



## TABLE OF CONTENTS FOR HEALTH AFFAIRS COMMITTEE

**Committee Meeting:** 5/13/2010

**Board Meeting:** 5/13/2010  
Austin, Texas

Janiece Longoria, *Chairman*  
James D. Dannenbaum  
Wm. Eugene Powell  
Robert L. Stillwell

	<b>Committee Meeting</b>	<b>Board Meeting</b>	<b>Page</b>
<b>Convene</b>	7:30 a.m. <i>Chairman Longoria</i>		
<b>1. U. T. System Board of Regents: Amendment to the Regents' <i>Rules and Regulations</i>, Rule 40601, Section 1.14(c), concerning proposed name change of the School of Health Information Sciences at U. T. Health Science Center – Houston to the School of Biomedical Informatics</b>	7:30 a.m. <b>Action</b> <i>President Kaiser Dr. Shine</i>	<b>Action</b>	<b>121</b>
<b>2. U. T. Medical Branch – Galveston: Report on the financial condition of the institution and update on Hurricane Ike recovery projects</b>	7:35 a.m. <b>Report</b> <i>Mr. Elger, U. T. Medical Branch – Galveston Mr. Harris, U. T. System Office of Facilities Planning and Construction</i>	Not on Agenda	<b>122</b>

	<b>Committee Meeting</b>	<b>Board Meeting</b>	<b>Page</b>
<p>3. <b>U. T. Medical Branch – Galveston: Authorization to convey Lots 1 through 4 and a portion of Lot 5, Block 666, a portion of Lot 6 and all of Lot 7, Block 667, a portion of the abandoned 7th Street right-of-way between Blocks 666 and 667, and a portion of Avenue A, together with all improvements thereon, all in Galveston, Galveston County, Texas, to The Sealy &amp; Smith Foundation, a Texas nonprofit corporation, or its subsidiary, Magnolia Holding Company, a Texas nonprofit corporation, in exchange for the acquisition from The Sealy &amp; Smith Foundation or Magnolia Holding Company of part of Lot 9 and all of Lots 10 through 13, Block 667, a portion of Texas Avenue (Avenue B) to the south, and a part of a 20-foot wide alley, together with all improvements thereon, Galveston, Galveston County, Texas, for use as a portion of the site for the institution's proposed clinical services building; and authorization to lease from The Sealy &amp; Smith Foundation or Magnolia Holding Company Lots 1 through 4 and 8 through 14, and a portion of Lot 5, Block 666, portions of Lots 6 and 9 and all of Lots 7 and 8, Block 667, a portion of the vacated alley between Blocks 666 and 667, and a portion of 6th Street, 7th Street, Avenue A, and Avenue B rights-of-way or former rights-of-way, together with all improvements thereon, Galveston, Galveston County, Texas, for use as the site for the proposed replacement Jennie Sealy Hospital</b></p>	<p><i>8:00 a.m.</i> <b>Action</b> <i>President Callender Ms. Mayne</i></p>	<b>Action</b>	<b>140</b>
<p>4. <b>U. T. System: Funding streams for health institutions -- opportunities and challenges and the impact of health care legislation</b></p>	<p><i>8:15 a.m.</i> <b>Discussion</b> <i>Dr. Shine</i></p>	Not on Agenda	<b>149</b>
<p>5. <b>U. T. System: Quarterly report on health matters, including Cancer Prevention and Research Institute of Texas funding and health care working group activities</b></p>	<p><i>9:15 a.m.</i> <b>Report</b> <i>Dr. Shine</i></p>	Not on Agenda	<b>166</b>
<b>Adjourn</b>	<i>9:30 a.m.</i>		

1. **U. T. System Board of Regents: Amendment to the Regents' Rules and Regulations, Rule 40601, Section 1.14(c), concerning proposed name change of the School of Health Information Sciences at U. T. Health Science Center – Houston to the School of Biomedical Informatics**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs, the Vice Chancellor and General Counsel, and President Kaiser that the Regents' *Rules and Regulations*, Rule 40601, Section 1.14(c) concerning institutions comprising The University of Texas System, be amended as set forth below in congressional style:

Sec. 1 Official Titles. The U. T. System is composed of the institutions and entities set forth below. To ensure uniformity and consistence of usage throughout the U. T. System, the institutions and their respective entities shall be listed in the following order and the following titles (short form of title follows) shall be used:

...

1.14 The University of Texas Health Science Center at Houston (U. T. Health Science Center – Houston)

...

(c) The University of Texas School of ~~Health Information Sciences~~ Biomedical Informatics at Houston (U. T. ~~Health Information Sciences~~ Biomedical Informatics – Houston)

....

BACKGROUND INFORMATION

Over the past decade, the computational and informational aspects of biomedical research have matured, resulting in the development of a number of academic programs and publications, and leading to an established scientific field recognized as biomedical informatics. With the proposed name change, U. T. Health Science Center – Houston will have the first School of Biomedical Informatics in the country. The new name will reflect the established name of the scientific field and is expected to facilitate the funding and recruiting activities of the institution by increased name recognition.

*Texas Education Code* Section 65.11 authorizes the Board of Regents to provide for the "names of the institutions and entities in The University of Texas System in such a way as will achieve the maximum operating efficiency of such institutions and entities[.]"

2. **U. T. Medical Branch – Galveston: Report on the financial condition of the institution and update on Hurricane Ike recovery projects**

REPORT

Mr. William R. Elger, Executive Vice President and Chief Business/Financial Officer at U. T. Medical Branch – Galveston, and Mr. Stephen Harris, Facilities Planning and Construction Program Manager at U. T. System, will provide updates on the financial status of the institution and the progress of the Hurricane Ike recovery projects.

Mr. Elger will discuss UTMB's current financial situation, including the financial picture of the Texas correctional managed care program. Mr. Harris will discuss the state of reconstruction of the campus. Their PowerPoint presentation is on Pages 123 - 139.

# UTMB: Report on Financial Condition and Update on Hurricane Ike Recovery Projects

**William R. Elger, CPA**

**Executive Vice President and Chief Business/Financial Officer**

**U. T. Medical Branch – Galveston**

**Stephen Harris, BArch**

**Program Manager, Office of Facilities Planning and Construction**

**U. T. System**

U. T. System Board of Regents' Meeting

Health Affairs Committee

May 2010



# UTMB Financial Update

- **“In the Black” for first time in several years**
  - Significant improvement from pre-storm loss levels
    - Approximately half of this improvement is attributable to staff and other expense reductions associated with reductions in patient care and research activity
    - Approximately half is associated with additional General Revenue appropriation
- **Second half of FY 2010 to be more challenging**
  - Cash flow management impacted by:
    - Ike rebuild/FEMA reimbursement
    - Losses in Correctional Managed Care



# UTMB Consolidated Income Statement

Seven Months Ended March 31, 2010

	FY 2010		Variance
	Actual	Budget	Fav(Unfav)
<b>Operating Revenue:</b>			
Tuition and Fees	\$13,200,306	\$13,225,490	(\$25,185)
Net Patient Care Revenue	481,560,986	470,058,873	11,502,113
Grants and Contracts	149,980,158	152,616,286	(2,636,129)
Other Operating Revenue	9,620,338	9,850,449	(230,111)
<b>Total Operating Revenue</b>	<b>654,361,787</b>	<b>645,751,099</b>	<b>8,610,689</b>
<b>Total Operating Expenses</b>	<b>827,715,170</b>	<b>844,802,128</b>	<b>17,086,958</b>
<b>Operating Loss</b>	<b>(173,353,383)</b>	<b>(199,051,029)</b>	<b>25,697,646</b>
<b>Non-Operating Revenue:</b>			
General Revenue	214,366,251	215,778,050	(1,411,800)
Net Investment Income less Capital Asset Interest	13,789,268	11,926,688	1,862,580
Gifts	6,460,726	7,155,420	(694,693)
<b>Net Non-Operating Revenue (Expenses)</b>	<b>234,616,245</b>	<b>234,860,158</b>	<b>(243,913)</b>
<b>Contribution Margin</b>	<b>61,262,862</b>	<b>35,809,129</b>	<b>25,453,733</b>
Provision for Capital (Depreciation)	(43,193,608)	(42,683,863)	(509,745)
<b>Net Income (Loss)</b>	<b>\$18,069,254</b>	<b>(\$6,874,734)</b>	<b>\$24,943,988</b>



# UTMB Financial Snapshot – By Business Unit

Seven Months Ended March 31, 2010

	Health System (excluding CMC)	Correctional Managed Care	Academic Enterprise	Support (including Ike)	Eliminations	Total UTMB Institution
<b>Operating Revenue:</b>						
Tuition and Fees	\$0	\$0	\$12,985,578	\$214,728	\$0	\$13,200,306
Net Patient Care Revenue	230,804,547	234,416,386	74,273,077	504,916	(58,437,940)	481,560,986
Grants and Contracts	6,309,758	9,262,287	132,890,384	5,267,263	(3,749,534)	149,980,158
Other Operating Revenue	2,848,476	360,497	32,056,562	41,228,107	(66,873,304)	9,620,338
<b>Total Operating Revenue</b>	<b>239,962,781</b>	<b>244,039,170</b>	<b>252,205,601</b>	<b>47,215,014</b>	<b>(129,060,778)</b>	<b>654,361,787</b>
<b>Total Operating Expenses</b>	<b>271,745,399</b>	<b>278,869,443</b>	<b>269,184,028</b>	<b>137,150,562</b>	<b>(129,234,262)</b>	<b>827,715,170</b>
<b>Operating Loss</b>	<b>(31,782,618)</b>	<b>(34,830,273)</b>	<b>(16,978,427)</b>	<b>(89,935,549)</b>	<b>173,483</b>	<b>(173,353,383)</b>
<b>Non-Operating Revenue:</b>						
General Revenue	117,176,194	26,890,406	58,422,541	11,877,110	0	214,366,251
Net Investment Income less Capital Asset Interest	(158,971)	8	10,507,022	3,614,692	(173,483)	13,789,268
Gifts	231,355	1,634	4,635,067	1,592,670	0	6,460,726
<b>Net Non-Operating Revenue</b>	<b>117,248,578</b>	<b>26,892,048</b>	<b>73,564,630</b>	<b>17,084,472</b>	<b>(173,483)</b>	<b>234,616,245</b>
<b>Contribution Margin</b>	<b>85,465,960</b>	<b>(7,938,225)</b>	<b>56,586,203</b>	<b>(72,851,077)</b>	<b>0</b>	<b>61,262,862</b>
Provision for Capital (Depreciation)	(12,409,840)	(659,583)	(10,373,163)	(19,751,022)	(0)	(43,193,608)
Transfers Between Areas	(34,081,894)	(4,601,300)	(31,302,326)	69,985,520	0	0
<b>Net Income (Loss)</b>	<b>\$38,974,227</b>	<b>(\$13,199,108)</b>	<b>\$14,910,713</b>	<b>(\$22,616,579)</b>	<b>\$0</b>	<b>\$18,069,254</b>





# Highlights of the Health System

- **Inpatient activity recovering**
  - FY 2010 inpatient admissions are running at 72% of pre-Ike levels (2008)
  - Significant changes in payer mix contributing to recovery
- **Outpatient activity recovering**
  - FY 2010 outpatient encounters are running at 89% of pre-Ike levels (2008)
  - Growth expected with opening of Victory Lakes and other satellite clinics in targeted areas
- **Average daily census is currently 354**
  - Medical/surgical beds running at 100%



# Highlights of Academic Operations

- **Clinical**

- Faculty Group Practice ended 2009 with revenue of \$110M, which is approximately 80% of pre-Ike revenue performance.
- For FY 2010, revenue is projected to be back at 100% of pre-Ike level.

