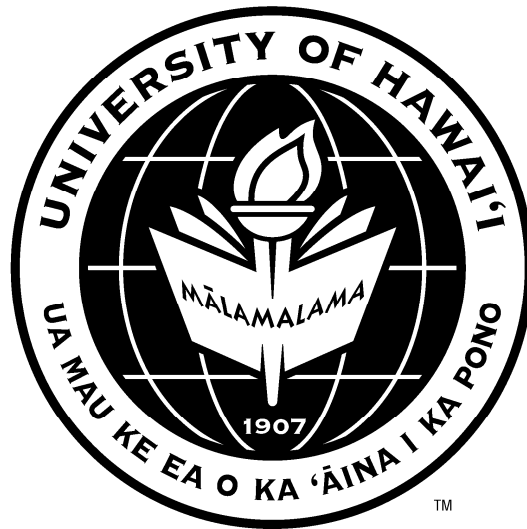


UNIVERSITY OF HAWAI‘I SYSTEM REPORT



REPORT TO THE 2015 LEGISLATURE

Report on the University of Hawai'i at Mānoa,
John A Burns School of Medicine
Detailed Financial Plan to Fund the
Operating Expenses

Act 2, SLH 2012

January 2015

Introduction

The John A. Burns School of Medicine (JABSOM) at the University of Hawai‘i at Mānoa is a community-based medical school. The American Association of Medical Colleges (AAMC) defines community-based medical schools as those medical schools that: (1) do not have an integrated teaching hospital; (2) have received full accreditation in 1972 or later, and (3) are non-federal entities. According to the AAMC, this definition acknowledges two fundamental principles.

1. Community-based schools use community hospitals to achieve their educational mission (relying on community hospitals for clinical facilities rather than a traditional academic medical center hospital)¹.
 - JABSOM partners with the following community based hospitals and medical centers: Queen’s Medical Center, Hawai‘i Pacific Health hospital systems, Kuakini Medical Center, Wahiawā General Hospital, Tripler Army Medical Center, Veteran Administration Hospital, Hawai‘i Health Systems Corporations, and Kaiser’s facilities.
2. Community-based medical schools emerged during or after the "community-based" movement in medical education, when reformers espoused increased ties between medical education and the community¹.
 - This movement occurred for three reasons: (1) cost-prohibitive nature of building (or rebuilding) traditional medical school complexes with hospitals; (2) the increasing imbalance of medically over-served versus underserved communities, and (3) the establishment of a historic medical school versus community disconnect between how and where new physicians are trained¹.
 - Essentially, the community-based model involves providing basic science (years one and two) and/or clinical training (typically years three and four) in sites separate from the main university campus. Clinical training is increasingly being provided in sites well beyond traditional large teaching hospitals, including both urban and rural-based ambulatory clinics and physician offices¹.

In addition to working in our community-based medical centers where over 50% of Hawai‘i’s physicians working in the State are part of the compensated faculty or attended (or were residency-trained) by the School’s compensated and volunteer faculty members, the School’s vision to provide “ALOHA” - Attaining Lasting Optimal Health for All which speaks to a focus on health rather than disease and an emphasis on health equity - extends to its missions of education, discovery, care and community service across Hawai‘i and into the greater Pacific.

Annual Legislative Report

In compliance with sections 3 and 4 of Sessions Laws of Hawai‘i (SLH) 2012 Act 002, the following sections of this legislative report provide a detailed accounting of all revenues and expenses of the medical school facility (see Part I), and a financial plan to fund the operating expenses of the school of medicine beginning July 1, 2015 (see Parts II and III).

¹ Exerts from: **Community-based distributive medical education: Advantaging society.** Authors: [Tracy J. Farnsworth](#), MHSA, MBA, [Alan C. Frantz](#), PhD, and [Ronald W. McCune](#), PhD. Retrieved from: <http://www.ncbi.nlm.nih.gov/pmc/articles/PMC3281501/>

Part I: JABSOM’s Annual All Funds Financial Report

In compliance with section 3 of SLH 2012 Act 2, Table 1 provides a summary of how the School of Medicine used its 2014 state general, special and revolving funds including the master tobacco settlement funds. Please note these figures include both University of Hawai‘i units reported under the Legislative budget appropriations UOH 110.

