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Committee Meeting: 5/7/2025

Board Meeting: 5/8/2025
Austin, Texas

Christina Melton Crain, Chairman
Robert P. Gauntt
Jodie Lee Jiles
Janiece Longoria
Nolan Perez
Stuart W. Stedman

	Committee Meeting	Board Meeting	Page
Convene	<i>2:45 p.m.</i> <i>Chairman Crain</i>		
1. U.T. System Board of Regents: Discussion and appropriate action regarding Consent Agenda items, if any, assigned for Committee consideration	Discussion	Action	139
2. U.T. Medical Branch - Galveston: Report on the Long Range Financial Plan	Report/Discussion <i>Mr. Derek Horton</i> <i>President Reiser</i>	Not on Agenda	140
3. U.T.M.D. Anderson Cancer Center: Discussion and appropriate action regarding a) proposed participation as a special limited partner in Cancer Focus Fund II, LP, and b) delegation of authority to the President to execute documents and take other necessary actions, following final review and approval	Action <i>President Pisters</i>	Action	154
Adjourn	<i>3:00 p.m.</i>		

1. **U.T. System Board of Regents: Discussion and appropriate action regarding Consent Agenda items, if any, assigned for Committee consideration**

RECOMMENDATION

The Board will be asked to approve the Consent Agenda beginning on [Page 176](#).

2. U.T. Medical Branch - Galveston: Report on the Long Range Financial Plan

President Reiser will report on the long range financial planning at U.T. Medical Branch - Galveston using the PowerPoint on the following pages.



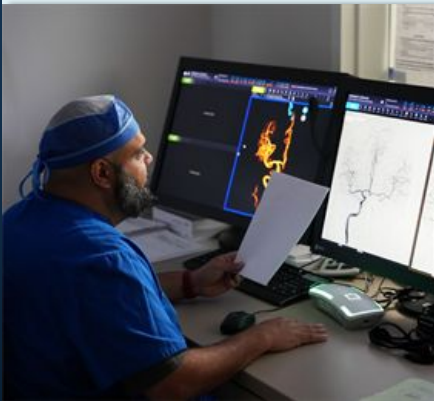
The University of Texas Medical Branch at Galveston Long Range Financial Plan Jochen Reiser, M.D., Ph.D., President

