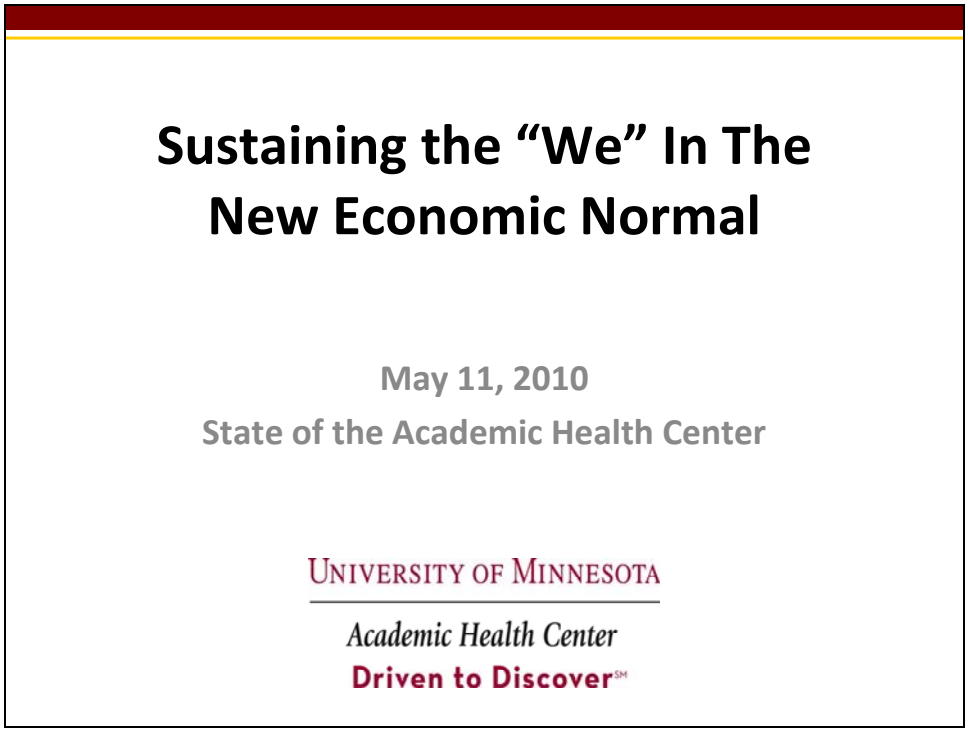
Senior Vice President for Health Sciences Frank B. Cerra, M.D.



I learned something new recently – By the end of this year, I'll be a Golden Boomer – that means someone of my generation who has retired from a primary occupation.

Of course, that raises an interesting question of - what is my "primary" occupation – Is it my position as faculty in the Medical School? Or is it the role I've served for the past 14 years or so – as Senior Vice President for Health sciences?

I'll be returning to the faculty next year to pick up my 30-year academic portfolio that has been on hold for a while. So for purposes of today's discussion – let's focus on the administrative role.

We early stage, leading edge boomers share a set of characteristics – we're highly individualistic, somewhat free spirited, very interested in trying new things, and – since there were so many of us – very influential in shaping culture as we grew up and aged.

The second stage of the baby boom were called the "Me Generation" – since they rode the wave of our rock and roll inspired, free spirited change, and were defined significantly for their consumption behaviors.

And that's what I want to talk about today –How the "Me Generation" now in leadership roles within the Academic Health Center have carved out a critically important "We" focus for the health sciences at the University of Minnesota.

We've just heard and seen how distinctive each of our schools is from the Deans of Dentistry, Medicine, Nursing, Pharmacy, Public Health, and Veterinary Medicine – thanks to each of you for responding so willingly to the request of our AHC-FCC to share the unique differences in your financial models.

I will now share with all of you how this group of distinctive disciplines has worked together as a health sciences team over the past fourteen years to

make strategic investments – together –
make strategic decisions – together – and
worked as a team to ensure the University is well-positioned for the future.

Report to President Moos

From External Advisory Committee, 26 February 1970

The Health Sciences Center at the University of Minnesota should

1. assume a role of major leadership in enhancing the delivery of health care services throughout the state.
2. lead in developing new health professions at all levels
3. extend(ing) its educational influence throughout the state and for experimenting with new ways to improve the distribution of…. health professionals
4. take responsibility for the continuing education of each of the health professionals
5 continuing mandate to remain in the closest contact with the people of the state
6. Expose today's health student to this (team approach) in his educational experience.

To do that – I'd like to start with noting a 40-year anniversary of sorts – it was forty years ago this year that University President Malcolm Moos appointed an External Advisory Committee to review the University's health sciences and to make recommendations on their organization. Their report, issued by Vanderbilt University chancellor Alexander Heard, with co-chair Harvard medical economics professor Rashi Fein, said that the University's health sciences center needed to:

- Assume a role of major leadership in enhancing the delivery of health care services throughout the state,
- Lead in developing new health professionals at all levels
- Extend its educational influence through MN and for experimenting with new ways to improve the distribution of health professionals

- Take responsibility for continuing education of each of the health professions
- Continue its mandate to remain in the closest contact with the people of the state
- And to expose today's health student to this (team approach) in his educational experience.