- **Education**

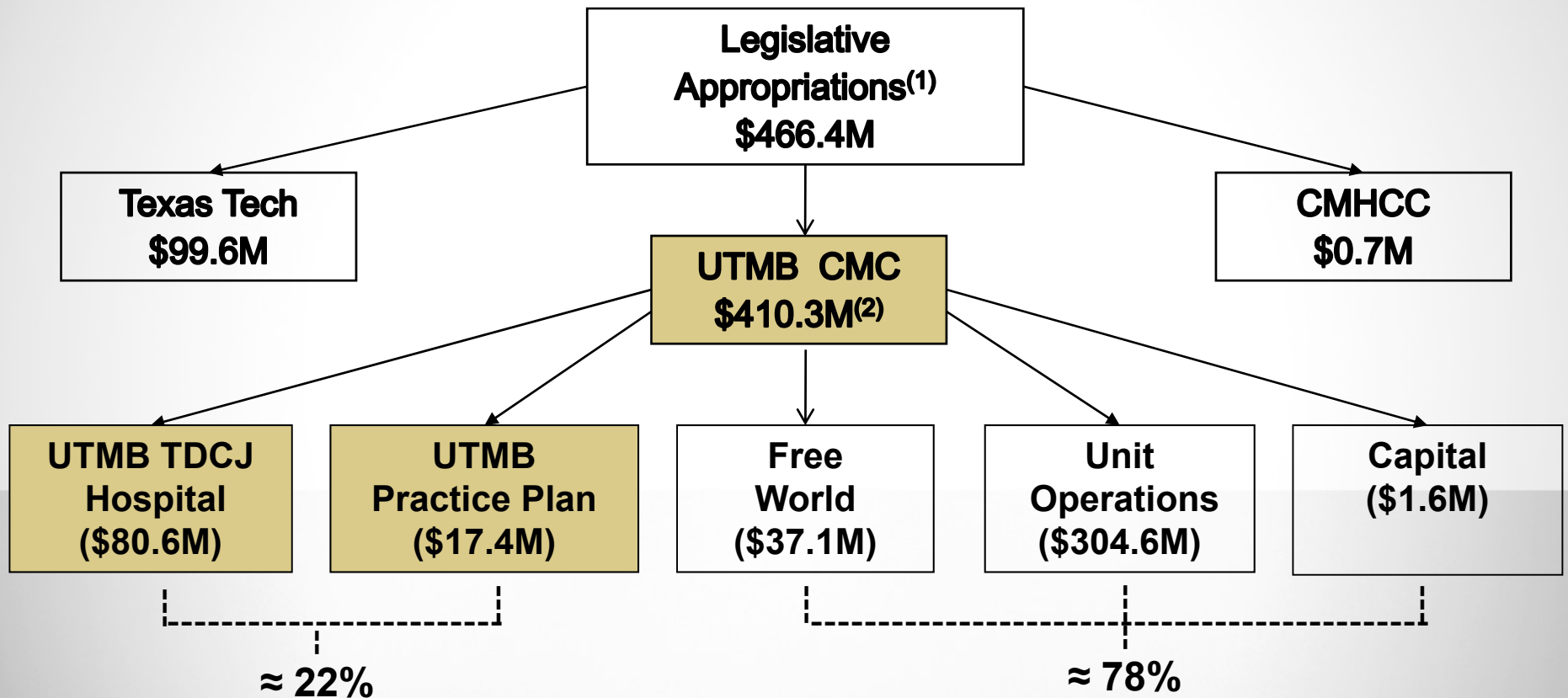
- In FY 2010, UTMB enrollment up by 175 students to a total of 2,513.

- **Research**

- 98% of research labs were operational by September 2009
- More than \$100M in new grants awarded since storm, including \$21.5M Clinical Translational Sciences Award from NIH
  - Received highest score in nation for round one funding



# Correctional Managed Care (CMC) Texas Department of Criminal Justice (TDCJ) Contract Funds Flow - Projected Fiscal Year 2010



(1) Legislative appropriations are made to TDCJ and are managed through the Correctional Managed Healthcare Committee (CMHCC)

(2) Includes State paid benefits (\$43.8M) and other revenue (\$0.4M)



# Update On Correctional Managed Care

- **Facing ongoing challenges with funding**
  - Projected \$65 - \$100M loss over biennium
  - Staffed at level requested by TDCJ, but funding was not subsequently provided
  - Costs compounded by aging population and chronic diseases (Hepatitis, Diabetes, Cancer, HIV)
- **Developed multitiered action plan; positioned to begin implementation of plan**



# Construction Update



# Rebuilding UTMB: Background

- **Damage to UTMB one of largest events in FEMA history**
- **100+ buildings flooded/damaged**
- **1 million square feet requiring repair/mitigation**
- **By comparison**
  - UTMB nearly \$700M - \$1B in damage
  - UT Health Science Center – Houston (Tropical Storm Allison) \$90M in damage



# Galveston's Situation Is Unique

## UT Health Science Center - Houston

- Sustained \$90M in damages in Tropical Storm Allison because situated in a “bowl”
- Post-Allison, levee installed that functioned effectively in defending against Hurricane Ike

## UTMB

- Sustained ~\$1B in Ike damages across 1M square feet and 100 buildings
- Mitigation design principle: “Water runs through it”
- “Maximum Exposure” with new design is \$25 - \$50M, according to engineers



UTHSC Houston after Hurricane Ike



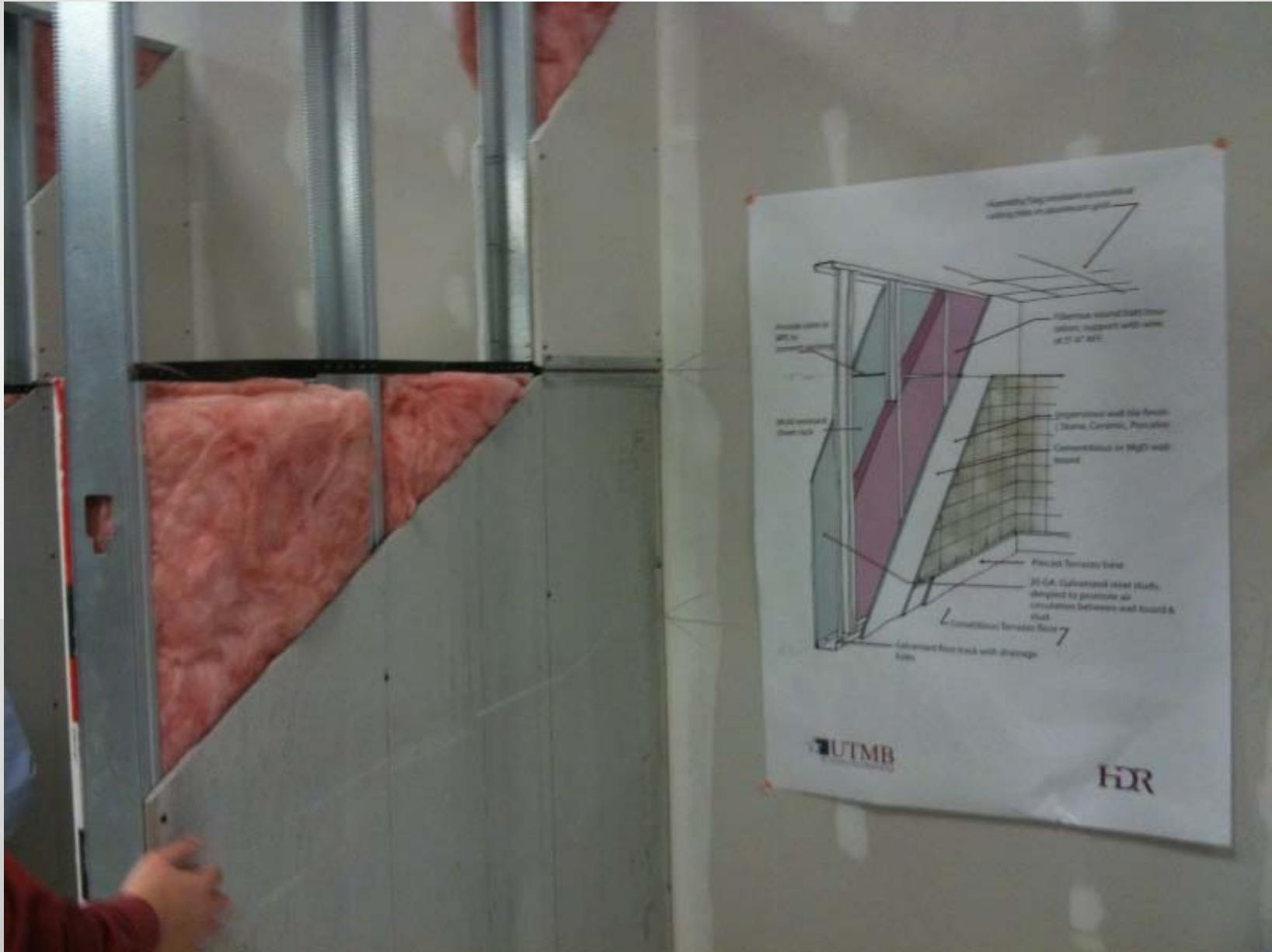
Cleaning up flood-damaged John Sealy Hospital











# Rebuilding UTMB: Progress to Date

- **Engaged with FEMA since November 2008**
  - Processed 462 project worksheets, totaling \$206M thus far
  - Additional 1,000 project worksheets in progress, estimated at \$500M
- **Resuming operations was top priority**
  - Implemented “fix-run-grow” model
  - 85% of campus operational at six months
- **Finalizing detailed analysis of work plan**
  - James Lee Witt Associates and Mir Fox Rodriguez Accountants are coordinating and successfully tracking progress
  - 300+ architects, engineers, and construction personnel on campus since January reviewing current conditions and planning recovery
  - 18 OFPC employees on site in Galveston full time dedicated to management of Ike Recovery exercises
- **Expended \$140M to stabilize campus since January 2009**



# Rebuilding UTMB: Current Activities

- **Coordinating closely with UT System**
  - Size and scope of UTMB rebuilding project not previously executed by UT System
  - Offices of Real Estate, Risk Management, General Counsel, and Health Affairs working actively with UTMB and Office of Facilities Planning and Construction
- **Completing comprehensive plan**
  - Over 100 UTMB facilities and systems have been evaluated to confirm damage scope and replacement costs
  - Hazard Mitigation workshops are being conducted weekly to resolve repair options
  - Plan in review with FEMA with response to mitigation designs due by the end of May
  - Foundation is established to implement actual reconstruction



# Rebuilding UTMB: What To Expect

- **Ensuring process improvement**
  - Efforts underway with UTMB and UT System offices to align, economize, and streamline existing and new processes for contracting, invoicing, issuing payment, auditing, and reporting
- **Demolition planned in 3<sup>rd</sup> Quarter 2010**
  - Jennie Sealy Hospital and Old Shriners Hospital to be razed
  - Plan to extend John Sealy Hospital repair project to include critical functions
- **“Hard Hats” are coming soon**
  - More than 1,000 construction workers expected on campus at peak of activity
  - Coordinating plans for construction field offices, parking, food service, environmental protections, and other operational accommodations



3. **U. T. Medical Branch – Galveston: Authorization to convey Lots 1 through 4 and a portion of Lot 5, Block 666, a portion of Lot 6 and all of Lot 7, Block 667, a portion of the abandoned 7th Street right-of-way between Blocks 666 and 667, and a portion of Avenue A, together with all improvements thereon, all in Galveston, Galveston County, Texas, to The Sealy & Smith Foundation, a Texas nonprofit corporation, or its subsidiary, Magnolia Holding Company, a Texas nonprofit corporation, in exchange for the acquisition from The Sealy & Smith Foundation or Magnolia Holding Company of part of Lot 9 and all of Lots 10 through 13, Block 667, a portion of Texas Avenue (Avenue B) to the south, and a part of a 20-foot wide alley, together with all improvements thereon, Galveston, Galveston County, Texas, for use as a portion of the site for the institution's proposed clinical services building; and authorization to lease from The Sealy & Smith Foundation or Magnolia Holding Company Lots 1 through 4 and 8 through 14, and a portion of Lot 5, Block 666, portions of Lots 6 and 9 and all of Lots 7 and 8, Block 667, a portion of the vacated alley between Blocks 666 and 667, and a portion of 6th Street, 7th Street, Avenue A, and Avenue B rights-of-way or former rights-of-way, together with all improvements thereon, Galveston, Galveston County, Texas, for use as the site for the proposed replacement Jennie Sealy Hospital**

#### RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Business Affairs, and President Callender that authorization be granted by the U. T. System Board of Regents, on behalf of U. T. Medical Branch – Galveston, to

- a. convey Lots 1 through 4 and a portion of Lot 5, Block 666, a portion of Lot 6 and all of Lot 7, Block 667, a portion of the abandoned 7th Street right-of-way between Blocks 666 and 667, and a portion of Avenue A, together with all improvements thereon, all in Galveston, Galveston County, Texas, to The Sealy & Smith Foundation, a Texas nonprofit corporation, or its subsidiary, Magnolia Holding Company, a Texas nonprofit corporation (individually and together, the Foundation), in exchange for the acquisition from the Foundation of part of Lot 9 and all of Lots 10 through 13, Block 667, a portion of Texas Avenue (Avenue B) to the south, and a part of a 20-foot wide alley, together with all improvements thereon, Galveston, Galveston County, Texas, for use as a portion of the site for the institution's proposed clinical services building, with the exchange values to be determined by independent appraisals;
- b. lease from the Foundation Lots 1 through 4 and 8 through 14, and a portion of Lot 5, Block 666, portions of Lots 6 and 9 and all of Lots 7 and 8, Block 667, a portion of the vacated alley between Blocks 666 and 667,

and a portion of 6th Street, 7th Street, Avenue A, and Avenue B rights-of-way or former rights-of-way, together with all improvements thereon, Galveston, Galveston County, Texas, for use as the site for the proposed replacement Jennie Sealy Hospital; and

- c. authorize the Executive Director of Real Estate to execute all documents, instruments, and other agreements, subject to approval of all such documents as to legal form by the Office of General Counsel, to authorize all due diligence expenses, closing costs, and other costs and expenses deemed necessary or advisable, and to take all further actions deemed necessary or advisable to carry out the purpose and intent of the foregoing recommendations.