U.T. System Board of Regents Meeting
Health Affairs Committee
May 2025



UTMB Health: Mission Areas

Clinical Care



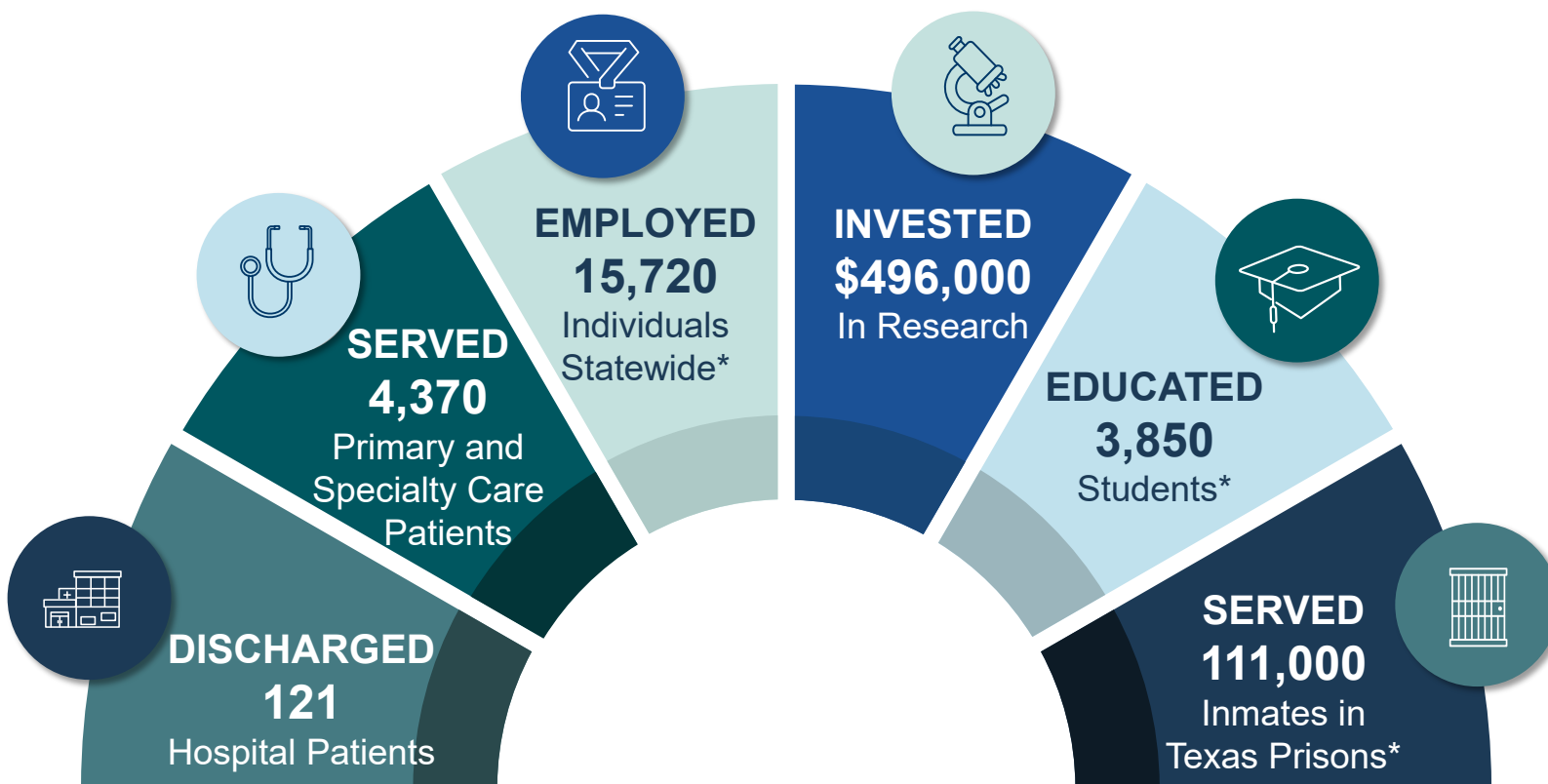
Academic

Research



Innovation

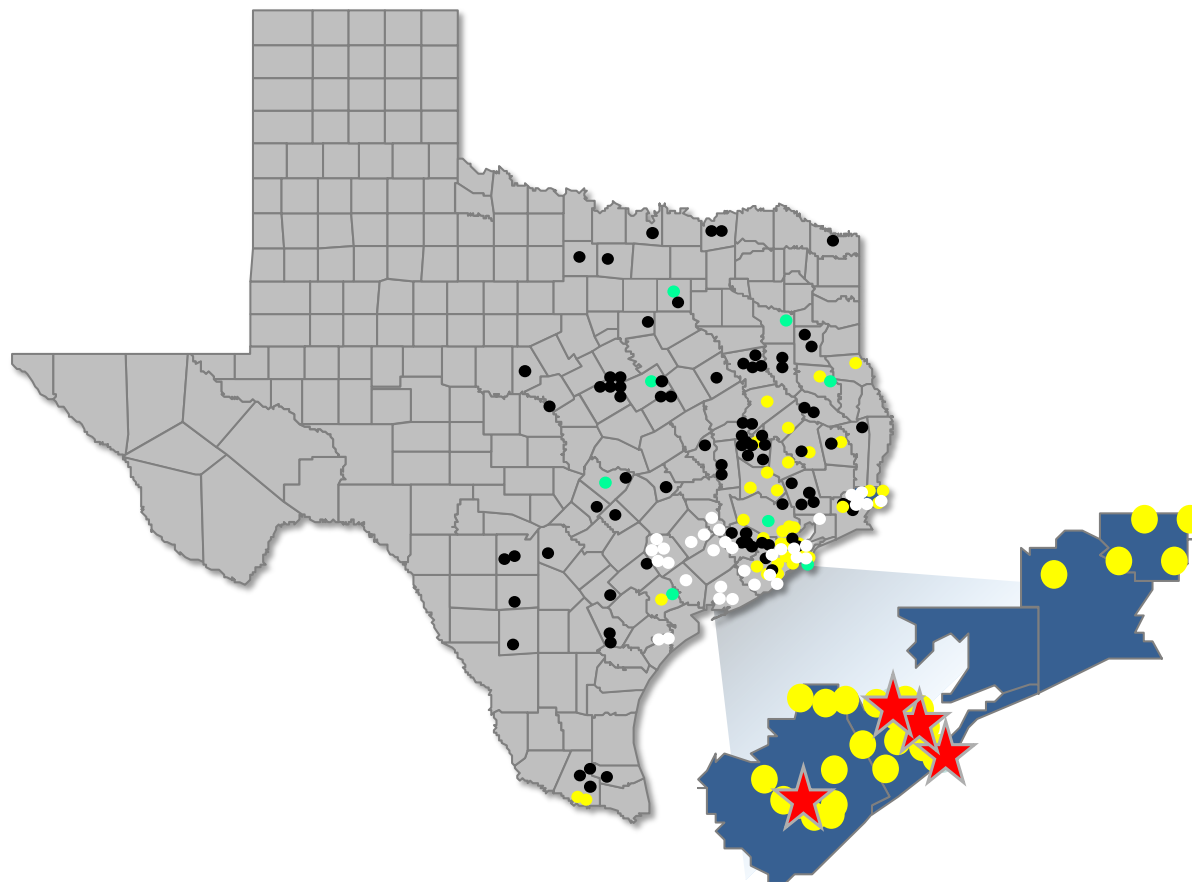
At the end of each day, UTMB has:



FY24 Statistics

*Reflects total count for fiscal year.

Our Reach Across Texas



Legend

- Texas Department of Criminal Justice Prison Clinic / Texas Juvenile Justice Department Facility Clinic
- East Texas Area Health Education Centers
- Texas Child Health Access Through Specific School Districts
- UTMB Primary and Specialty Care Clinics
- ★ UTMB Hospitals



Long Range Financial Plan

Executive Summary

In the last 16 years, The University of Texas Medical Branch at Galveston (UTMB) has dealt with recovery from Hurricane Ike requiring the hardening of the Galveston Campus with significant construction projects; the volatility of the COVID-19 pandemic which ended with executive leadership vacancies; and the recent establishment of a multi-site hospital system. The task at hand requires UTMB to continue strong revenue growth while promoting new strategic mission investments, including further expansion of clinical operations.

- **Strategic Mission-Driven Investments:**

- Student Housing (New)—Galveston
- Research Building (New)—Galveston
- Clinical Facilities Expansion across multi-sites
- Innovation Initiatives

- **Revenue Growth:** Planning for continued and consistent growth in revenues, as state funding through our mission formula continues to decline as an overall percentage of revenue.

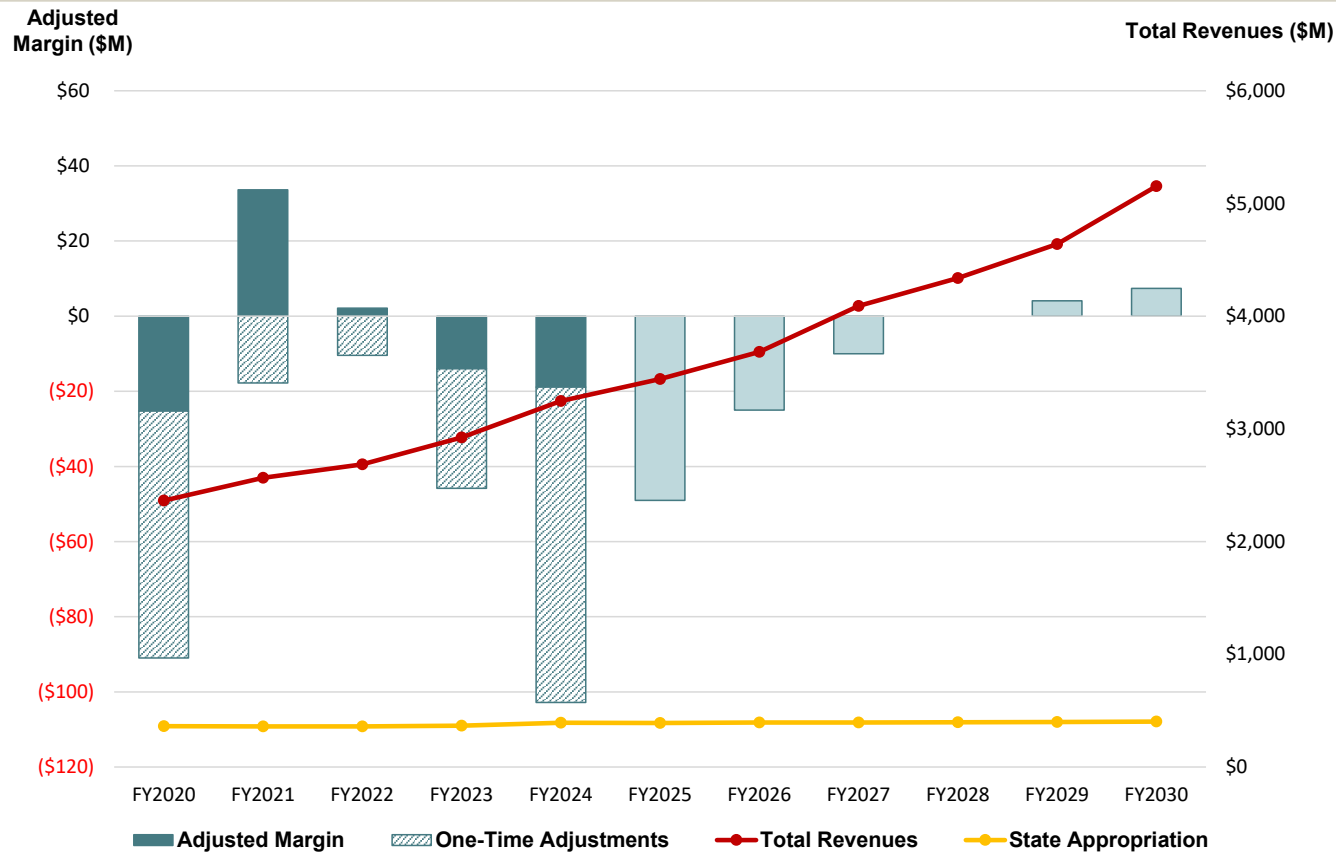
Capital Planning Projects

We Remain Committed To Advancing All Our Missions

Description	Total Project Cost (\$M)	Funding Sources (\$M)			
		Tuition Revenue Bond and Permanent University Fund	Revenue Financing System (RFS)	Philanthropic and Other	Hospital Revenues
Research Building (Galveston Campus)	\$ 510	\$ -	\$ 400	\$ -	\$ 110
Research and Innovation (Texas Medical Center)	25	-		-	25
Student Housing (Galveston Campus) ⁽¹⁾	85	-		85	-
Clinical Facilities Expansion (League City Campus)	150	-		-	150
Outpatient GI and Imaging Center (Clear Lake Campus)	25	-		-	25
Medical Office Building (Angleton Campus)	20	-		-	20
Grand Total	\$ 815	\$ -	\$ 400	\$ 85	\$ 330

⁽¹⁾ Will be evaluating different funding opportunities such as joint ventures, direct philanthropic funding, as well as other collaboration opportunities.

Long Range Financial Planning (FY2020 – FY2030)

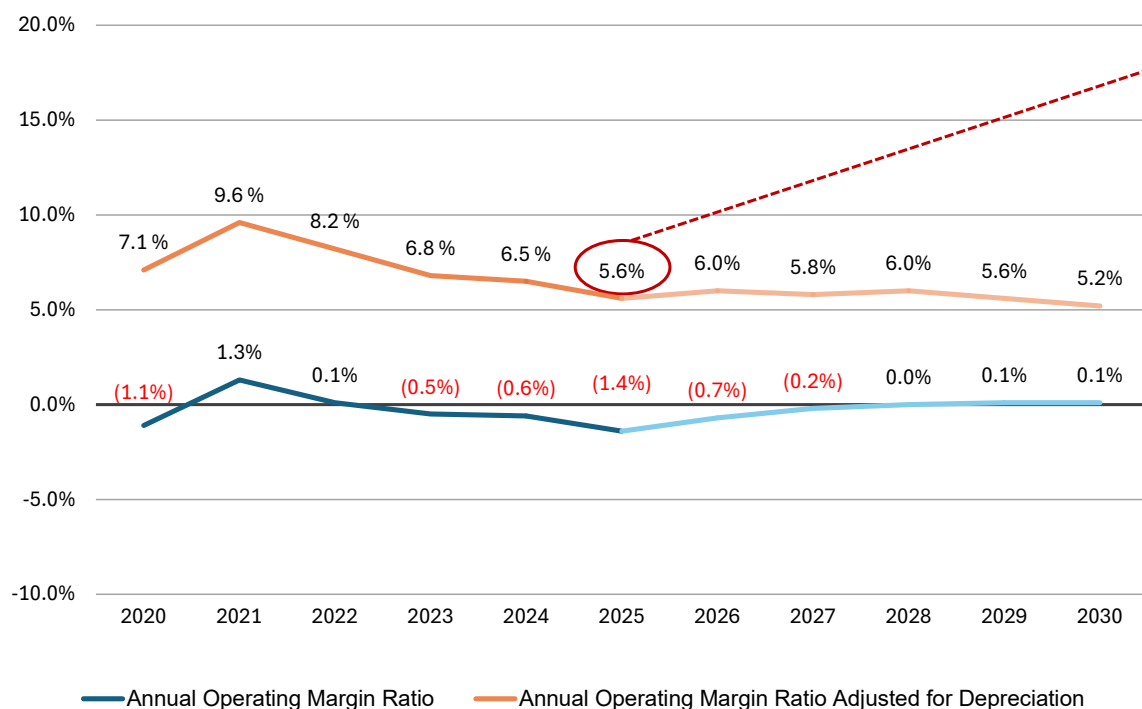


GOALS:

- **Post-Pandemic Stability:** Positive operating margin by FY2029
- **Revenue and Margin Growth:** Average of ~8% annual revenue growth
- **Strategic Reinvestment:** FY2025 – FY2027 represents our commitment to reinvesting in our missions, ensuring continued advancement

The operating impact of the Research building, including depreciation, starts FY2031. Interest on debt services is projected to start in FY2028.

Operating Performance



Projected FY 2025								
	Budget (\$ Millions)				Projected (\$ Millions)			
	Revenues	Expenses	Cash Flow	Cash Flow Ratio	Revenues	Expenses	Cash Flow	Cash Flow Ratio
U.T. Southwestern Medical Center	\$5,534.2	\$5,192.0	\$342.2	6.2%	\$5,709.7	\$5,369.5	\$340.2	6.0%
U.T. Medical Branch	\$3,330.1	\$3,142.3	\$187.9	5.6%	\$3,443.1	\$3,251.5	\$191.6	5.6%
U.T. Health Science Center – Houston	\$2,702.9	\$2,572.5	\$130.4	4.8%	\$2,749.7	\$2,610.9	\$138.8	5.0%
U.T. Health Science Center – San Antonio	\$1,671.6	\$1,625.3	\$46.3	2.8%	\$1,678.3	\$1,631.7	\$46.6	2.8%
U.T.M.D. Anderson Cancer Center	\$8,647.9	\$7,356.7	\$1,291.2	14.9%	\$8,746.1	\$7,439.1	\$1,306.9	14.9%
TOTAL	\$21,886.7	\$19,888.7	\$1,998.0	9.1%	\$22,326.9	\$20,302.8	\$2,024.1	9.1%
Excludes Depreciation Expense								

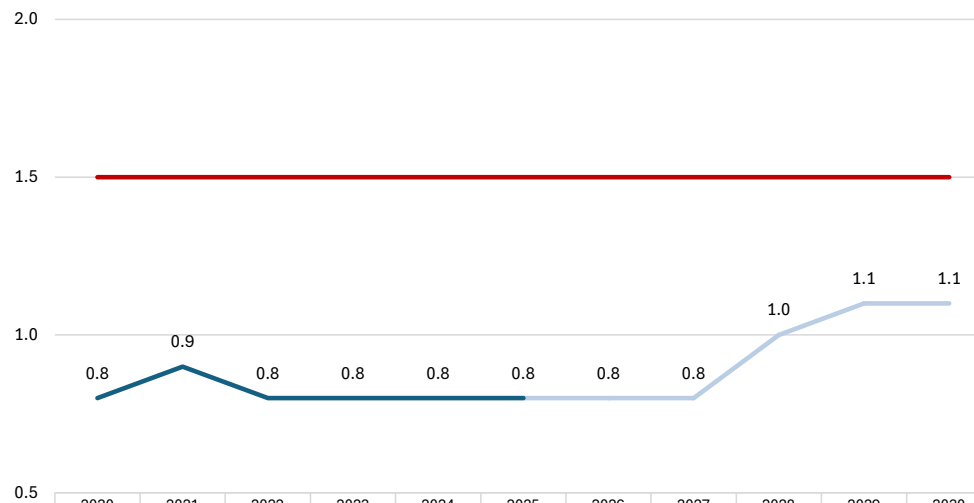
- **Sustaining Positive Margins:** Targeting a long-term goal (beyond 2030) of achieving 1-3% positive margin annually
- **Reinvestment Strategy:** Maintaining positive EBIDA* and cash flow, with reinvestments directed toward our missions and infrastructure

* Earnings Before Interest, Depreciation and Amortization

The operating impact of the Research Building, including depreciation, starts FY2031. Interest on debt services is projected to start in FY2028.

