

21.2. Finances

21.2.1. Complete Tables A and B for the past five years and analyze the trends for each category.

Tables A and B are presented in Appendix 2-1. Overall, the financial resources of this College have been adequate to support the missions in education, research, extension and engagement, and service. Expenditures have increased 26% over the last five years, supported in part by increases in state appropriation, but also by steady and continual growth in Sponsored Programs and the Teaching Hospital, as well as increases in other Service areas and contractual student clinical instruction.

Expenditures (Table A)

Instruction: The majority of expense in this category is comprised of salaries and benefits. The decrease in 2004 reflects several vacancies, but the College has the flexibility to retain and utilize vacant salary funds for other areas of academic support. Recruitment of high quality faculty continues to be difficult and requires higher starting salaries for new faculty. Salary increases have ranged from none to 2.5% over the last five year, plus 5% and 7% promotional raises respectively, for promotions to Associate and Professor. The current fiscal year, 2006-07 provided for 6% salary increases, as well as allocating a pool of funds to the University System President to use for retention issues.

Academic Support: The increase in academic support reflects both programmatic expansion and facility renovations and upgrades. Extensive renovations were made in relocating several units to provide space for IAMS Pet Imaging to operate within in the confines of the Teaching Hospital. Both the cafeteria dining area and the two Student Commons areas have been renovated, and major reallocation of laboratory and office space in the main building was done after occupancy of the new research building, as well as to accommodate needed changes in the CVM HVAC system upgrade.

Student Services: The addition of a supplemental application fee has provided some additional operational funding, allowing Student Services to hire seasonal labor to better serve the application process. High staff turnover in 2002 and 2003 resulted in lower expenditures, but increasing salary levels have helped to stabilize the unit.

Teaching Hospital: Expenditures in the Teaching Hospital have increased more than 50% over the last five years due to both the increase in caseload and the increasing complexity of the caseload. Several new clinical services, including an emergency service, a dentistry service and a behavior service, have opened. Several new clinicians are supported directly from hospital revenue. Technical staff has been increased substantially to support both the new services and the complex patient care; in the last five years, 55 new positions have been added to the hospital, bringing the staffing total to ~185 positions. In addition to increases in salary commitments, the Teaching Hospital continues to purchase new equipment, and renovate facilities to support the equipment. Examples include the Linear Accelerator and the conversion to digital radiography.

Other Educational Expenditures: Activity in this category is from clinical service and diagnostic centers in the College. The substantial increase in 2006 is primarily from increased activity in the Vector Borne Disease service lab.

Diagnostic Laboratory: The State diagnostic laboratory is not affiliated administratively within this College, but faculty work closely with the lab in both service and instructional programs.

Student Aid: Un-sponsored Student Aid has shown minor growth over the last five years. Budget cuts in recent years, plus poor performance in endowments for several years have limited consistent growth in Sponsored Student Aid.

Sponsored Research: Despite being relatively level for FY 2004 and 2005, annual research expenditures have increased more than 22% over the last five years.

Other Sponsored Activity: Although there is some fluctuation year to year, overall expenditures have varied less than five percent over the last five years.

Extension and Public Service: The Office of Continuing Education and Public Programs continues to expand its offerings of courses, requiring that a third staff member be added to the unit.

The major increase in 2006 includes the expenses for design development for a new Medical Center, expected to break ground in 2008.

College Revenue (Sources of Funds) Table B

State Appropriations: With the national and state-level economic problems of recent years, this College has experienced several permanent and one-time budget cuts over the last five years (\$606,000 permanent, plus \$548,000 one time in FY 2004 alone). In addition, there have been both budget increases and decreases based on enrollment changes from year to year. Even with these cuts, the College has seen a net increase of 11+% in state appropriated funding over the last five years. The percentage of state allocation relative to total CVM revenue still shows a decline, indicating a steady growth of alternate revenue sources. The substantial growth in hospital revenue has allowed the hospital to be more self-supporting, thus freeing up College funds for other programmatic areas.

Tuition and Fees: Yearly tuition and fees for the 2006-2007 academic year are \$10,246 (In-State) and \$33,009 (Out-of-State). Tuition and fees as a component of total State appropriations have not been reported; the College's permanent budget is not affected unless enrollment and residency projections are not met. Only once has this resulted in a shortfall, which was covered by University Administration. In 2001 the College did implement a tuition increase specific to the DVM professional program, and has realized approximately \$900,000 in state funds as a result of this increase being phased in over four years, 2001-2004.