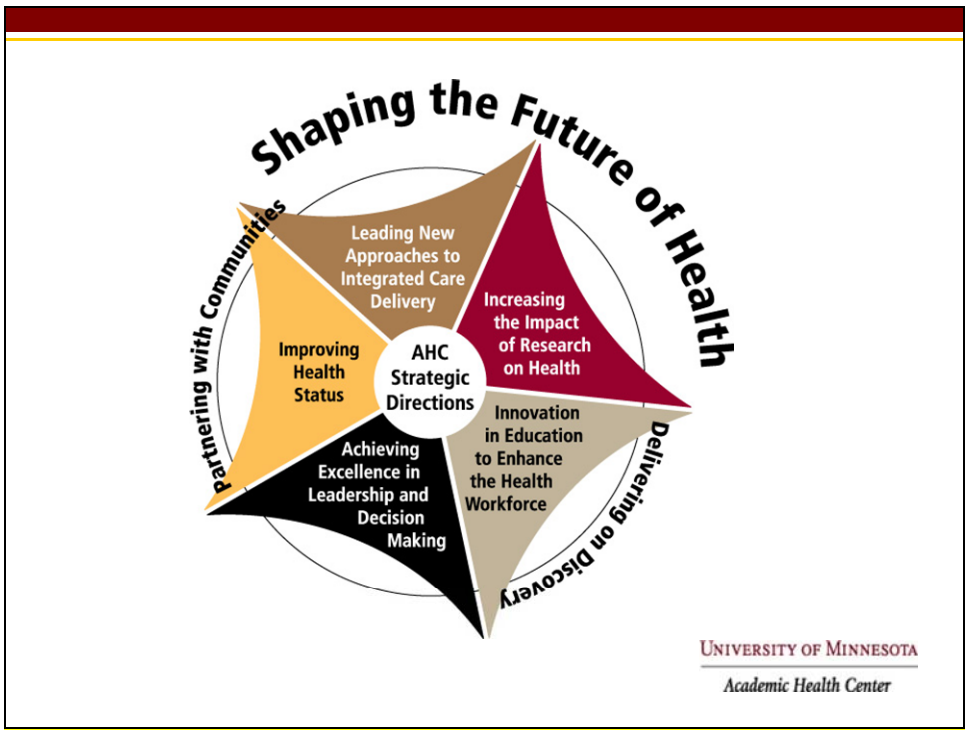
A sign of how long ago this was written is the assumption it would be "his" experience.

Let's pause and look at today's priorities

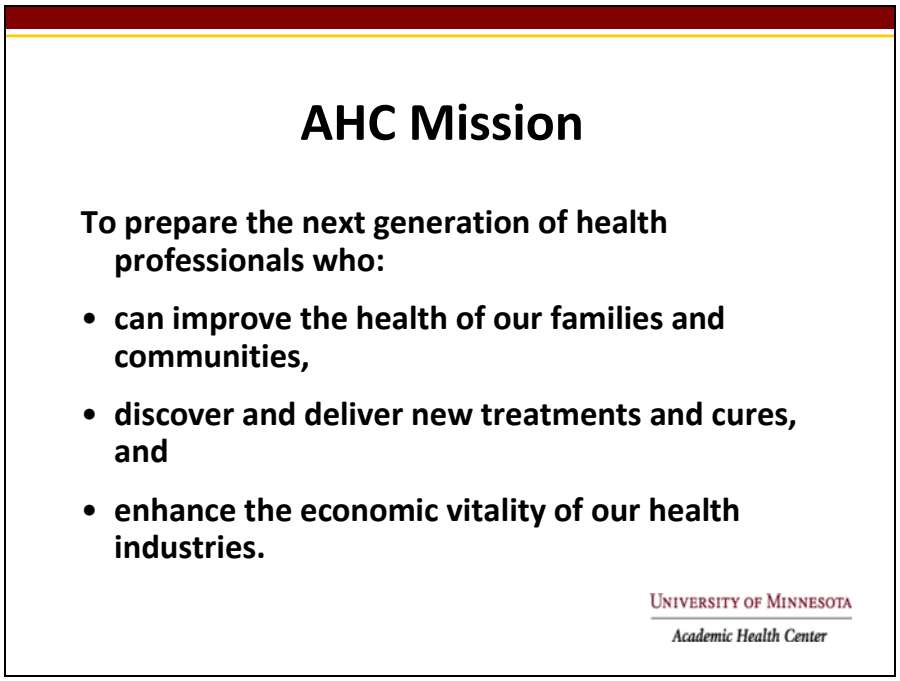
- Achieving excellence in leadership and decision making
- Leading new approaches to integrated care delivery
- Improving health status
- Increasing the impact of research on health,
- Innovation in education to enhance the health workforce

- And delivering on Discovery and Partnering with Communities

We've remained true to the founders vision –



and today, those priorities look like this – a focus I'll return to in a few minutes.

