



Special Message from the President June 20, 2006

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Now that the Navigant consulting group has come and gone, our focus has turned to developing the right plan for the institution based on their recommendations for reducing expenses and generating new revenue.

I fully appreciate that the Navigant process wasn't easy. In addition to the extra effort it took on the part of so many to provide information the consultants needed in order to evaluate our operations, the fact that we brought the firm in was inherently disquieting. That said, I am firmly convinced it was the right thing to do.

We have an ambitious plan for the future, one that depends upon our continued ability to fund growth (facilities and equipment) and service excellence (people and programs). Navigant personnel reaffirmed what we must do to remain good stewards of taxpayer dollars and to generate the resources needed to invest in UTMB's future.

This is different from 1998-99, when our primary focus was on addressing an \$80 million projected shortfall and keeping our doors open. Today, we are looking to build on programs of excellence and ensure that UTMB is in a position to make a difference in the lives of everyone we serve in the years to come.

This won't be easy. The Navigant group has recommended that we set our sights on a \$140 million margin. In other words, we must be able to fully fund depreciation (\$50 million per year) and medical inflation (\$50 million) on a sustainable basis. We must also generate an additional \$40 million per year to invest in our programs of excellence. And we must fund all of this from operations (revenue minus expenses).

To this end, the Navigant group evaluated every area of the institution (hospitals and clinics, the schools, Correctional Managed Care and institutional support services). The consultants didn't tell us anything we don't already know, although it wasn't easy to hear that we have serious productivity issues. But the objective benchmarks they provided confirmed the areas we need to focus on. They developed a road map for us to consider. And they told us we need to pick up the pace in order to achieve our \$140 million target over the next three years.

It's important to note that we have no intention of blindly following Navigant's recommendations. We won't implement any recommendation that runs counter to our mission. There are also a number of recommendations that require further

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clarification from Navigant before we can evaluate them in a meaningful way. But the majority of them merit our serious consideration.

I have created a Strategic Executive Council (SEC) consisting of the major entity leaders (Drs. Valerie Parisi, Karen Sexton, Ben Raimer and Dean Kinsey), a clinical chair (Dr. Garland Anderson) and a basic sciences chair (Dr. Jim Halpert). Over the next three years, this committee will integrate all major cost-cutting and revenue-enhancement strategies, resolve conflicts, allocate resources, and provide strategic direction for UTMB.

I have also asked each entity leader to confer with his or her colleagues, think outside the box and present an action plan based on Navigant's recommendations to the SEC by June 30. The committee expects to have made 75 percent of its decisions by the start of the new fiscal year. No entity plan or strategy will be implemented until the SEC has carefully evaluated its potential impact on the institution as a whole.

The first year of our three-year strategy will focus primarily on achieving cost reductions. This does not mean reducing the level of service. It means "re-engineering" how we do things, looking for ways to do them differently—and better. Given the fact that salaries and benefits account for 70 percent of our expenses, there's no doubt that faculty and staff positions will be affected. The Navigant group has proposed a target in the neighborhood of 1,300 full-time equivalents (or FTEs). However, until the SEC has evaluated the entity leaders' plans, there's no way to say precisely how many positions will be affected or in which areas.

What we do know is that there will be no across-the-board cuts or freezes, and that we will be able to achieve some of this reduction through unfilled positions, as well as routine turnover and retirements. I know that the likelihood of a reduction in force has been the cause of greatest concern among the campus community and realize the months to come are going to be difficult for everybody. For this reason, we have pledged to make and implement personnel decisions as quickly, compassionately and fully as possible so no one will be left worrying and wondering for long. Our plan is to notify the majority of faculty and staff whose positions will be affected no later than September 1.

It may seem contradictory to refer to this three-year plan as a growth strategy when we're anticipating a reduction in force. But the simple fact is that if we don't continue to expand our academic and clinical enterprises, our margin will once again shrink and we'll be facing the very same financial challenge we face today.

Years two and three will focus almost exclusively on expanding our research and clinical enterprises. With \$104 million in NIH-funded grants, UTMB ranks second among University of Texas System medical schools and 39th in the nation in terms of federal research funding. Currently, research grants account for 12 percent of our \$1.4 billion budget. We firmly believe that the extraordinary science taking place at UTMB positions us to double that percentage in the years to come.

We're also committed to increasing the number of commercially insured patients we see and treat. To do so, we must expand our service area and compete effectively off the island, which is the reason for UTMB's Specialty Care Center at Victory Lakes. We must also improve our inpatient facilities and hope to begin construction of a specialty care tower on the campus in 2007. Finally, we must address our service and access issues. Until we do, we won't be able to offer the patient-oriented service all of our patients expect and deserve. Drs. Parisi and Kinsey are leading a comprehensive strategic planning process focused on the clinical enterprise and expect to have recommendations to the SEC in August.

Some have asked me why, if we've been able to balance the budget year after year, we're subjecting ourselves to such a difficult and painful undertaking. It is certainly true that we have become adept at addressing financial challenges whenever they arise—challenges such as hurricane-related losses, cuts in state appropriations and shrinking reimbursements for clinical services.

However, in order to fulfill the vision we have for this great institution and the people we serve, we must have a financial foundation we can depend upon from year to year—one that will enable us to recruit and retain outstanding faculty and staff, and provide them with the facilities and resources they need to flourish.

Our vision is worthy, but getting there won't be easy. It will require us to make difficult decisions, work smarter, hold ourselves to a higher standard of accountability than ever before, keep our eyes on the horizon and remain committed to an institution that holds a very special place in Texas medicine. I have faith that together we will succeed.

John D. Stobo, M.D.
President

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