### BACKGROUND INFORMATION

The series of transactions contemplated by this agenda item will provide the land that is necessary for the site of the clinical services building that U. T. Medical Branch – Galveston is presently planning and the land, via a lease, for the site of the proposed replacement Jennie Sealy Hospital project. Approval of the proposed land exchanges and lease will allow timely construction of the much needed clinical support building required for the John Sealy Hospital and further planning for a possible replacement Jennie Sealy Hospital, but does not constitute Regental approval of the actual construction of the new Jennie Sealy Hospital pending legislative funding and other fiscal considerations, including the following contingencies identified by the Board in March 2009:

- a. the availability and commitment of adequate funding from the State and The Sealy & Smith Foundation to support capital requirements for construction of the hospital tower;
- b. the availability and commitment of an adequate, well-defined, and reliable revenue stream to support the ongoing operations of the hospital tower, which may include a combination of general revenue, disproportionate share hospital, upper payment limit, indigent care, and/or formula funding, and the resolution of any legal impediments to the commitment of funds and resources;
- c. the availability and commitment of adequate funding from a local hospital district and/or other local sources; and
- d. adequate debt capacity for UTMB to access supportable funding from U. T. System revenue financing system debt.

The institution anticipates seeking approval from the Board in August 2010 to add the clinical services building to its Capital Improvement Program (CIP). The clinical services building, to be funded from proceeds from the Federal Emergency Management Agency (FEMA) as a result of Hurricane Ike, will provide replacement facilities including a kitchen, laboratories, and sterilization facilities lost in the 2008 hurricane. The current Jennie Sealy Hospital building was constructed between 1966 and 1968 by The Sealy & Smith Foundation. The facility has become functionally obsolete and is currently being used by U. T. Medical Branch – Galveston for general office purposes. The institution and the Foundation have been in discussions for more than three and a half years regarding the replacement of the facility with a new hospital facility equipped with current technology.

To enable the institution to stay on track with its timeline for construction of the clinical services building and its planning for the possible replacement of the Jennie Sealy Hospital project, U. T. Medical Branch – Galveston requests the Board's authorization for the following related real estate transactions:

1. Because the anticipated footprint of the proposed new hospital is larger than that occupied by the current Jennie Sealy Hospital building, it is necessary to expand the land available for the hospital site. Therefore, it is proposed that Lots 1 through 4 and a portion of Lot 5, Block 666, a portion of Lot 6 and all of Lot 7, Block 667, a portion of the abandoned 7th Street right-of-way between Blocks 666 and 667, and a portion of Avenue A, together with all improvements thereon, Galveston, Galveston County, Texas, be conveyed to the Foundation to enable the Foundation to complete the land assemblage for the site of the proposed new hospital building.
2. In exchange for the conveyance of land to the Foundation, and to allow the Medical Branch to assemble the parcel needed for the footprint of the clinical services building, the Foundation will convey to the Board for the benefit of the institution part of Lot 9 and all of Lots 10 through 13, Block 667, a portion of Texas Avenue (Avenue B) to the south, and a part of a 20-foot wide alley, together with all improvements thereon, Galveston, Galveston County, Texas. Additional consideration from the Foundation is the Foundation's prior payment of \$1,075,000 in planning and design fees incurred before Hurricane Ike for the proposed replacement Jennie Sealy Hospital.
3. The Foundation will lease to the institution Lots 1 through 4 and 8 through 14, and a portion of Lot 5, Block 666, portions of Lots 6 and 9 and all of Lots 7 and 8, Block 667, a portion of the vacated alley between Blocks 666 and 667, and a portion of 6th Street, 7th Street, Avenue A, and Avenue B rights-of-way or former rights-of-way, together with all improvements thereon, Galveston, Galveston County, Texas, to serve as the site for the proposed Jennie Sealy Hospital Replacement project, subject to Board approval that the institution



anticipates seeking in June 2011. The lease will be for a nominal rental equal to \$1 per year, with an initial 70-year term, followed by a 50-year renewal term at the institution's option if State funds have been used in the construction of the replacement hospital building, for the same nominal rental rate. The use permitted by the lease will be for a hospital and ancillary uses related to a hospital, including inpatient and outpatient surgery, clinical trials, and instruction. U. T. Medical Branch – Galveston will be responsible for demolishing the existing improvements and constructing the new hospital facility, if approved by the Board.

More details about the key terms and conditions of the proposed transactions are specified in the transaction summary below.

### Transaction Summary

#### **Conveyance to The Sealy & Smith Foundation or Magnolia Holding Company**

Institution:	U. T. Medical Branch – Galveston
Type of Transaction:	Exchange
Total Area:	Approximately 1.241 acres (54,049 square feet)
Improvements:	Carpenter shop and surgical research and annex buildings (to be demolished)
Location:	Lots 1 through 4 and a portion of Lot 5, Block 666, a portion of Lot 6 and all of Lot 7, Block 667, a portion of the abandoned 7th Street right-of-way between Blocks 666 and 667, and a portion of Avenue A, together with all improvements thereon, all in Galveston, Galveston County, Texas (see map on Page 148)
Grantee:	The Sealy & Smith Foundation, a Texas nonprofit corporation, or its subsidiary, Magnolia Holding Company, a Texas nonprofit corporation (collectively and individually, the Foundation)
Exchange Consideration:	Conveyance to the Board of Regents of the real property described in the next section of this summary and prior payment by the Foundation of planning and design fees incurred before Hurricane Ike in the amount of \$1,075,000 for the proposed replacement Jennie Sealy Hospital
Appraised Value:	Appraisal by Integra Realty Resources – Houston, due on or about April 30, 2010

### **Conveyance to Board of Regents**

Institution: U. T. Medical Branch – Galveston

Type of Transaction: Exchange

Total Area: Approximately 0.8451 of an acre (36,812 square feet)

Improvements: A portion of the old Jennie Sealy Hospital building

Location: Part of Lot 9 and all of Lots 10 through 13, Block 667, a portion of Texas Avenue (Avenue B) to the south, and a part of a 20-foot wide alley, together with all improvements thereon, Galveston, Galveston County, Texas (see map on Page 148)

Grantor: The Sealy & Smith Foundation, or its subsidiary, Magnolia Holding Company

Exchange Consideration: Conveyance to the Foundation of the real property described in the immediately preceding section of this transaction summary

Appraised Value: Appraisal by Integra Realty Resources – Houston, due on or about April 30, 2010;  
Appraisal by Bay Area Real Property Appraisers & Consultants, Inc., due on or about April 30, 2010

### **Lease from The Sealy & Smith Foundation or Magnolia Holding Company to the Board of Regents**

Institution: U. T. Medical Branch – Galveston

Type of Transaction: Lease of land and improvements (improvements, all of which are to be demolished, consist of a carpenter shop, the surgical research building and annex, the 610 Texas Avenue building, and a portion of the old Jennie Sealy Hospital)

Total Area: Approximately 2.924 acres (127,349 square feet)

Location: Lots 1 through 4 and 8 through 14, and a portion of Lot 5, Block 666, portions of Lots 6 and 9 and all of Lots 7 and 8, Block 667, a portion of the vacated alley between Blocks 666 and 667, and a portion of 6th Street, 7th Street, Avenue A, and Avenue B rights-of-way or former rights-of-way, together with all improvements thereon, Galveston, Galveston County, Texas (see map on Page 148)

Lessor:	The Sealy & Smith Foundation, or its subsidiary, Magnolia Holding Company
Lease Term:	An initial term of 70 years and a renewal term of 50 years at the Medical Branch's option provided that State funds have been used in the construction of the proposed Jennie Sealy Hospital Replacement project; the institution has a right of first refusal to purchase the leased premises, should the lessor elect to sell the leased premises during the term of the lease
Rent:	\$70.00 total for the initial 70-year lease term; \$50.00 total for the 50-year renewal lease term
Operating Expenses:	The tenant is responsible for operating expenses, insurance, and taxes, if any, on the improvements to be constructed; the lessor is responsible for the taxes, if any, on the existing improvements and on the land
Permitted Use:	Hospital use and ancillary uses related to hospital use, including inpatient and outpatient surgery, clinical trials, and instruction; the term 'hospital' is defined as a facility that provides 24-hour inpatient and outpatient medical and surgical treatment to sick or injured individuals, including the training of physicians and allied health care professionals, and necessary services that directly support patient treatment and the individuals who provide such treatment; the following uses are not permitted under the lease unless they are reasonably necessary for the hospital use or the patient care mission of U. T. Medical Branch – Galveston: general classrooms, general administrative offices, general research labs or research offices, public meeting space or auditoria, or public food service
Improvements; Right to Terminate:	The permitted use clause of the lease anticipates that a hospital facility will be built on the leased land. Due to the long-term nature of the lease and the likelihood that during the term of the lease there will be significant and substantive changes in the provision of medical care, the lease will require that the Medical Branch maintain a set number of patient beds for only the first 20 years of the lease term; after the first 20 years, there will be no requirement for a set number of beds, but rather the lease will require that the institution use the leased property for the provision of inpatient and outpatient medical care throughout the lease term.

Total estimated cost of the full project is \$438 million. The lease would provide that, at a level of funding of at least \$400 million, operating rooms, together with between 28 and 56 surgical intensive care beds and between 168 and 192 private patient room beds, would be provided at full finish out of the initial construction. If available funding is less than \$400 million, but at least \$320 million, then only the operating rooms and the 28 to 56 surgical intensive care beds would be provided at finish out of the initial construction. As noted above, after the first 20 years of the lease term, there would be no ongoing obligation to maintain a set number of beds.

The Foundation has proposed to contribute \$170 million to the project, paid over a 15-year period. The lease will provide that the Foundation's obligation to contribute that funding is contingent on the institution providing \$150 million for the project either through tuition revenue bonds or some other source of funding. The lease will also provide that if funding at the aggregate \$320 million level is not made available, the parties may mutually agree on revisions to the scope of the project. If the parties are unable to agree on a revised scope due to a shortage in the funding amount, either party may terminate the lease and neither party will have any further obligations under the lease.

Finally, the lease will provide that if the Board of Regents has not approved design and funding by November 30, 2011, or if construction of the proposed replacement Jennie Sealy Hospital has not commenced by September 30, 2012, either party may terminate the lease.