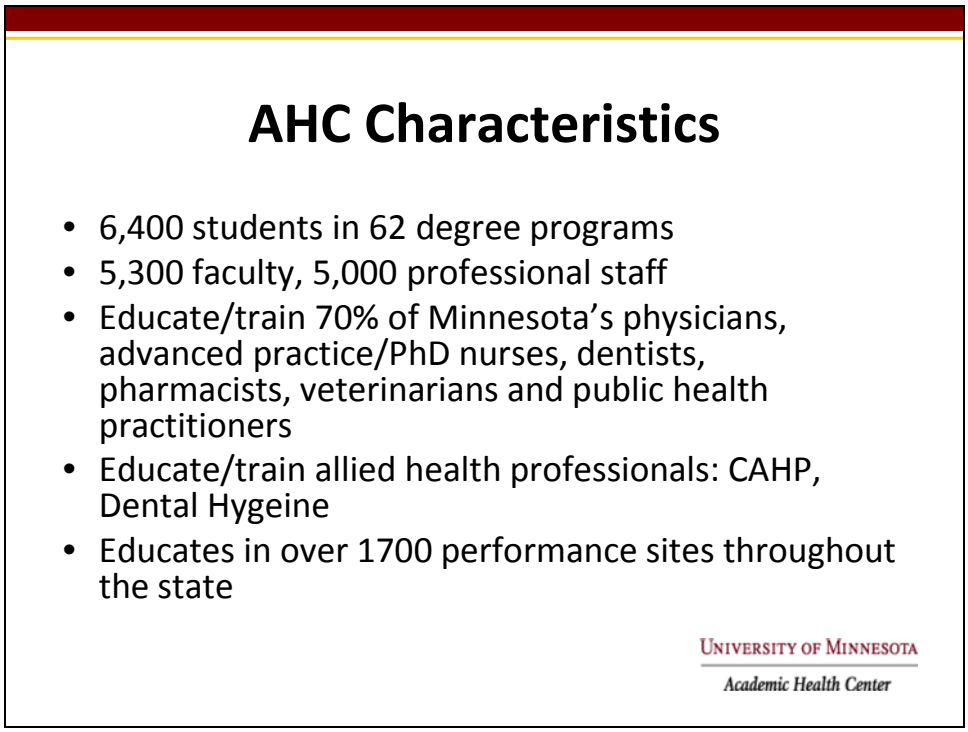


First – let's return to our core mission – The health sciences at the University of Minnesota – known as the University's Academic Health Center – exist

- to prepare the next generation of health professionals who
- Can improve the health of our families and communities,
- Discover and deliver new treatments and cures, and
- Enhance the economic vitality of our health industries.

We remain committed:

1. to meeting the health needs of the people of Minnesota
2. to responding to the health workforce needs of Minnesota
3. to sustaining the excellence of our health research
4. to supporting innovation in partnership with the health industries of the state
5. to providing health services to the people of Minnesota
6. to forming effective community partnerships that support the mission,
7. And to being a committed and collaborative component of the University of Minnesota.



Let's take a quick snapshot of who the "we" is today – We are more than 6,400 students in 62 degree programs.
We are nearly 5,300 faculty – paid and unpaid, with nearly 5,000 professional staff.

We educate or train nearly 70 percent of Minnesota's physicians, advanced practice-PhD nurses, dentists, pharmacists, veterinarians and public health practitioners.

We educate and train the workforce in Clinical Laboratory Science, Occupational Health, and have a great program in Dental Hygiene.

And that education takes place in more than 1700 performance sites throughout the state.

AHC Characteristics

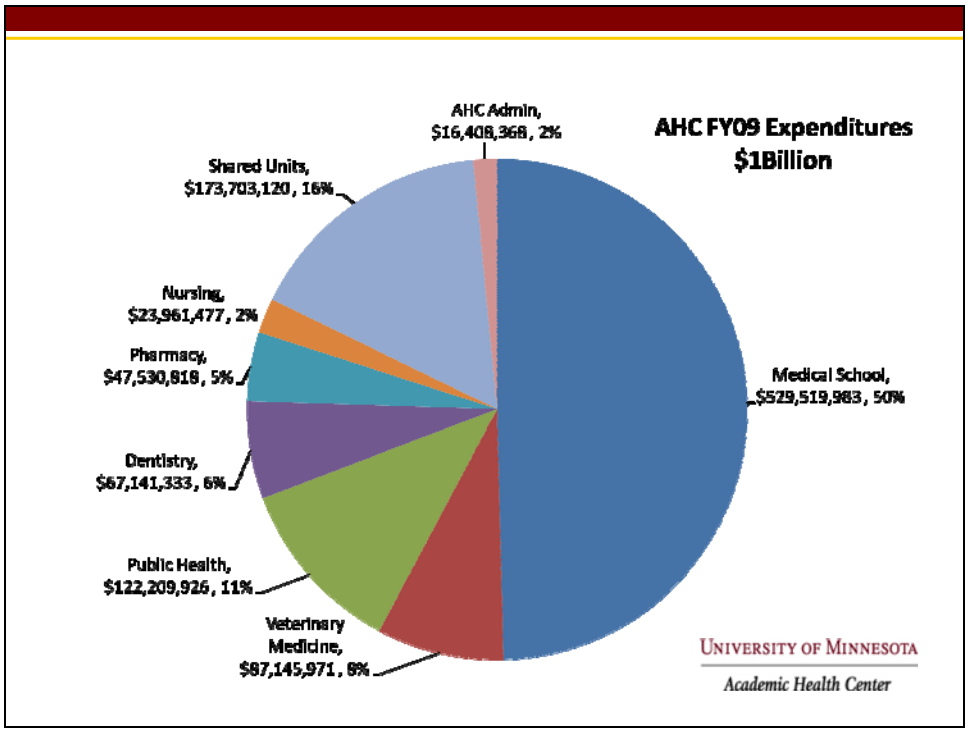
- Important relationships with all health systems in Minnesota
  - Fairview Health Services -- primary education partner
  - Hennepin County Medical Center, Regions, Veterans Affairs Medical Center, and Children's Hospital as major affiliates
- 460,000+ patient clinic visits/year
- $400 million in health research, with associated intellectual property and technology commercialization

University of Minnesota
Academic Health Center

This Academic Health Center has important relationships with all health systems in Minnesota – with Fairview as a primary partner, as well as HCMC, Regions, the VA, and Children's hospitals as our major affiliates.

We serve more than 460,000 patient visits each year, and,

Our faculty conduct more than $400 Million in health research each year – with the related intellectual property and commercialization results.