Liquidity and Debt Management

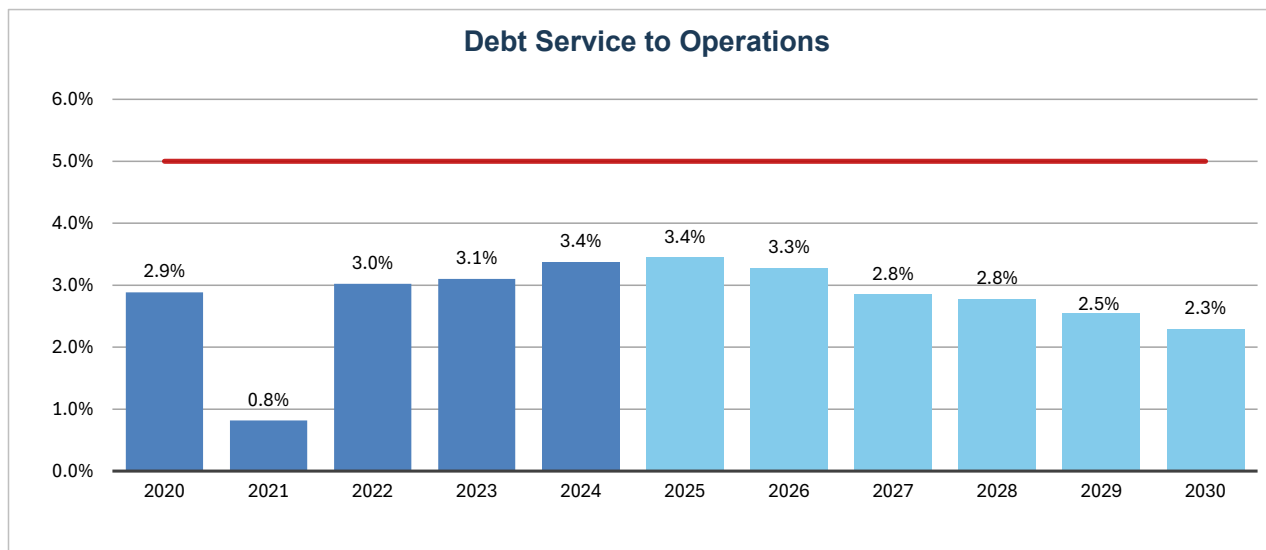
Unrestricted Cash and Investments to Total Debt



- **Projected Cash Growth:** Forecasting increases in cash and investments over the next five years, primarily from clinical and hospital revenue growth

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Unrestricted Cash & Inv. (\$M)	\$752	\$1,032	\$932	\$984	\$988	\$896	\$868	\$877	\$912	\$954	\$999
Total Debt (\$M)	\$945	\$1,129	\$1,109	\$1,157	\$1,200	\$1,165	\$1,111	\$1,033	\$950	\$885	\$944
Unrestricted Cash & Inv. to Total Debt (x)	0.8	0.9	0.8	0.8	0.8	0.8	0.8	0.8	1.0	1.1	1.1
Min = 1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5

Liquidity and Debt Management (cont.)