Naming of  
Improvements:

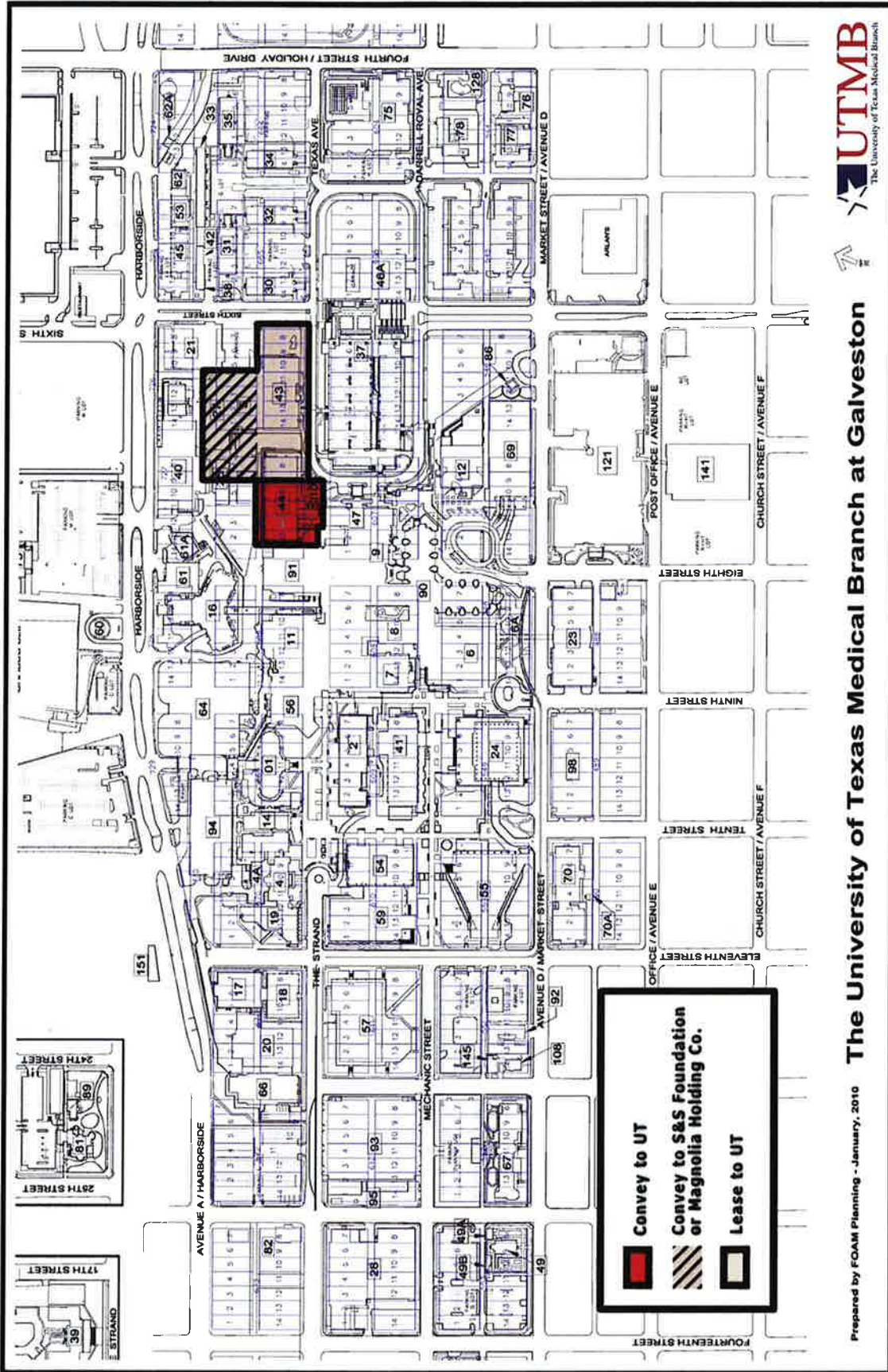
The lease will provide that the hospital replacement facility will be named the Jennie Sealy Hospital. The naming of the primary building entry and the lobby will require the Foundation's prior written approval. The naming of all other interior spaces will be at the discretion of the institution.

Future Easement:

The lease will also provide that, under certain limited circumstances, an easement will be granted to the Foundation at the termination of the lease through the proposed clinical services building for utilities serving the replacement Jennie Sealy Hospital and for pedestrian access between the Jennie Sealy Hospital and the R. Waverley Smith Pavilion.

Proposed Timeline:

1. Board of Regents' approval to add the clinical services building to the Medical Branch's CIP is anticipated to be sought in August 2010.
2. If Board of Regents' approval of the transactions outlined in this transaction summary is obtained in May 2010, demolition of the old Jennie Sealy Hospital and miscellaneous buildings will begin, anticipated to start no sooner than August 2010.



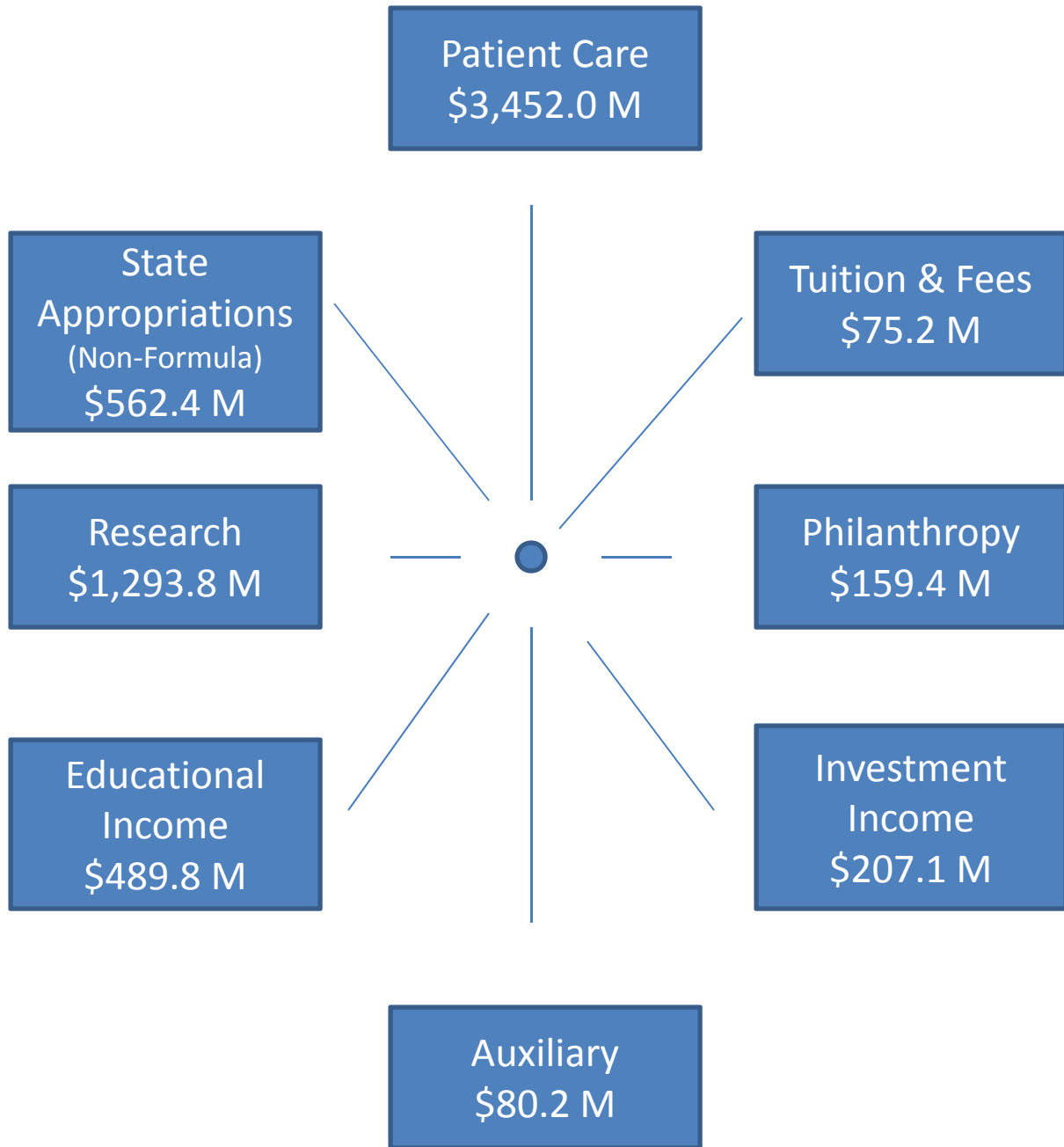
4. **U. T. System: Funding streams for health institutions -- opportunities and challenges and the impact of health care legislation**

DISCUSSION

Executive Vice Chancellor Shine will lead a discussion related to funding streams for health institutions and the impact of health care legislation using the charts set forth on Pages 150 - 165.

# UT Health-Related Institutions

## *Activities & Funds*





## **UT Health-Related Institutions** *Activities & Funds*

<sup>1</sup> **Patient Care:** Represents hospital and physician clinical revenue.

<sup>2</sup> **State Appropriations:** General Revenue, including direct hospital support, patient based formula funding and employee benefits, but not I&O, Infrastructure, Research & GME formulas.

<sup>3</sup> **Educational Income:** Includes General Revenue from I&O, Infrastructure, Research & GME formulas and revenue from "Net Sales and Services of Educational Activities" in FY2007 Actual Budget data.

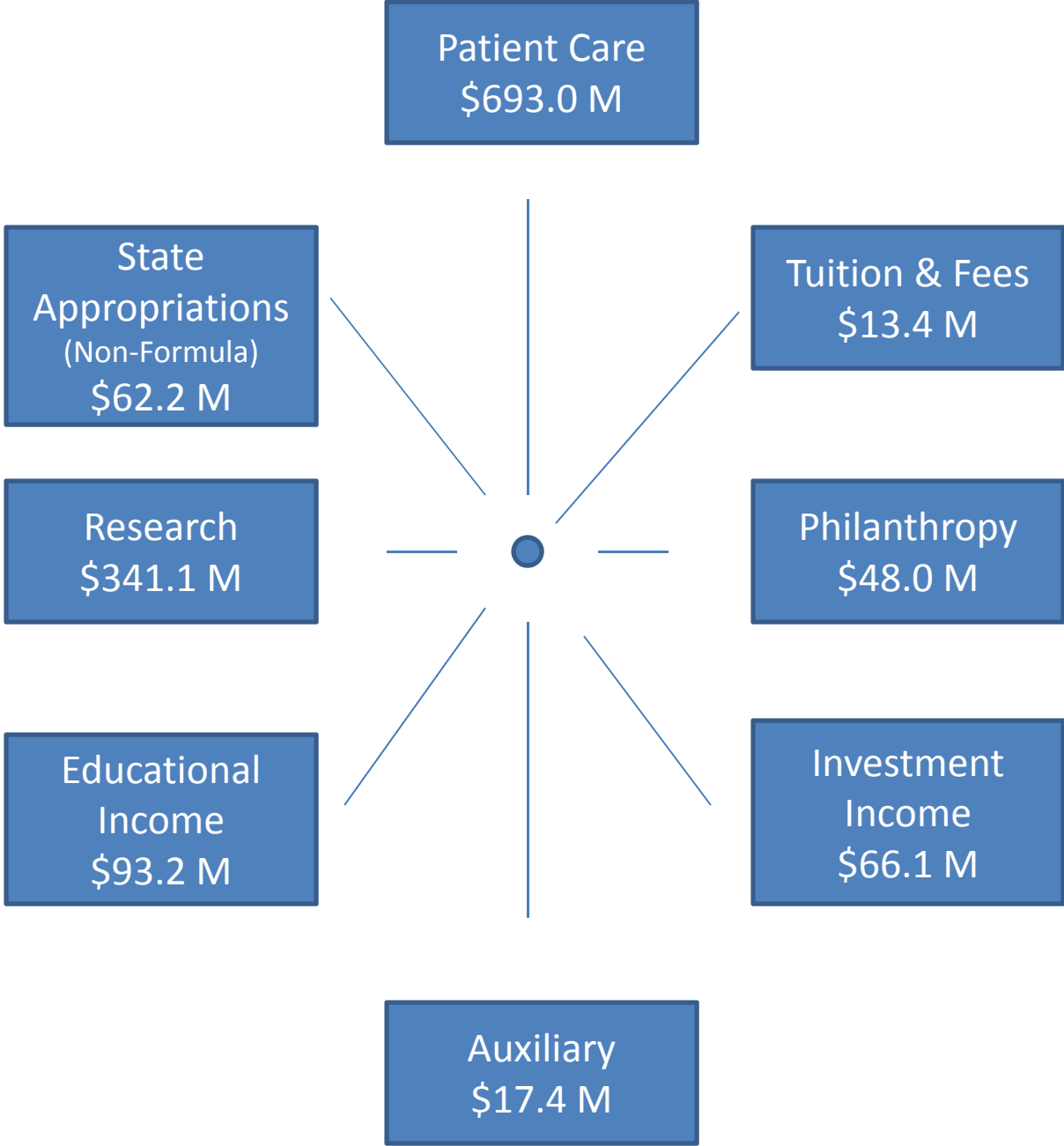
<sup>4</sup> **Research:** Based on report to THECB, not the "Sponsored Programs" revenue or the "Research Operating Expenses" in the FY2007 Actual Budget data.

<sup>5</sup> **Philanthropy:** Represents "Gifts in Support of Operations" in FY2007 Actual Budget data.