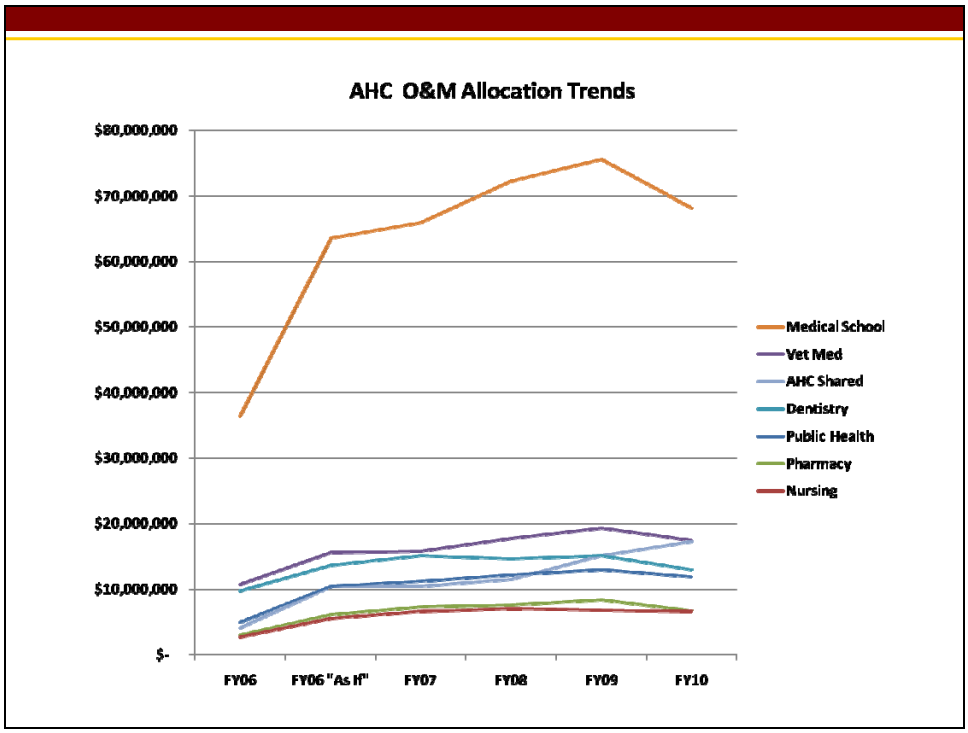
And here is the pie chart view of the Academic Health Center's budget for FY09 – It's a $1 billion dollar enterprise without including the revenue from the practice plans.

Half of that total represents the Medical School's expenditures – about $530M without UMP.

The overall AHC Admin is that $16M top pink-ish slice representing 2 percent of the total, and that light blue piece in the upper left is the second largest piece, AHC Shared. I will say more about this later; suffice it to say now that these are the centers and institutes we have all agreed perform functions across all the AHC Schools, e.g. Masonic Cancer Center.

You might also note that the second largest school is the School of Public Health, with 11% of the total revenue.

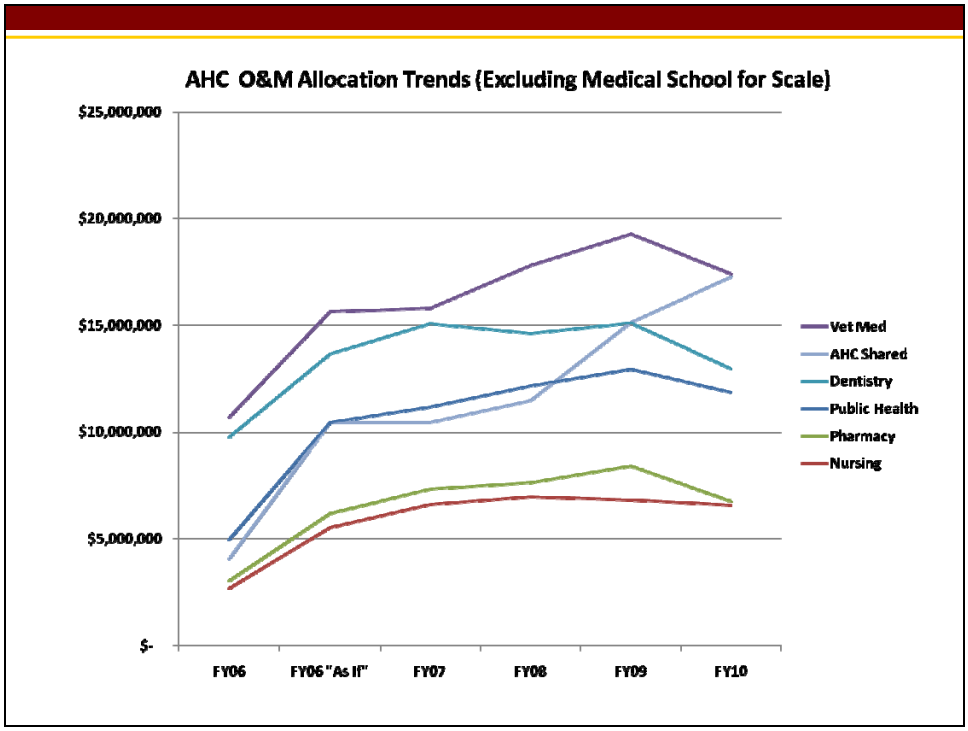
I recognize that many of these slides are nearly impossible to see here – but I want you to know they are here – and will be posted shortly on the AHC website for you to see. We'll send a direct link out to you by mid-week.



So here is the AHC O&M Allocation Trends of the past five years – Those are the funds from the state of Minnesota dedicated to the AHC schools and programs.

And FY06 has two points because that was the year before the implementation of the new University budget model. The first figure is the O&M distribution under the older model; the next figure is with all the O&M, ICR, and tuition dollars distributed to the collegiate units, and the beginning of the charge back to colleges for University administrative costs.

The line at the top is the Medical School – with the other six showing little relative change in this slide.



We've changed the scale for the remaining schools.

Here the top line is the College of Veterinary Medicine, next is Dentistry –
Overtaken by the AHC Shared, then Public Health, Pharmacy, and Nursing.

Let me anticipate here the question on everyone's mind - What happened to the AHC Shared line?
What are all of those programs that received such a significant dedication of resources?
First, let me walk you through how decisions are made concerning resources.