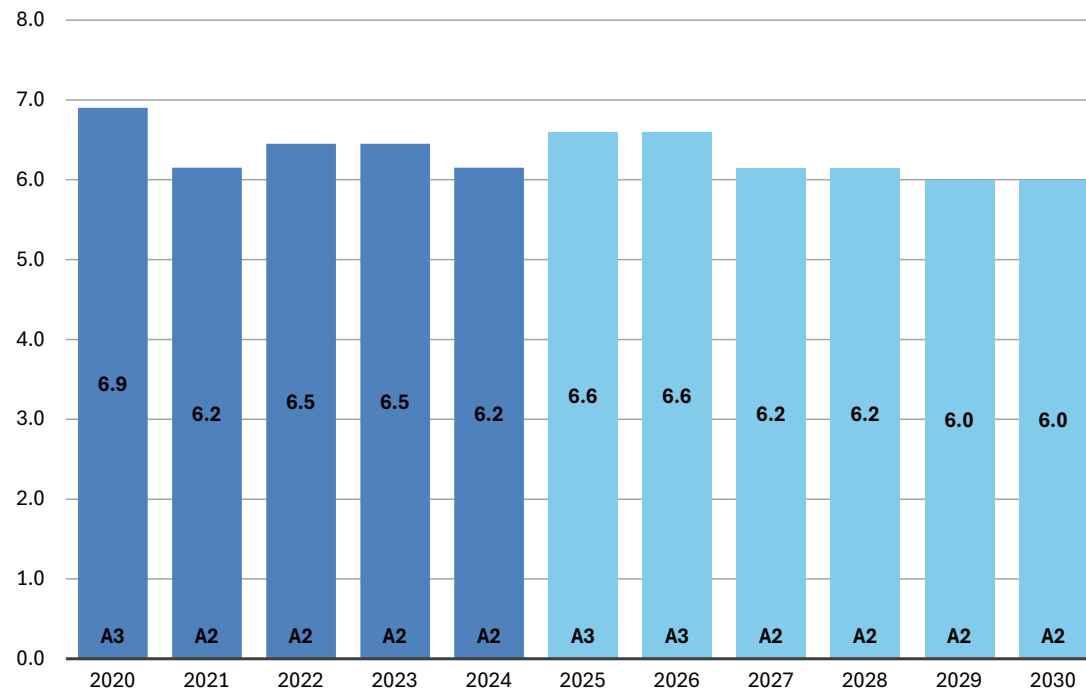


- **Planned Capital Investments:** Plan includes contemplation of new research building and its impact on debt
- **Debt Capacity:** New RFS debt acquired for research building will affect debt capacity starting in 2028

In 2021, deferral of debt principal payments were included; approved by U.T. System (mandatory debt service decreased from ~\$69M to \$20.7M).

Overall Scorecard Rating

Composite
Score



- **Temporary Rating Impact:** During the mission investment period (FY2025 – FY2026), a one-point drop in rating is forecasted, with a swift rebound as operating performance strengthens
- **Sustained Financial Growth:** Consistent year-over-year growth in revenues and improved operating performance will enhance long-term financial sustainability and scorecard rating

Conclusion

In conclusion, we expect to bolster financial strength—with plans to enhance stability through unprecedented growth and intentional mission investments over the next five years.

- **Revenue Growth:** Over the past few years, we've experienced significant revenue growth, with an average increase of ~8%. Because of this repeated performance, we know we can continue to drive consistent growth and create sustainability.
- **Financial Outlook:** With additional mission investments, we continue to forecast a positive operating margin and positive cash flow.
- **Financial Success:** With consistent monitoring and tracking, UTMB will achieve long-term sustainability and a positive financial outlook.

3. **U.T.M.D. Anderson Cancer Center: Discussion and appropriate action regarding a) proposed participation as a special limited partner in Cancer Focus Fund II, LP, and b) delegation of authority to the President to execute documents and take other necessary actions, following final review and approval**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor and Chief Operating Officer, the Vice Chancellor and General Counsel, and the institutional president that authorization be granted by the U.T. System Board of Regents, on behalf of U.T.M.D. Anderson Cancer Center, to:

- a. participate as a special limited partner in an investment fund initiated by U.T.M.D. Anderson Cancer Center and to be known as Cancer Focus Fund II, LP; and
- b. delegate authority to the President of U.T.M.D. Anderson Cancer Center or his delegate to execute all documents, instruments, and other agreements, following review and final approval by the Chancellor, the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor and Chief Operating Officer, and the Vice Chancellor and General Counsel, and to take other actions necessary or advisable to carry out the purpose and intent of the foregoing action and to accomplish the foregoing transaction.

BACKGROUND INFORMATION

Cancer Focus Fund II, LP (the Fund) is being created as an independent, privately sponsored venture capital fund to make investments in biotechnology companies with promising late pre-clinical or early clinical oncology assets. The Fund's capital will be primarily used to finance the advancement of oncology assets through clinical trials primarily conducted at U.T.M.D. Anderson Cancer Center (UTMDACC). The Fund is targeting \$250 million of capital commitments, primarily to finance the advancement of such oncology assets through first-in-human clinical trials at UTMDACC, although the Fund may in its discretion accept up to \$300 million of capital commitments.

The Fund will be substantially similar to the Cancer Focus Fund, LP (the Initial Fund), which the U.T. System Board of Regents approved on August 15, 2019. The Initial Fund launched in December 2019 and ultimately closed at \$43.4 million of capital commitments. To date, the Initial Fund has reviewed over 300 assets, conducted full diligence on 15 assets, made eight investments, and achieved the first exit of a portfolio asset in the form of a distribution to its limited partners of publicly traded shares in accordance with the distribution waterfall in the partnership agreement. Some clinical trials under the Initial Fund are still ongoing, and the Initial Fund will remain an active investor in accordance with the Initial Fund documents.