Endowment Income: After a very poor year in 2002, when net losses were realized on endowment investments, endowment income has shown steady growth. The total balance of endowment holdings has increased over the last five years from \$5,832,296 to \$7,344,171. Endowment income will continue grow, primarily from a \$20 million, 10-year commitment from the R. B. Terry Jr. Charitable Foundation.

Current Gifts: Current gifts have shown a substantial increase over the last two years as the College embarked on a major building campaign to raise funds for the new Randall B. Terry Jr. Veterinary Medical Center. Both Endowment Income and Current Gifts data have been restated from previously filed Comparative Data reports to reflect a correction in the data reported.

Sponsored Program Income/Cost Recovery: The College has seen a 25% increase in Sponsored Program revenue over the last five years. With the establishment of the Center for Comparative Medicine and Translational Research, it is expected that research funding will continue to grow in spite of the increasingly difficult federal research funding environment. Of note over the last five years is the award of a USDA Food Safety Research Response Network grant of \$5 million over five years. In addition, a CVM faculty member received the prestigious NIH Method to Extend Research in Time (MERIT) Award in FY 2004. This will extend funding for ten years. An EPA Training Grant, "Cooperative Training in Environmental Sciences Research" has also been renewed for five years (2006-2011) for a five-year total of \$4,544,890.

Other Activity: This category includes revenue from multiple diagnostic and analytical laboratories, as well as revenue from contractual agreements with Ross University and St. George University Veterinary Schools. Both the Vector Borne Disease lab and Canine Diagnostics have seen a substantial increase this last year, which will probably level off due to facility and staffing constraints.

Teaching Hospital: Revenue from the Veterinary Teaching Hospital has shown particularly strong growth in the last two years. Increases in caseload and complexity, and the addition of an emergency service, more critical and intermediate care facilities, and advanced imaging capability (Magnetic Resonance Imaging) continue to drive hospital revenue growth.

Diagnostic Laboratory: The State diagnostic laboratory is not affiliated administratively within this College, and therefore there is no associated revenue from the lab.

Other sources from Sales and Services: The College has a number of clinical service labs, some partially subsidized and some self-supporting. Revenue from these labs has been fairly constant over the last three years.

Reserves and Transfers: Professional Services fees, or Veterinary Faculty Practice Plan (VFPP) dollars, are generated from hospital services, and then are distributed out to the Deans and departments on a quarterly basis. The intra fund transfers from the central VFPP account and reallocations from Deans are closely aligned with the total amount of VFPP income generated. The expenses are recognized at the department level when the funds are used.

21.2.2. Comment on the strengths and weaknesses in revenues over the past five years.

Strengths

The state economy has been rebounding, and FY 2006 was the first year in several that did not require a budget cut or reversion. In addition, for the first time in many years, the College was granted carry forward of committed but unspent funds, allowing for more efficient forward planning and use of funds. Faculty got an average 6% salary increase in the current fiscal year. Increasing revenues from the Veterinary Teaching Hospital, Ross University and St. George University Veterinary Schools, and research overhead have all spared state dollars and allowed growth of the overall program.

The Teaching Hospital continues to show strong growth and has been able to fund not only new staff support positions, but is also funding clinical faculty positions in order to support the increase in caseload and expand services. The VTH also generates \$2.5-3 million in Practice Plan funds annually that is available the Dean and departments as non-reverting funds for programmatic support and development, as well as for some salary support.

The pledge from the Randall B. Terry foundation has greatly increased the funding support towards the new Terry Veterinary Medical Center. While the pledge is a guarantee of \$2 million per year for ten years, the first two years installments have been \$2.5 million and \$3 million, respectively. It is anticipated that the Foundation will continue to donate over the pledge amount for the duration of the pledge. In addition, the CVM is in a University-wide Capital Campaign, and this College is at 72% of a \$100 million goal.

The College is reorganizing its Development Office under the guidance of an Assistant Dean for College Relations, and, as part of the strategic plan, additional development officers will be added to the program. The new fundraisers should positively impact both the College's Endowment and Current Gifts.

Weaknesses

Obviously, substantial budget cuts are a weakness to any program. With budget flexibility, the College has managed to maintain and grow programs, and continues to develop in new areas such as Animal Welfare, Ethics and Public Policy, though this is often achieved through the use of one-time funding, or soft money. The biggest risk with loss of permanent budget and/or limited budget increases is the inability to compensate faculty adequately. The College has lost several promising young faculty and has been non-competitive in a number of new faculty recruitment efforts over the last few years, partially due to the inability to match the salary levels and benefits packages at other institutions. Established and senior faculty members are feeling the results of salary compression, as new faculty are being hired at higher market rates. Several years of minimal salary increases are detrimental as faculty members begin to look for better opportunities.