AHC Level Decision Making Process

- Decisions occur at various levels: University, AHC, School/program, department
- Bases for decisions
  - Strategic priorities: University, AHC, school
  - Identified needs: strategic, accreditation, investment, recruitment/retention, space, communications, IT, etc
  - Potential for resource sharing
  - Productivity
- A number of processes are used:
  - School compact/budget meetings
  - AHC Deans Council
  - AHC FCC and AHC SCC
  - Annual performance reviews/progress reports
  - 1:1 meetings with deans and program heads
  - Established policies/procedures

Here's a basic outline for AHC-Level Decision Making.

First – it's important to recognize that indeed – decisions do occur at various levels – at the University, AHC, School or program and at the department level.

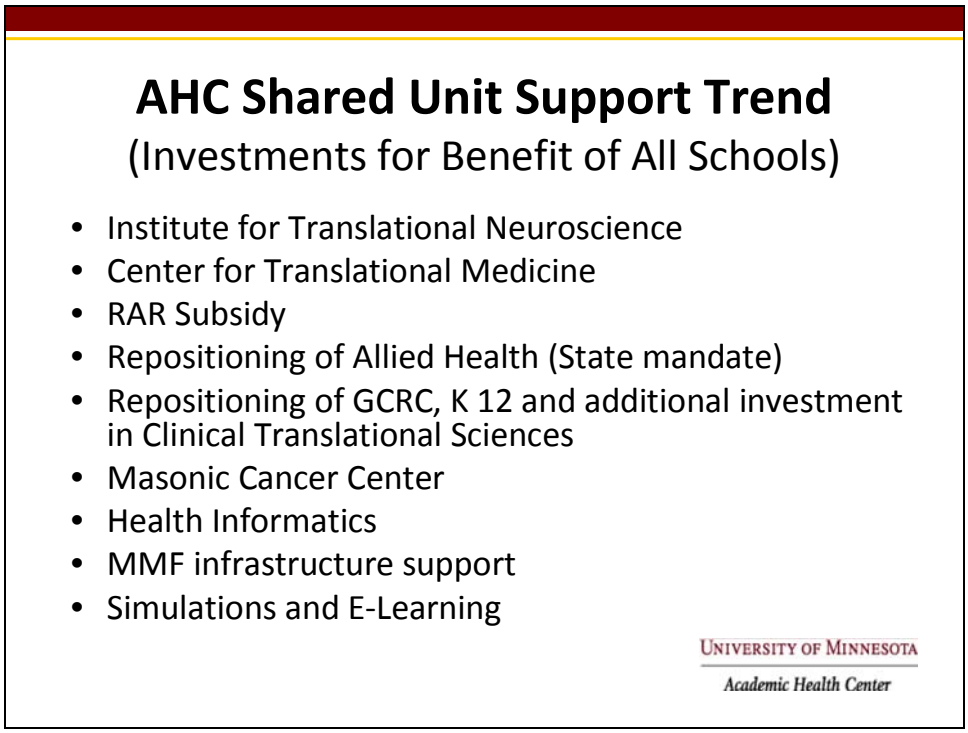
All decisions are based on –

1. strategic priorities for the University, the AHC, or the school – you've seen the star chart –
2 identified needs, be they strategic, for accreditation, investment, recruitment/retention, space, communications, IT, or others
3. the potential for resource sharing, and productivity improvement.

And there are a number of ways these decisions can come about –

- through school compact or budget meetings

- at the AHC Deans council
- through the AHC-FCC, or AHC – SCC consultations
- at annual performance reviews or progress reports
- at one on one meetings with deans and program heads
- And through established policies and procedures – such as how we share ICR in this institution, or how we jointly support our shared programs like the Masonic Cancer Center.

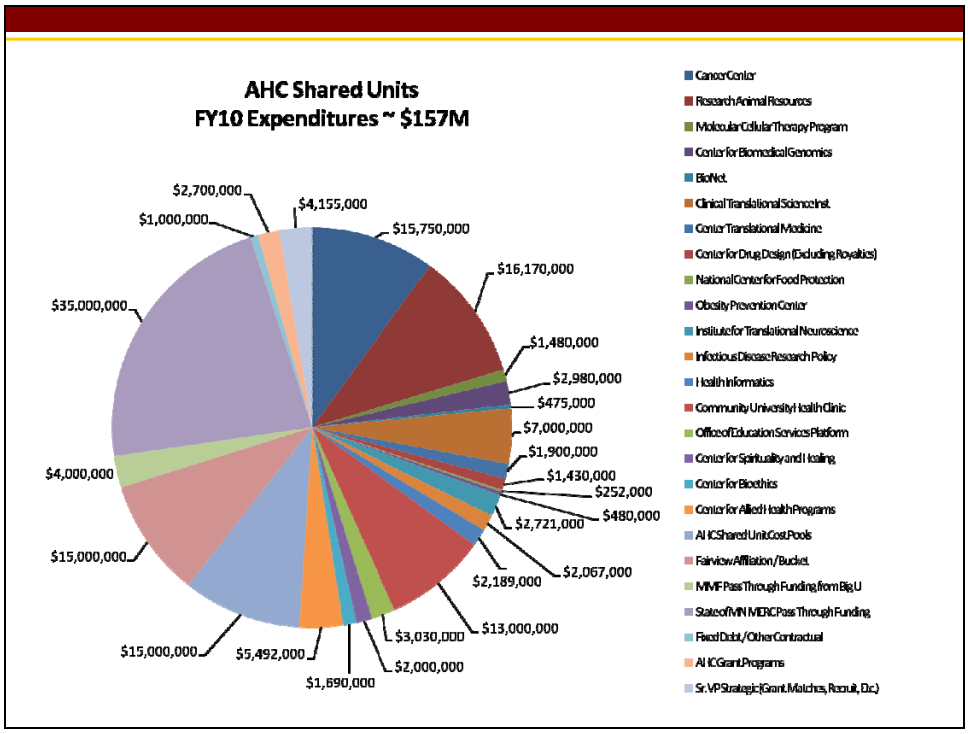


Here's what is contained in that Shared Services line – a series of decisions made by schools, their deans, and the faculty together – needs were identified, and deans consulted to determine of these programs should be supported – collectively – on behalf of "our needs" – these are "we" decisions – the state dollars that end up being used to support AHC Shared are all discussed and approved by the AHC Deans at the AHC Deans Council meetings.