Early-stage biotechnology companies all over the world are seeking to partner with UTMDACC to perform first-in-human clinical trials with their novel cancer drugs. Additionally, these companies often need help from UTMDACC to conduct or confirm pre-clinical results and to develop assays or biomarkers that will aid in the development of potentially life-saving drugs. Human clinical trials are expensive, and many small biotech companies do not have adequate resources to undertake the clinical development of the assets in a thoughtful and comprehensive manner. Given the early stage of these companies and the significant cost to conduct a human clinical trial, many highly promising drugs are unable to move forward while the company's founders seek funding, which can take months or years. As a result, often very promising drugs are underdeveloped, or in some cases, not developed at all. It is these drugs that the Fund will target. Specifically, with capital from third party investors, the Fund will provide funding at appropriate risk-adjusted rates for clinical trials of drugs about to enter clinical trials.

UTMDACC has negotiated in an arms-length transaction its participation as a special limited partner in the Fund, with no out-of-pocket capital being required; however, UTMDACC has the opportunity, but not the obligation, to invest cash in the Fund. Other Limited Partners would invest capital in the Fund in the expectation of a return comprised of the cash flows that would arise from the monetization of each one of the assets in which the Fund has invested. The initial term of the Fund is anticipated to be approximately 10 years, unless earlier terminated pursuant to the terms of the partnership agreement or extended by the Fund's general partner for up to two additional successive one-year terms. The Fund will not make any investment in any entity that is headquartered in, or whose primary operations are located in the country impacted by the Governor of the State of Texas' Executive Order GA-48.

The duties and privileges of UTMDACC as the special limited partner will be:

- a. Receipt of a Limited Partner interest in the Fund in exchange for a discount in the provision of clinical trial services to the Fund. UTMDACC will also receive scientific advisory fees from the General Partner.
- b. Formation of a Scientific Advisory Committee. UTMDACC will form an advisory committee of medical professionals within or associated with the UTMDACC network who are experts in oncological pharmaceuticals and treatment to provide scientific advice to the Fund regarding the underlying scientific evidence and trials carried out related to potential investments. The Scientific Advisory Committee will provide only scientific advice based on the best-known evidence and will not provide any investment advice or make investment recommendations to the Fund.
- c. The Investment Committee, formed by members of the General Partner and its special advisors—but not UTMDACC itself, to minimize conflict of interest issues—would select the companies and drugs into which the Fund would make an investment.
- d. For those companies and drugs selected by the Investment Committee, UTMDACC will conduct the clinical trials under strict conflicts of interest guidelines.
- e. UTMDACC will not benefit from the success of an individual drug, but it will have an upside if the Fund's investments are successful.

- f. From UTMDACC's perspective, participation in the Fund is attractive and beneficial because:
 - i. UTMDACC will not be required to invest any capital in the Fund.
 - ii. UTMDACC will have access to novel agents from around the world that UTMDACC otherwise would not have had access to, to the benefit of UTMDACC's clinicians and scientists.
 - iii. Participation in the Fund is expected to increase the number of clinical trials performed at UTMDACC and the number of drugs that are developed at UTMDACC and provide further meaningful research and development opportunities for UTMDACC faculty.

It is believed that the Fund will be successful and attractive to investors and drug owners because:

- 1. The Fund will largely mirror the Initial Fund, which was successful in raising almost \$45 million and making eight investments, each of which involved financing, designing, and enrolling clinical trials with each company.
- 2. The scientific resources of UTMDACC will be dedicated to finding, triaging, and developing drugs that are undervalued.
- 3. UTMDACC is the premier cancer center in the world, and oncology clinical trials performed with the expertise of UTMDACC would give each drug the highest chance of success.
- 4. Investment by the Fund will be tailored to each drug. It may or may not involve an equity investment in the corporate structure of the owner of the drug, and it could be comprised of milestones and/or royalties upon commercialization. This would allow drugs to be developed that otherwise may not have had a chance due to unorthodox or imperfect corporate structures of the company that has the rights to the drug. Moreover, investors could avail themselves of a broad range of exit strategies, unlike traditional funds that always obtain equity in the companies in which they invest and suffer from very long-term horizons and large amounts of uncertainty.
- 5. Small biotech companies that are outside of the traditional financing centers (e.g., New York, Boston, and San Francisco) and who are struggling to finance the development of novel drugs could avail themselves of highly differentiated and advantageous mechanisms to advance assets without sacrificing a large amount of equity in the company or agreeing to a sub-optimal early licensing deal with pharmaceutical companies.