<sup>6</sup> **Investment Income:** Represents "Net Investment Income" in FY2007 Actual Budget data.

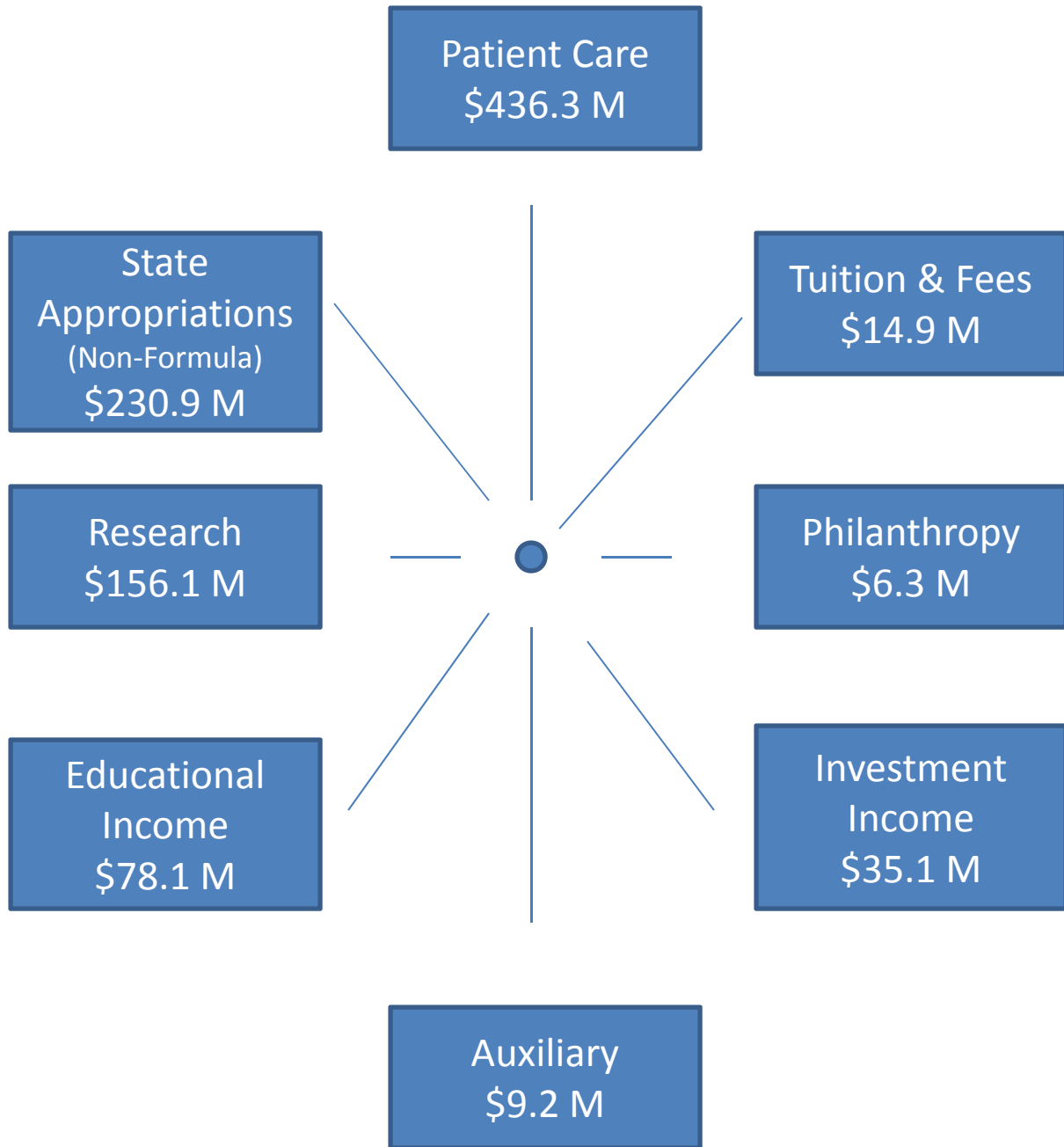
<sup>7</sup> **Auxiliary:** Represents "Net Auxiliary Enterprises" in FY2007 Actual Budget data.