Here are examples of the questions that are asked –
Does this program make sense for our sponsored research in the post-NIH-road Map world?
Does this program position us for success in an era of health reform?
Are these responsive to what we can anticipate for the future of health care delivery?
What resources do we want to commit to this undertaking; what do we expect its potential for generating income is?

There are specific research programs that support the excellence in our Research Corridors – like the Institute for Translational Neuroscience, and Center for Translational Medicine.
There's a decision to support our Research Animal Resources program,
Or –
A response to a state mandate to reposition our allied health programs.
It's the repositioning of our General Clinical Research Center and the K12 (the funding for these two has either gone away or will be going away) plus investment of resources into our Clinical and Translational Sciences Institute where these functions, and the coordinated support of clinical trials, now occurs.
There is state support for the Masonic Cancer Center, and our health informatics program.
The infrastructure support for the Minnesota Medical Foundation was moved into AHC Shared for accounting ease, and

Our shared programs in simulation and E-Learning are reflected here as well.
Each of these decisions are regularly reviewed to see if the programs continue to support our shared needs – and we always welcome faculty input.

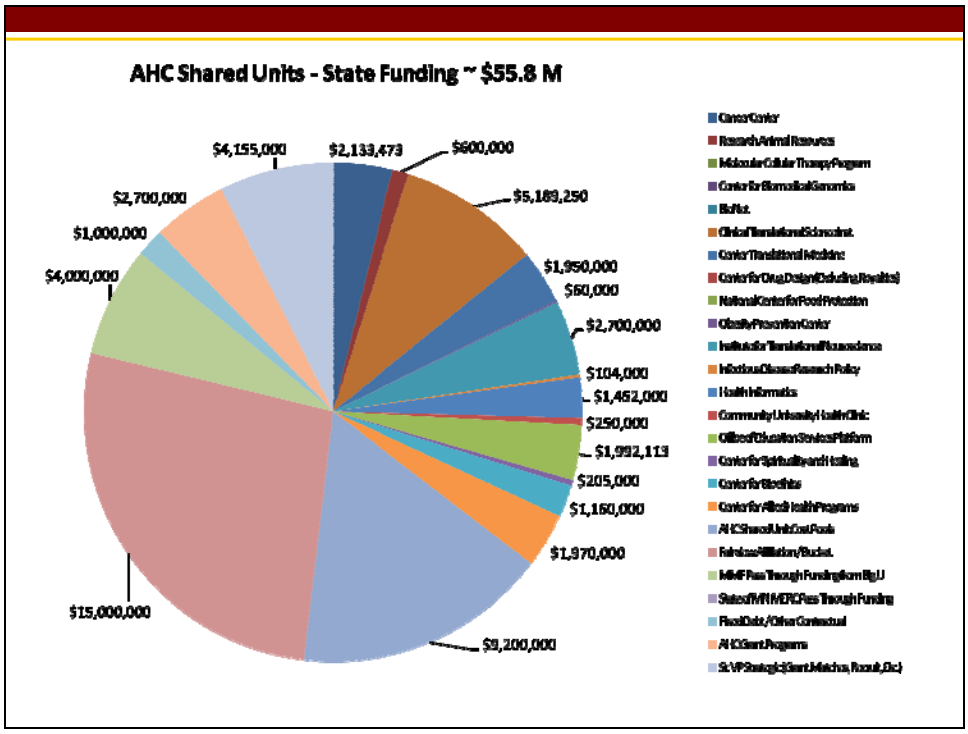


I know that this PowerPoint slide violates all of the rules of PowerPoint – but again, I want you to know that the detail of all funds to AHC Shared Units is here.

This slide represents all funds – including research and earned income, as well as state funds.

This large “violet” slice of the pie in the left upper quadrant is actually the state funds that pass through the Academic Health Center to the hospitals throughout Minnesota who help teach our students – it’s the MERC, or Medical Education and Research Cost dollars.

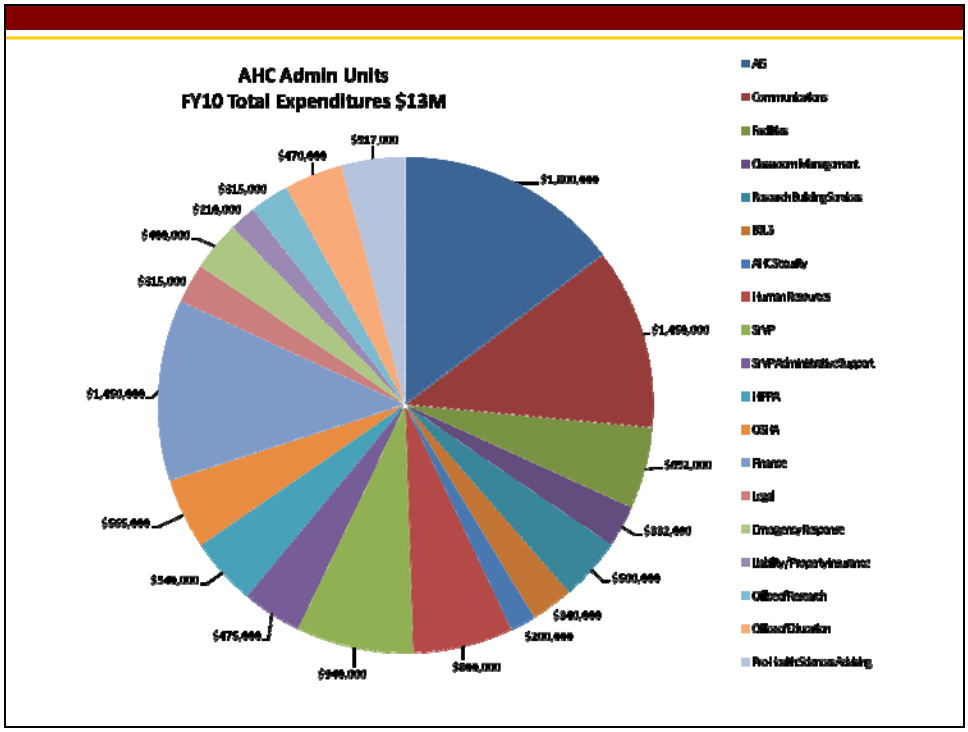
I also point out, in the pink in the left upper quadrant, the $2.7M recurring that supports all the faculty competitive research programs that we have, and that provide a return on investment of about 200% in new NIH awards.