Table 1 – Annual All Funds Financial Report
JOHN A BURNS SCHOOL OF MEDICINE & OFFICE OF PUBLIC HEALTH STUDIES
FISCAL YEAR END JUNE 30, 2014

	<u>GENERAL</u>	<u>SPECIAL</u>	<u>REVOLVING</u>	<u>TOTAL</u>
REVENUES (APPROPRIATIONS)				
STATE GENERAL FUNDS	16,662,692			16,662,692
TUITION & FEES SPECIAL FUNDS (INCLUDING RESERVES)		23,872,036		23,872,036
TOBACCO SETTLEMENT SPECIAL FUNDS		12,569,742		12,569,742
RESEARCH & TRAINING REVOLVING FUNDS (INCLUDING RESERVES)			5,782,829	5,782,829
OTHER REVOLVING FUNDS			360,084	360,084
TOTAL REVENUES (APPROPRIATIONS)	16,662,692	36,441,778	6,142,913	59,247,383
EXPENDITURES				
SALARIES AND WAGES	16,662,692	13,835,259	2,667,573	33,165,523
UTILITIES (ELECTRICITY, GAS, WATER, SEWER, PHONE)	0	5,069,665	1,497,404	6,567,069
FACILITIES OPERATIONS (REPAIRS, MAINTENANCE, LEASES, FEE SERVICES)	0	4,704,525	375,074	5,079,599
OTHER OPERATING EXPENDITURES	0	2,316,399	1,504,519	3,820,918
UH HEALTH AND WELLNESS CENTER REVENUE BONDS DEBT SERVICE	0	9,926,025	0	9,926,025
CAPITALIZE EQUIPMENT/RENOVATIONS/LIBRARY BOOKS	0	589,905	98,343	688,248
TOTAL EXPENDITURES	16,662,692	36,441,778	6,142,913	59,247,383

In fiscal year 2014, the University of Hawai‘i received \$12,569,742 in master tobacco settlement special funds. Table 2 provides specific detail from Table 1 of how the tobacco settlement special funds were expended.

Table 2 – Tobacco Settlement Special Fund Expenditure Detail

UH HEALTH AND WELLNESS CENTER REVENUE BONDS DEBT SERVICE	9,926,025
JABSOM OPERATIONS UTILITIES, ELECTRICITY	2,400,175
JABSOM OPERATIONS UTILITIES, GAS	175,203
JABSOM OPERATIONS UTILITIES,WATER	26,022
JABSOM OPERATIONS UTILITIES,SEWER	42,316
TOTAL FISCAL YEAR 2014 TOBACCO SETTLEMENT SPECIAL FUNDS	12,569,742

Part II: An Unanticipated Change in JABSOM’s 2012 Financial Plan

In compliance with Section 4 of SLH 2012 Act 002, the School of Medicine partnered with the former UHM Chancellor Dr. Virginia Hinshaw and the State Legislature to draft a financial plan that would sustain JABSOM’s operations before July 1, 2015, i.e. the sunset date that tobacco settlement special funds (TSSF) beyond those used to cover building bond debt service will cease to help fund campus

operations. The financial plan's overarching goal was twofold: (1) to secure teaching positions (a promise made to former Dean Cadman when the School of Medicine relocated to Kaka'ako in 2005), and (2) to provide educational building operations support from UHM incrementally to reduce the need for TSSF operations funding support. UHM provided the School of Medicine the needed Liaison Committee on Medical Education (LCME) accreditation required teaching position counts, and the first of three \$500,000 permanent operating support budget augmentations in FY2013.

Unfortunately, in order to meet the legislatively mandated UH-Mānoa budget reduction, a \$7 million cut in FY2014, the base budgets of all Mānoa campus units were reduced by 3.1%. JABSOM's share of this reduction amounted to \$985,030. In addition, given that JABSOM had the largest carry-forward balance of any Mānoa unit (averaging \$10M per year), the JABSOM tuition and fees special fund was reduced by an additional \$1,000,000 by former Chancellor Apple. The overall FY2014 budget cuts to the Mānoa campus also prevented former Chancellor Apple from providing the remaining two additional \$500,000 permanent budget augmentations committed by former Chancellor Hinshaw that were to occur in FY2014 and FY2015.

The aggregate FY2014 Chancellor reduction of \$1,985,030 and elimination of a previously committed \$1,000,000 operating augmentation as originally approved in the 2012 financial business plan required JABSOM to draw down its reserves in FY2014. Reserves only serve as one-time dollars; therefore, a new financial business plan for JABSOM's Kaka'ako building infrastructure was drafted and is presented in Part III of this report.