The CVM continues to increase revenues from sponsored research, but receives only a portion back from the University. The University first adjusts for such things as reduced F&A recovery for Centers, MOA's and other items considered in the best interest of the University. After adjustments, the University Research Office retains 15% of receipts for administrative support, with 85% allocated for infrastructure costs, maintenance, research administration and other campus/college initiatives. The University keeps 58.9% (of the 85%) leaving 41.1% returned to the Colleges/units. After mandatory expenses, such as the Medical Surveillance Program, this College receives approximately 30% or less of total F&A revenues generated by CVM researchers.

21.2.3. Provide a comprehensive trend analysis of revenue sources that have supported the professional teaching program over the past five years (graphs or other visual presentations would be helpful).

Appendix 2-2 shows the five-year trend of the major sources of the revenue for this College. On a percentage basis, the Teaching Hospital has shown the most growth, while state appropriation funds have remained relatively flat.

21.2.4. Describe how revenues over the past five years have impacted the college's ability to provide a contemporary professional teaching program and ancillary support services.

One of the major impacts of the recent five years has been the completion of the new research building on the Centennial Biomedical Campus in 2005. Prior to the opening and occupancy of this facility, many of the College faculty were located off campus. Though not far, the distance made both student/faculty and faculty/faculty interactions more difficult. In addition to bringing all faculty to one campus, there was a complete reorganization of faculty office and laboratory space in the main building. Faculty offices and laboratories, along with graduate student space, were relocated for better utilization of available space and for efficiency of collaborations. Most of the funding for the new building was state bond monies, but the College is using indirect cost recovery revenue for loan payments.

Other improvements to facilities include major renovations of the library, the cafeteria dining area, two student commons and outside patio seating. The College continues to expand fiber connectivity to all major outlying buildings, and has implemented a wireless plan throughout the main building and the research building. Computer replacements and upgrades are continual, with a College goal of replacing faculty computers every three years. Students are provided palm pilots as part of their program, and a number of applications and reference material have been developed for use on the devices.

The Teaching Hospital has been able to make several critical renovations, including a new state of the art Intensive Care Unit, space relocation and upgrades for cardiology, oncology and dermatology, creation of Intermediate Care facilities, a clean room in the pharmacy for compounding, and creation of a separate entry 'day visit' space for equine patients. A number of recommendations from the College Infectious Disease committee were also implemented, including construction of a separate large animal isolation barn, as well as modifications to the existing barn.

The last five years has seen the partnering with IAMS Pet Imaging to provide MR Imaging in the Teaching Hospital, and the construction of a vault and linear accelerator for improved oncology services. Clinical faculty have been able to develop a centralized Radiology Information System for improved in-house patient care and student instruction, supported by all new digital radiography equipment.

21.2.5. Compare the percentage of hospital income to total hospital operational costs.

While the Teaching Hospital is subsidized for a portion of its salary expenditures, all operating support was lost to budget cuts in the 1990's. Through expanded caseload, strategic hires, and new services, the Hospital has been able to fund all operational costs and all additional staffing. The hospital manages capital equipment repairs and renovations, and much of new equipment costs. It has been able to add key residency and intern positions. Within the last five years, the VFPP document was amended to provide the Teaching Hospital with its own non-reverting revenue stream. This gives the Hospital the means to accumulate emergency reserves to be used in the event of disruption of services (hurricanes/ice storms/infectious disease outbreaks). Even though the Hospital has a policy of full payment at time of service, there is still a substantial accounts receivable (~\$400,000).

The Teaching Hospital now has administrative oversight of the Equine Health Center in Southern Pines, and is expanding clinical services at that site. There will be a major fundraising campaign for renovations at that site.

The need for the Veterinary Teaching Hospital to become self-supporting has resulted in the closing or reduction of some programs, such as equine ambulatory and pet avian, that are of educational benefit, but not financially feasible. The College is using other means, such as externships, to provide experiences in these areas.

21.2.6. Describe anticipated trends in future revenues and expenditures.

With the State of North Carolina's improved budget situation in recent years, it is hoped that salary increases from the Legislature will continue to be at least at the 5% level. It is not expected that the College will recover any funds lost to budget cuts, but University Administration is supportive in funding retention offers and new faculty startups. The College is recruiting for a new Executive Director of Development and it is expected that there will be an expansion of development activity and fund raising. The College plans to add at least two more development officers within the next year.

Expenditures are expected to increase in relation to expanded operations and general inflationary changes. Faculty recruitment and retention costs are expected to increase substantially, and the College will need to utilize non-state funds, such as VFPP to remain competitive for the most highly qualified candidates.