And this slide – again violating PowerPoint principles – shows state funding to the AHC shared units – a total of $55.8 million.

The slide before shows total expenditures of $157 million with state funding in this slide (toggle forward) of nearly $56 million – so nearly two thirds of the expenditures for AHC shared programs comes from sources other than state funds, including competitive research grants, and tuition and fees.

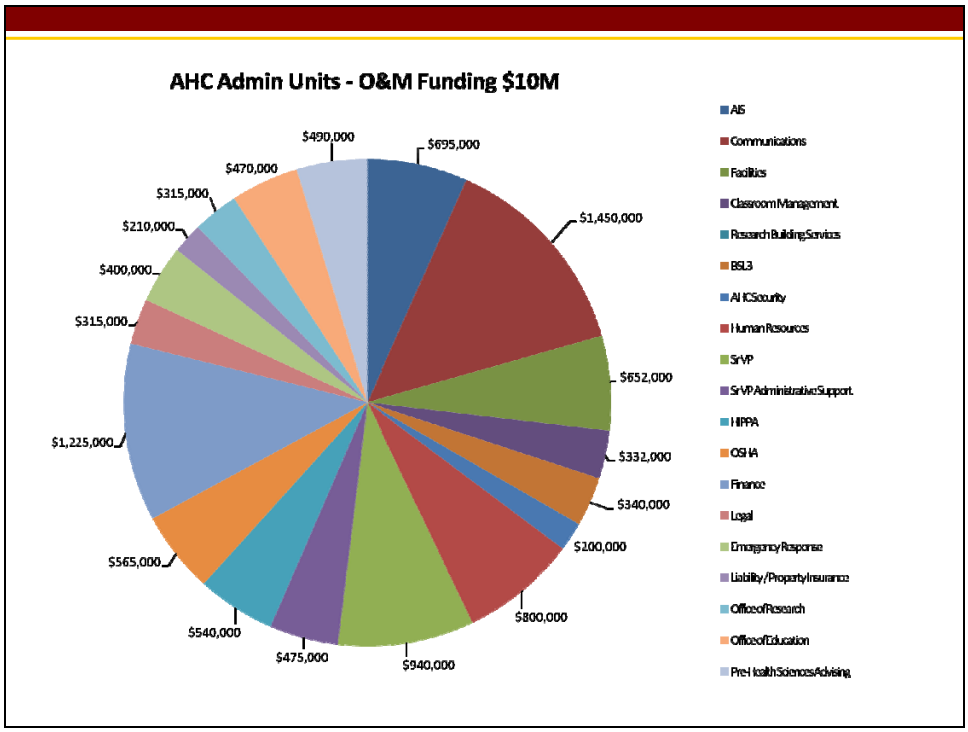
Again – something that will be easier to see when printed off the website.



Here's a further drill down on one area of interest from many of you.

This slide represents the total expenditures of the AHC Administrative Units – such as Facilities, Human Resources, Finance, Legal, Communications, etc. – the infrastructure that ensures smooth operations for this complex health sciences enterprise.

We study each of these services for its effectiveness, staffing and we have also completed a customer (i.e. you) satisfaction survey, and for their integration with University services of similar name. I am happy to report to you that these services perform at an excellent level, and are performing services that are NOT duplicative of University services of a similar name.



And here is the share of those fund expenditures that come from State O&M funds – roughly 2/3, while the units generate 1/3 of their funding from service reimbursements that roll up into the University cost pools.

AHC Administrative Units	All Funds	O&M Share
AIS	$ 4,500,000	$ 695,000
Communications	$ 1,800,000	$ 1,450,000
Facilities	$ 652,000	$ 652,000
Classroom Management	$ 332,000	$ 332,000
Research Building Services	$ 500,000	
BSL3	$ 340,000	$ 340,000
AHC Security	$ 200,000	$ 200,000
Human Resources	$ 800,000	$ 800,000
Sr VP	$ 940,000	$ 940,000
Sr VP Administrative Support	$ 475,000	$ 475,000
HIPPA	$ 540,000	$ 540,000
OSHA	$ 565,000	$ 565,000
Finance	$ 1,450,000	$ 1,225,000
Legal	$ 315,000	$ 315,000
Emergency Response	$ 400,000	$ 400,000
Liability / Property Insurance	$ 210,000	$ 210,000
Office of Research	$ 315,000	$ 315,000
Office of Education	$ 470,000	$ 470,000
Pre-Health Sciences Advising	$ 650,000	$ 490,000
Totals	**$ 15,522,000**	**$ 10,414,000**

And for those of you who prefer a more traditional chart, here's a listing of the AHC Administrative Units with all funds, and the state O&M share of their budgets. You can study this in more detail when it is out on the web site.