# UT Southwestern *Activities & Funds*



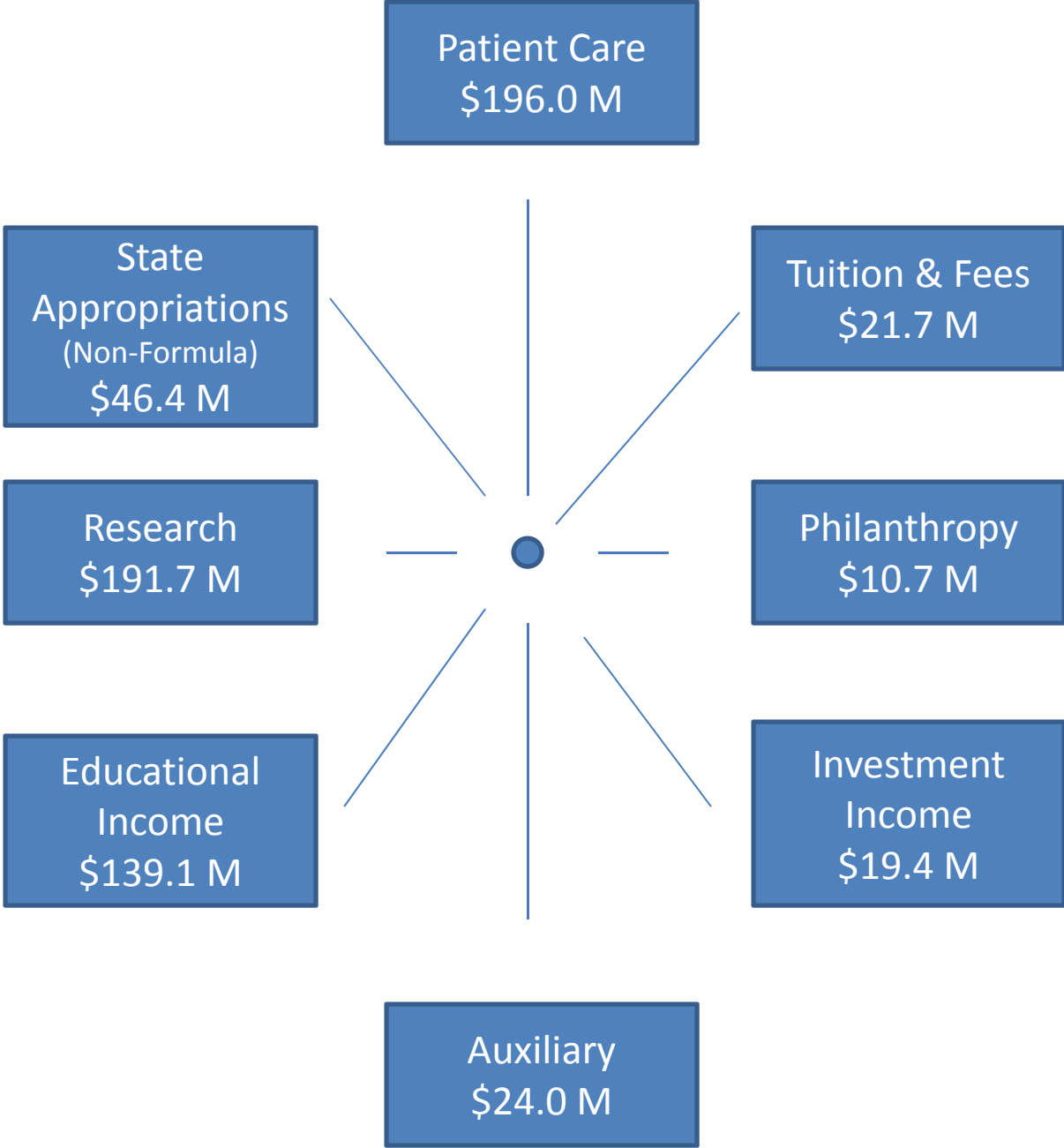
# UT Medical Branch at Galveston

## *Activities & Funds*



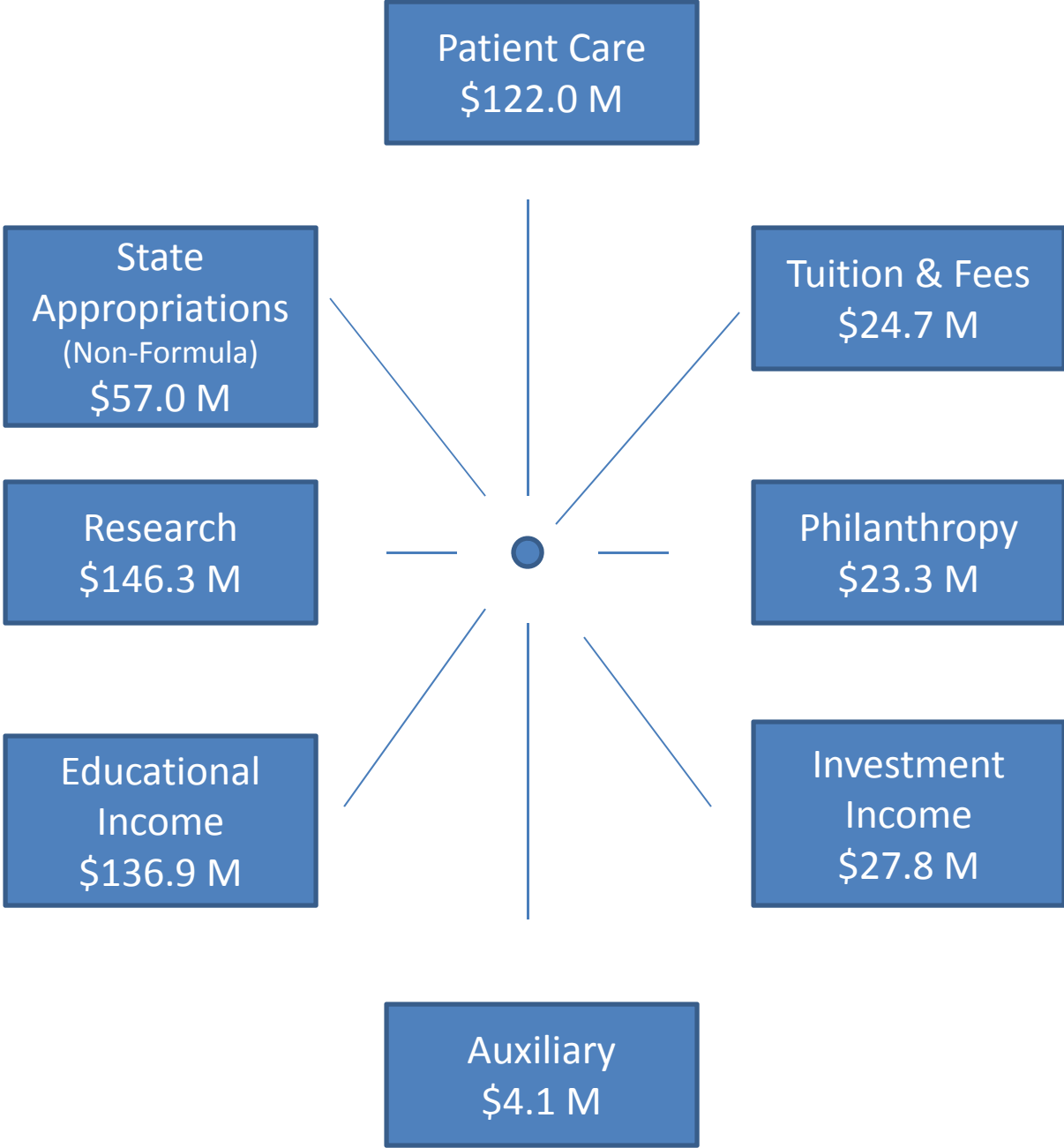
# UT HSC Houston

## *Activities & Funds*

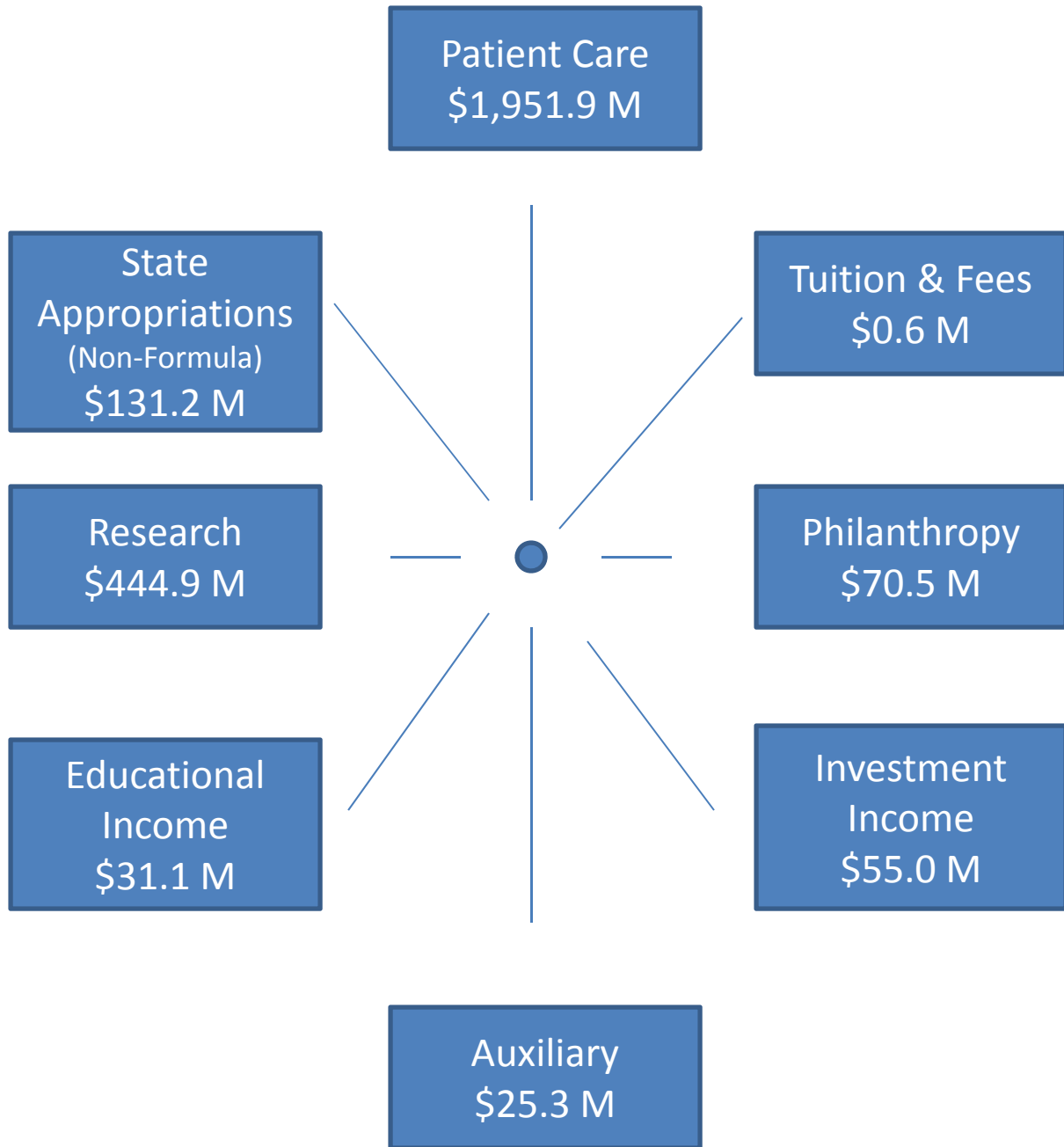


# UT HSC San Antonio

## Activities & Funds

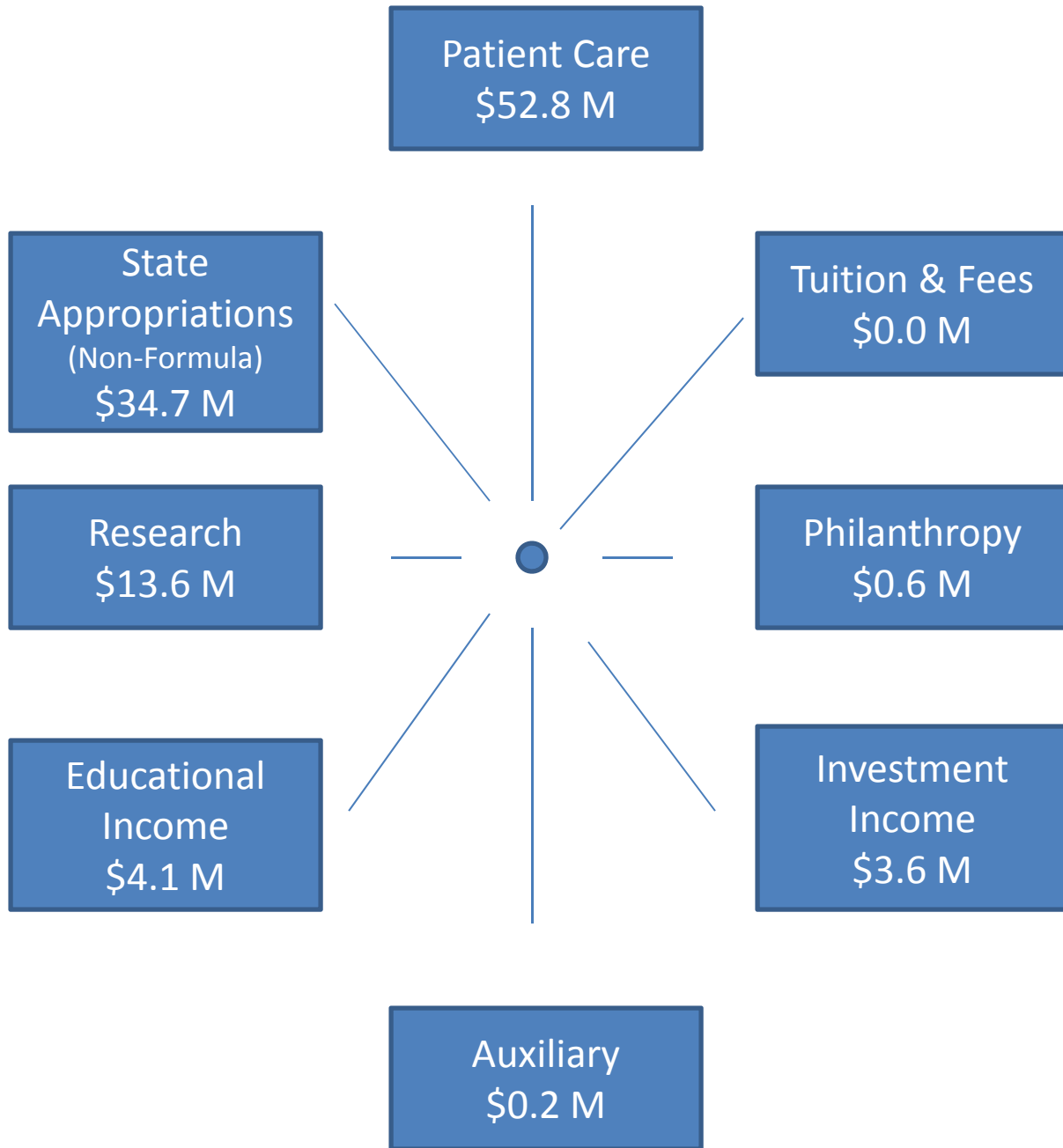


# UT MD Anderson *Activities & Funds*



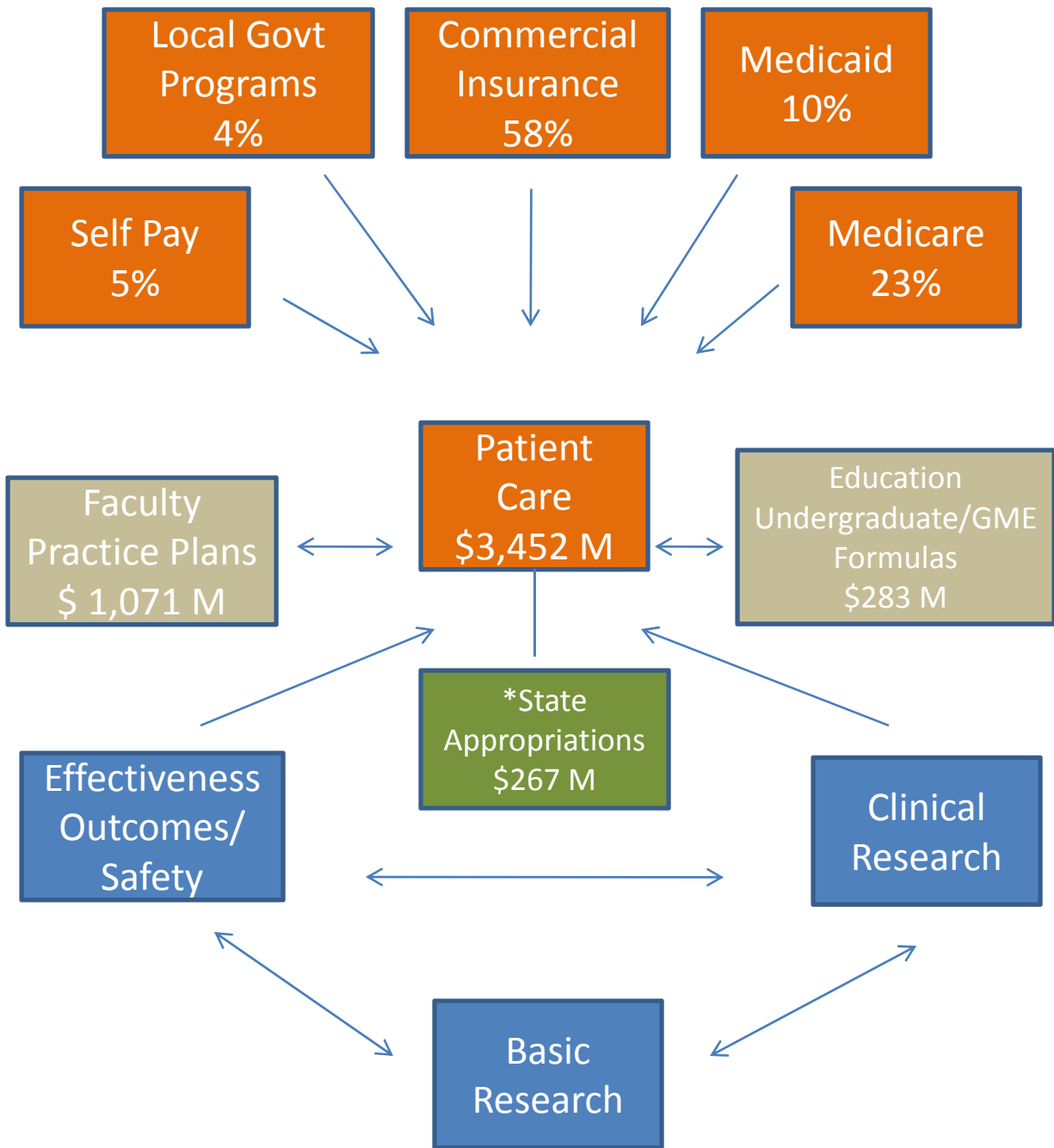
# UT HSC Tyler

## *Activities & Funds*



# UT HEALTH-RELATED INSTITUTIONS

## Clinical Enterprise



\*Direct Hospital Support (UTMB, MDACC, HSCT); Patient Based Formula Funding (HSCT, MDACC) ; Indigent Care Fund (UTMB)  
 TDCJ Correctional Managed Health Care revenue of \$300 M is not included above.



## **UT HEALTH-RELATED INSTITUTIONS**

### **Clinical Enterprise**

#### **Notes**

Patient Care includes UT hospital and practice plan net patient revenue, patient care revenue paid to practice plans by county/affiliate hospitals, physician UPL for FY 2007 services, mental health community hospital revenue. It excludes physician UPL for prior years' services.