Part III – A Unified Health and Wellness Campus Financial Sustainability Plan

The School of Medicine and the Cancer Center work daily via their education, research and community service missions to address tobacco-associated disease prevention, tobacco use cessation, and the development of cures for tobacco-related disease. Special areas of tobacco-related research performed by JABSOM and the Cancer Center include cardiovascular, respiratory, neurodegenerative diseases and type II diabetes. Addressing how smoking affects others, JABSOM and the Cancer Center participate in research studies that address smoking among women who become pregnant. For example, JABSOM's Native Hawaiian Health department's research found that in Hawai'i many native Hawaiian women who smoke prior to pregnancy are reluctant to quit during pregnancy, thus having direct health risks on their unborn infants. Additionally new studies are looking at the effects of third hand smoke, i.e. residual tobacco smoke, and its effects on those who are not exposed directly to those actively smoking but work in environments where lingering tobacco usage could cause asthma attacks, allergic reactions and cancer.

At the opening of the Cancer Center's new Kaka'ako buildings in February 2013, planning for a single location health sciences complex with synergistic shared site operations effort commenced. However, prior to solidifying shared site operations, it was important for the Cancer Center to have the time to fully commission their new buildings and relocate personnel and operations from their offsite facilities. In fiscal 2015, these relocations are nearly completed. As of December 2014, the School of Medicine and the Cancer Center have begun to work towards minimizing redundant Kaka'ako location site operations, and increase synergies related to research. Shared site services include but are not limited to the following resources:

- Health Sciences Library
- Waiola Café
- Research Cores
- Translational Research Clinic
- Level 3 Biosafety Lab
- Animal Vivarium
- Willed Body Anatomy Lab
- Central Plant Services
- Conference Center & Courtyard

Synergistic economies of scale require a combined look at the operations of both the Cancer Center and JABSOM. Table 3 provides a projected five-year financial plan beginning fiscal year 2016 structured to reduce single site location operating expenditures, and to ensure annual tobacco tax appropriations, general, special and revolving funds are used to cover both JABSOM and Cancer Center’s annual operations (i.e. excluding all building debt service obligations or bond debt reserve requirements). The 5 year financial plan projects an estimated \$3.5 million minimum savings by fiscal year 2020 that will result from operating as a unified Kaka’ako health sciences campus, and the addition of energy sustainability renovations including photo voltaic panels, variable frequency drives and joint preventative maintenance agreements for economies of scale procurement savings.

Table 3 – Unified Kaka’ako Health & Wellness Campus
John A Burns School of Medicine and Cancer Center
5 Year Financial Plan
(In Millions)

	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
	Actual	Projected	Estimate	Estimate	Estimate	Estimate	Estimate
Unrestricted Cash Reserve Beginning Balances (A)	41.6	27.5	34.7	27.3	20.2	11.3	3.6
Sources of Funds							
Institutional Funds (General, Special & Revolving)	46.3	47.7	46.2	46.9	47.6	48.3	49.0
Special Legislative Funds - Tobacco Settlement	12.6	12.5	9.9	9.0	9.0	9.0	9.9
Special Legislative Funds - Tobacco Tax*	15.8	34.0	13.2	12.6	12.1	11.7	11.4
Estimated Unified Kaka'ako Campus Support and Savings	-	0.5	1.2	2.3	3.3	3.4	3.5
Total Sources of Funds	74.7	94.7	70.5	70.8	72.0	72.4	73.8
Uses of Funds							
Operating Costs (excluding Building Debt Service)	71.0	67.4	65.5	65.5	66.0	65.2	65.6
Buildings Debt Service, Deferred Maintenance & Bond Costs	17.8	20.1	20.1	20.1	22.6	22.6	22.6
Total Uses of Funds	88.8	87.5	85.6	85.6	88.6	87.8	88.2
Net Sources (Uses) of Funds (B)	(14.1)	7.2	(15.1)	(14.8)	(16.6)	(15.4)	(14.4)
<i>Proposed Tobacco Settlement or Other State Funds needed to cover Cancer Center's Debt Service (C)</i>	-	-	7.7	7.7	7.7	7.7	7.7
Net Unrestricted Cash Reserves Available (A - B + C)	27.5	34.7	27.3	20.2	11.3	3.6	(3.1)

*Fiscal Year 2015 includes the Tobacco Tax redeposit of \$19.9 million originally reserved for building construction.

