on the institution of continuing to provide them for the long term. No reduction in force has been undertaken in relation to employees in the correctional managed care health program. A small number of CMC beds have been reopened on the Island and will be expanded in

number over the next weeks and months. The money UTMB receives under the CMC contract may be used only for correctional managed care services and support.

The federal government through the Federal Emergency Management Agency (FEMA) will be another source of funds for reconstruction at UT Medical Branch. Within days of the hurricane, The University of Texas System and UTMB engaged James Lee Witt Associates to advise us on the roles and responsibilities of FEMA in responding to the disaster.

FEMA is responsible for 100% of the acute response costs for up to 45 days and thereafter for 75-90% of capital losses. Under Section 406 of the federal law, FEMA will also consider funding for mitigation against future losses. However, reimbursement for construction is a painfully slow process. Each project has to be carefully planned, approved by FEMA, and then largely reimbursed only upon completion. In the case of Tropical Storm Allison, it was five years before the FEMA reimbursement was fully accomplished, so you can see that going forward arrangements with FEMA will be complex and time-consuming. And most notably, FEMA does not provide any funds for business interruption losses, which were the driving forces in the need for the reduction in force at UTMB.

Given all these internal and external limitations and conditions, I expect UTMB and the UT System will ask the Legislature in its upcoming session for financial help to cope with the depletion of the cash reserves at UTMB and the expenditures required to meet the costs of recovery. Cash reserves will be exhausted by February or March and so an emergency appropriation will be critical to sustaining the ongoing operations of UTMB. And a part of this assistance will need to come in the form of an advance of State funds in order to pay the current and ongoing costs of reconstruction, which would be repaid out of funds received from FEMA as projects are completed, noting that there will undoubtedly be some portion of these capital costs that will not be reimbursed by FEMA and must be borne exclusively by the State.

At the same time, it is essential that repairs take place in a manner that will mitigate against further damage. For example, the hospital support facilities, including the kitchen, pharmacy, and sterilization areas, must be moved to higher levels to avoid damage in future floods. This is not only essential to maintain business operations, but FEMA will not reimburse if a structure is damaged a second time in the absence of serious mitigation efforts. At the same time that the first floors are reconstructed, we must look closely for opportunities to use technology and engineering to help protect other key buildings on the campus. All of this will be expensive and time consuming.

From the broader and more long-term perspective, it would be useful if State policy-makers give consideration to the establishment or identification of a disaster response fund to provide the ability for institutions such as UTMB, if they confront a major disaster in the future, to proceed expeditiously with reconstruction. It is also imperative that such funds be available for operating as well as capital purposes, as often it is the business interruption and associated depletion of cash reserves that is the largest loss in such

situations. For example, a portion of the Economic Stabilization or "Rainy Day" Fund – as much as $1 billion – could be set aside for this purpose. Such an initiative would require careful coordination with FEMA to ensure that projects funded through this mechanism would be FEMA-eligible in order to preserve the ability to be subsequently reimbursed by FEMA. A body such as the Legislative Budget Board (perhaps with executive approval such as is provided for in budget execution under existing state law) could approve monies for this purpose in incremental amounts, with additional funds made available only as the campus or other agency demonstrates that it is making substantial progress in its planning and execution of reconstruction. To the extent that FEMA would pay for the costs of mitigation, this would also be paid from this disaster response fund and subsequently reimbursed; but mitigation projects may be so important to the future of an institution or facility that they might be funded in this way without the certainty that such expenditures would be reimbursed. Providing a secure and stable source for such investment in the long term viability of public facilities would be very valuable for the State's future.

This proposal would in no way diminish the need, as with UTMB, for State appropriations to help in the response to a disaster, but a well-defined program, with carefully defined criteria and an emphasis on expeditious implementation, might provide a model for accelerated responses to disasters. Unfortunately, we know with certainty that future disasters will occur. When they do, having a rapid, responsive, and flexible source of funding would be beneficial.

Mr. Chairman, thank you for the opportunity to comment on behalf of The University of Texas System and for your service to the State as we assess the lessons to be learned from the devastation of Hurricane Ike. In closing I will reiterate our commitment to a comprehensive research, education, and patient care program at The University of Texas Medical Branch on Galveston Island. Kurt Salmon Associates, our consultants, will be reporting early next year on the further development of this program and specifically the approaches to the hospital on Galveston Island, as well as options for additional clinical and hospital facilities in Galveston County, that would minimize the likelihood that hurricanes such as Ike would so completely incapacitate our ability to provide patient care.

I will be pleased to respond to any questions.