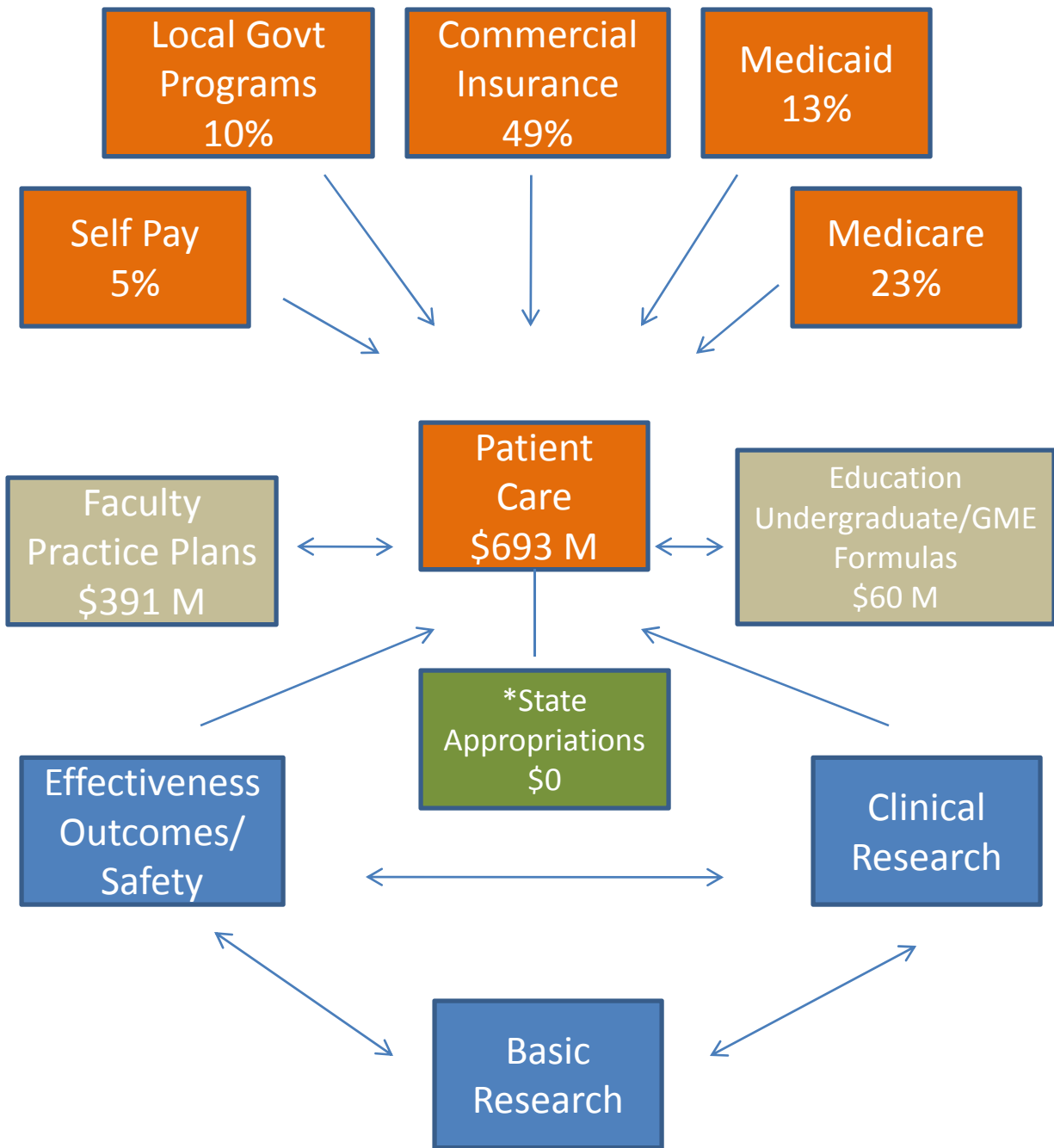
The revenue mix per category is based on the patient's primary payer and includes an apportionment of county/affiliate hospital general patient care revenue where applicable.

Local government programs reflect contractual relationships between UT Southwestern and Parkland Health & Hospital System, UT HSC Houston and Harris County Hospital District, and UT HSC San Antonio and Bexar County's University Health System for care by UT physicians at hospital district facilities for patients who have no other primary payer and qualify for the programs. For UT HSC Houston, local government programs also include revenue at the Harris County Psychiatric Center for those patients whose care is primarily funded by local and state funds for mental health community hospitals.

Self Pay includes revenues where the patient or the patient's family is the primary payer for care. This includes patients who are uninsured, underinsured, or receiving noncovered, elective treatment as well as international patients.

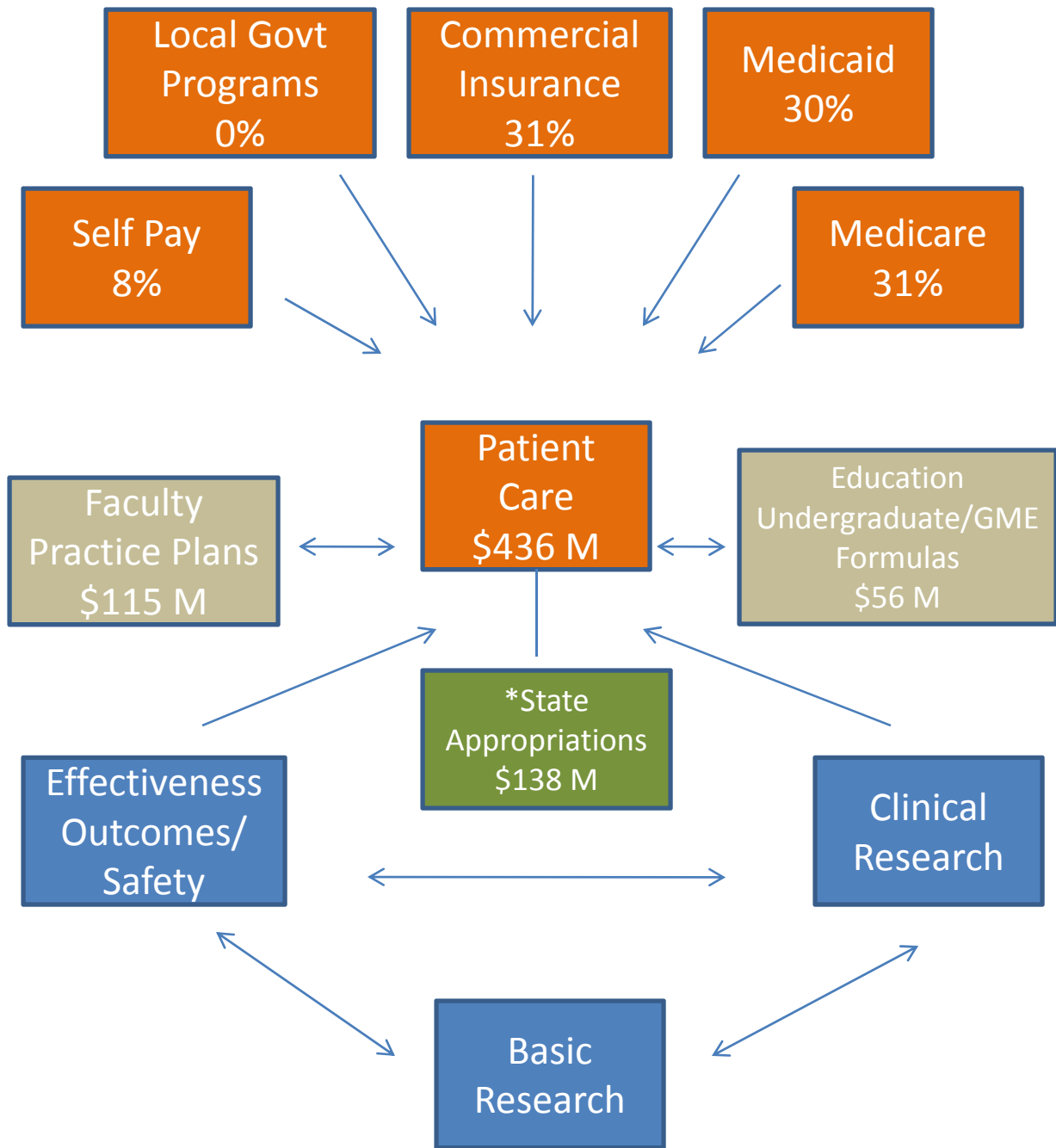
The amount in the box titled "Education Undergraduate/GME Formulas" is FY 2007 state general revenue from the Instruction & Operations (I&O) formula and the GME formula.

# UT Southwestern Clinical Enterprise



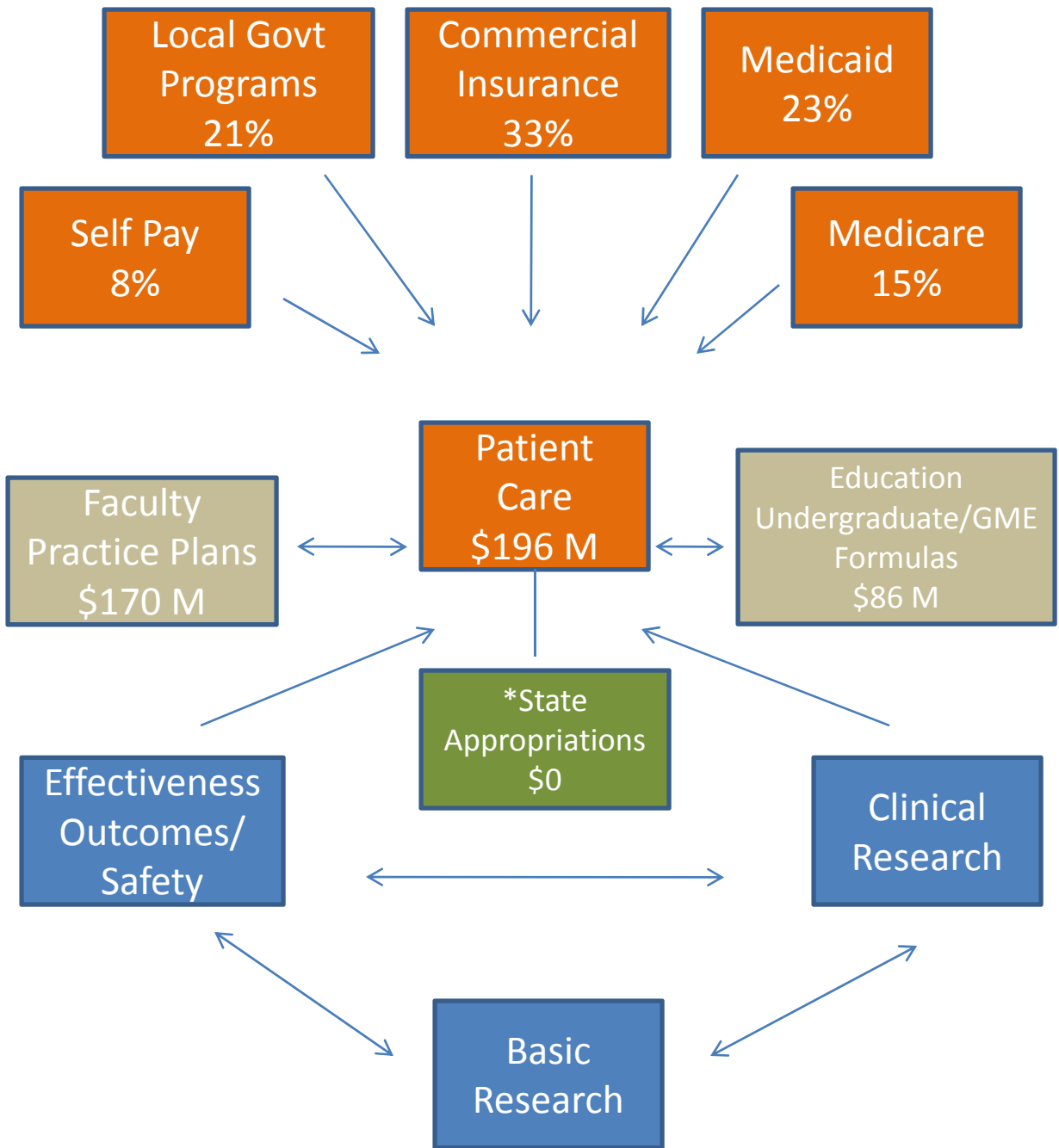
\*Direct Hospital Support (UTMB, MDACC, HSCT); Patient Based Formula Funding (HSCT, MDACC) ; Indigent Care Fund (UTMB)