Both JABSOM and the Cancer Center buildings annual bond debt reporting costs, deferred maintenance and other bond debt related reserve requirements represent over \$20 million in annual Kaka’ako nonoperating costs. With the decline in tobacco product related sales the Cancer Center’s one time tobacco tax reserves that were designated to cover the cost of debt service and operations will diminish as early as fiscal year 2018. Additional funding from the State is required. Extending the University of Hawai‘i’s tobacco settlement special fund appropriations as a monetary source able to also cover the

Cancer Center buildings' debt service in addition to the School of Medicine's buildings could provide the funding needed to sustain the Kaka'ako Health and Wellness campus and is also referenced in Table 3. Another option may be to convert the Cancer Center buildings' revenue bonds to state general obligations bonds; thus expanding the potential cash sources that can be used to pay for the Cancer Center buildings' debt service obligations.

Realizing that an operation funding gap remains even with the proposed alternative funding options needed to cover the Cancer Center's debt service costs, action plans are being put into motion to eliminate the remaining deficit. These actions plans include: a) placing more Cancer Center faculty on grants, b) working with JABSOM to increase the Cancer Center's faculty clinical service revenue stream, c) continue to partner with the Cancer Center Consortium, and d) increase philanthropy efforts.

Conclusion

In the fall of 2005, the School of Medicine relocated from the University of Hawai'i at Mānoa (UHM) campus to the new University of Hawai'i at Mānoa Kaka'ako Health and Wellness campus extension. Completing the original vision for the Kaka'ako Health and Wellness extension campus, in February 2013 the Cancer Center, JABSOM's complimentary health science partner, began relocating their operations to their new buildings in Kaka'ako. Unification of these two important UHM health sciences units provides a new synergy regularly found on mainland health sciences campuses across the United States. UHM's unification of the School of Medicine and the Cancer Center on a single health sciences location was made possible by the Governor and State Legislature's awards of tobacco tax revenue and master tobacco settlement special fund monies appropriated to the University of Hawai'i.

Sustaining our unified health science campus synergistic alliance advances tobacco disease education, research and prevention while educating and training Hawai'i's physician workforce, and finding cures for many health related diseases, cancers and disparities found in Hawai'i. This alliance also ensures the following:

- Allows the use of tobacco tax revenues, which are slowly declining, to be used to fund cancer-related research administration (not paid with federal dollars), and fund the Cancer Center's portion of the day-to-day building and campus shared operations (which also reduces the School of Medicine's infrastructure costs).
- Continued medical center partnership investments with the Queen's Medical Center, Hawai'i Pacific Health, and Kuakini Medical Center. These medical centers provide financial support that assists the University of Hawai'i to hire clinical educators and clinical researchers, and provide the required hospital facilities to teach and train our future physicians, and most importantly partner with the Medical School and the Cancer Center to provide care and treat the people of Hawai'i.
- Promotes the continuum and health sciences network synergy between the Cancer Center and the School of Medicine. This relationship assists in preserving the Cancer Center's National Cancer Institute ranking and the School of Medicine's accreditation statuses with the LCME and the Accreditation Council for Graduate Medical Education (ACGME).
- Sharing facilities and operating as a single University of Hawai'i Kaka'ako Health and Wellness Health Science campus allows the Cancer Center and the School of Medicine to continue to

bring into the State annually nearly 60 million new contract and grants research dollars, thus providing much needed jobs and tax revenues in the Hawai‘i.

- Allows both the Cancer Center and the School of Medicine to continue to provide public community services that include:
 - Working with our community health partners, JABSOM hosts its medical student run Annual Community Health Fair open to the general public each January.
 - Serving our kūpuna is JABSOM’s new Mini Med School offering on “Healthy Aging” open to seniors and their families. This six week program is held three times a year in the Cancer Center’s Sullivan Center, and will be starting its second year of successful operations in January 2015.
 - Our Kaka’ako Health Sciences Library currently is hosting the NIH and National Library of Medicine sponsored Native Voices traveling exhibit. This exhibit is open to the public during normal business hours and will be at the School of Medicine from now until January 2015.
 - JABSOM’s sponsored Hawai‘i Home Clinic that provides free health care and volunteer support to Hawai‘i’s homeless families on O‘ahu.

JABSOM and the Cancer Center are proud to serve the people of Hawai‘i and express our gratitude to the Governor, the Hawai‘i State Legislature, University of Hawai‘i, and our faculty and staff that work towards improving the health care in Hawai‘i.