## UT Medical Branch at Galveston Clinical Enterprise



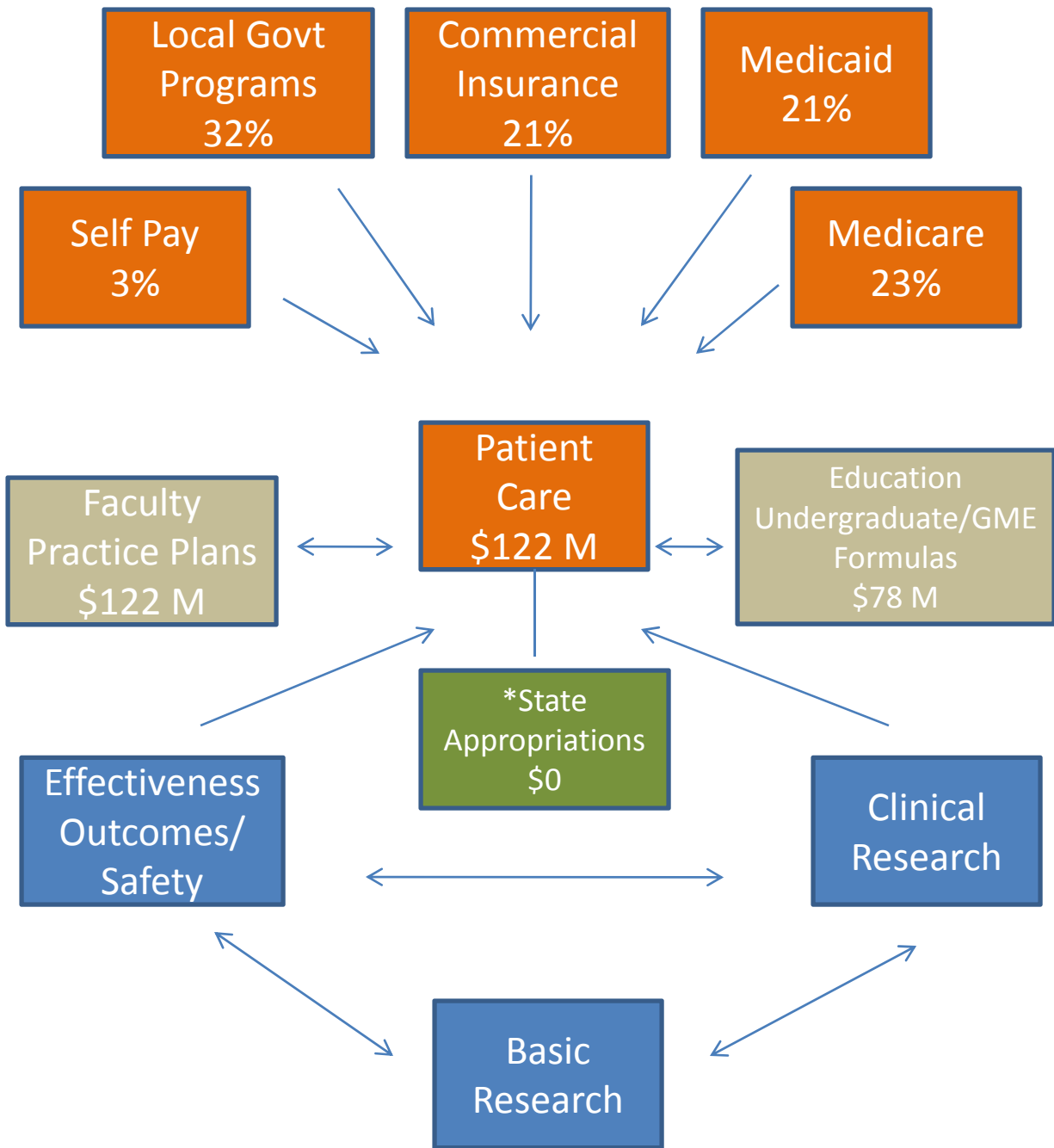
\*Direct Hospital Support (UTMB, MDACC, HSCT); Patient Based Formula Funding (HSCT, MDACC) ; Indigent Care Fund (UTMB)  
TDCJ Correctional Managed Health Care revenue of \$300 M is not included above.

# UT HSC Houston Clinical Enterprise



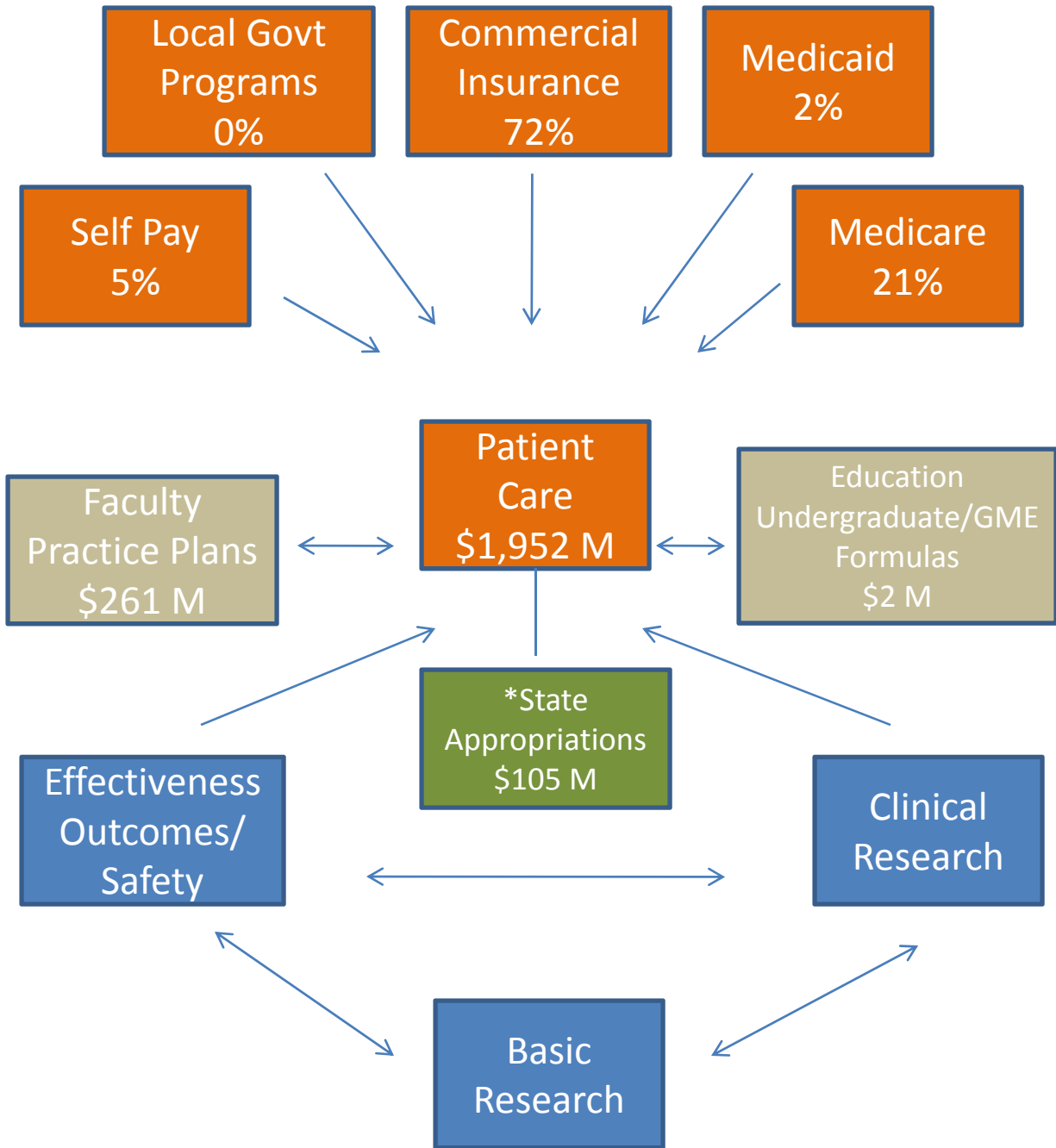
\*Direct Hospital Support (UTMB, MDACC, HSCT); Patient Based Formula Funding (HSCT, MDACC) ; Indigent Care Fund (UTMB)

## UT HSC San Antonio Clinical Enterprise



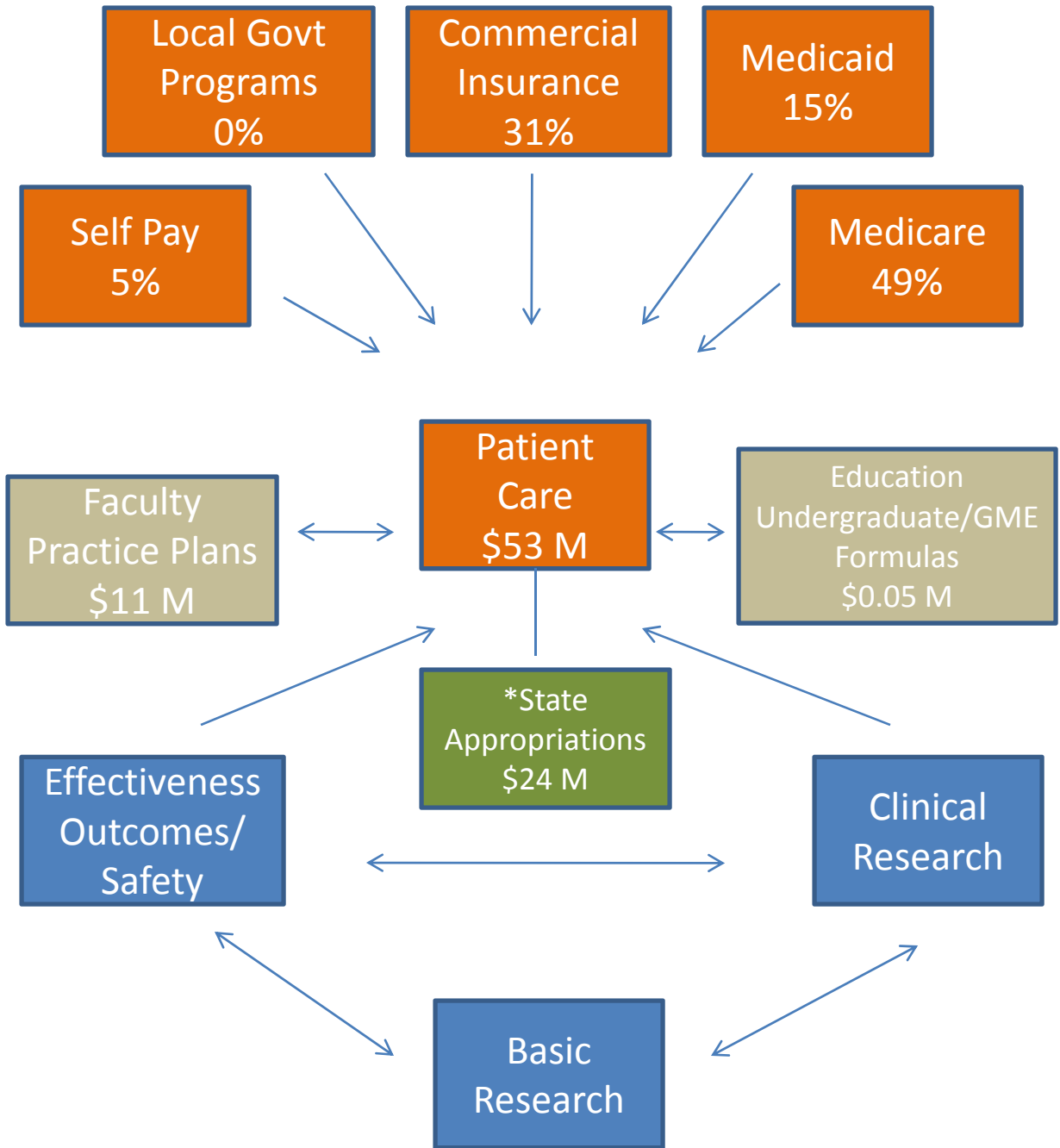
\*Direct Hospital Support (UTMB, MDACC, HSCT); Patient Based Formula Funding (HSCT, MDACC) ; Indigent Care Fund (UTMB)

# UT MD Anderson Clinical Enterprise



\*Direct Hospital Support (UTMB, MDACC, HSCT); Patient Based Formula Funding (HSCT, MDACC) ; Indigent Care Fund (UTMB)

# UT HSC Tyler Clinical Enterprise



\*Direct Hospital Support (UTMB, MDACC, HSCT); Patient Based Formula Funding (HSCT, MDACC) ; Indigent Care Fund (UTMB)

5. **U. T. System: Quarterly report on health matters, including Cancer Prevention and Research Institute of Texas funding and health care working group activities**

#### REPORT

Executive Vice Chancellor Shine will report on health matters of interest to the U. T. System, including Cancer Prevention and Research Institute of Texas (CPRIT) funding and health care working group activities.