So why does the Academic Health Center itself have administrative services? Why are they not either incorporated into central offices, or controlled directly by the schools and programs independently?

In short – this has to do with efficiency, an understanding of the differences and similarities of our health sciences, the focused needs of academic programs and the clinical enterprise, and simply stated – service.

AHC Administrative Units

- Scope of AHC administrative services driven by
  - Scope of AHC shared unit programs and transaction volumes
  - Services that would otherwise be conducted by schools or central units
  - Services that integrate cross-collegiate needs
- Budgets roll into associated central cost pools
- Distributed across entire University (with other central cost pools) based on established pool allocation methodology (i.e. sq. ft., expenditures, headcount, etc.)
- AHC schools charged only once via central cost pool

UNIVERSITY OF MINNESOTA
Academic Health Center

Here's how this works – we decide what administrative services are needed based on the scope of AHC shared unit transaction volumes, and services that integrate our health sciences needs. The budgets of these units are rolled into central cost pools, with costs distributed across entire University – AHC schools are charged only once for these units through the central cost pool – And I'd like to point out that our administrative units have sustained reductions in their costs of close to 14 percent over the past two years.

Strategic Compact Investments in AHC: State Dollars (millions)

Investment Category	2006	2007	2008	2009	2010	5 Year Total
Research	0.3	2.0	5.9	7.7	9.5	25.4
Mayo Partnership	15.0	15.0	10.0	12.0	8.0	60.0
Faculty	2.6	5.2	9.3	11.2	12.2	40.5
Program Support	2.3	5.3	14.0	17.7	17.9	57.2
Infrastructure	1.3	2.4	5.0	9.6	-7.0	11.3
Cumulative Annual Totals	**21.5**	**29.9**	**44.2**	**58.2**	**40.6**	
5 Year Total						**194.4**

So far, we've been discussing the costs and expenditures for various parts of the Academic Health Center.

Now let's take a look at investments in the AHC – investments that result from the allocation of new University resources.

This slide shows the totals of University investments in the Academic Health Center through the Strategic compact process. That $194 Million is the University demonstrating that the success of the health sciences is critical to the success of the University.

RESEARCH BUILDING CONSTRUCTION - COMPLETED AND COMMITTED

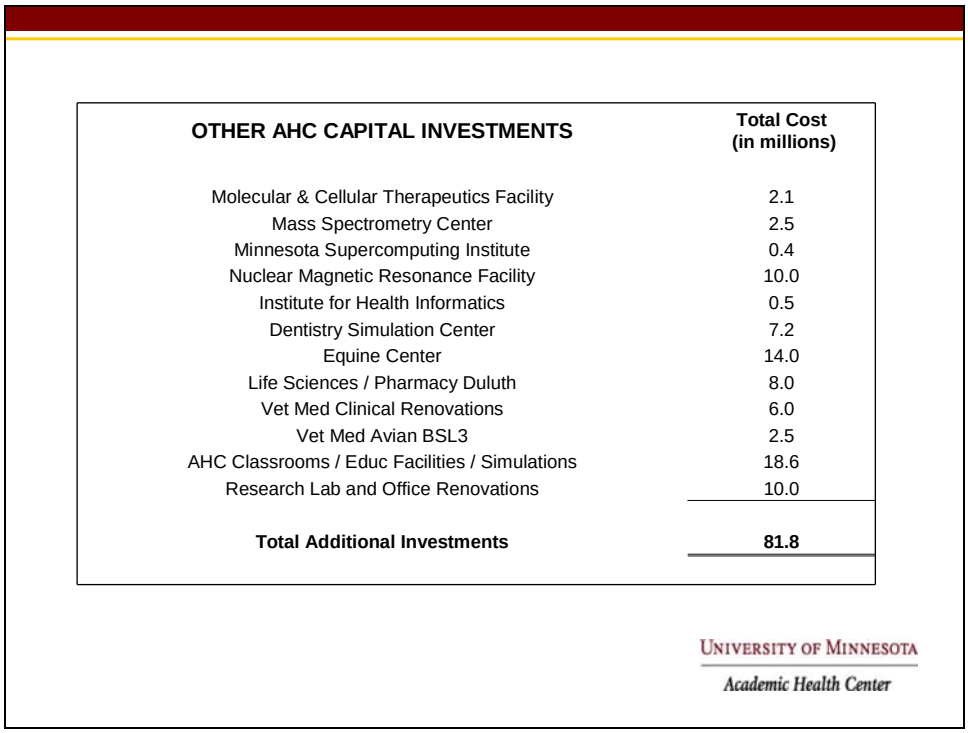
Year of Occupancy	Building	Total Cost (in millions)	State Share	University Share	Private Donor Share	GSF
2002	Molecular Cellular Biology Building (MCB)	79.4	35.0	44.4		263,000
2005	McGuire Translational Research Building (TRF)	37.0	24.7	2.3	10.0	97,000
2007	717 Delaware Building	36.6		36.6		165,000
2009	Medical Biosciences Building (MBB)	79.3	40.0	39.3		115,000
2009	CMRR Phase I - 16.4 Tesla Magnet	11.0		11.0		
2010	CMRR - Phase II Expansion	53.2	39.9	13.3		56,000
2012	Cancer / Cardio / Research Commons	200.3	150.2	50.1		120,000
TBD	Laboratory Renovations	38.5	28.9	9.6		90,000
	Total Research Facilities Investment	**535.3**	**318.7**	**206.6**	**10.0**	**906,000**

UNIVERSITY OF MINNESOTA
Academic Health Center

And here's the impact on our research buildings – facilities that exist to support the faculty in their research and education mission.

It begins with the 2002 occupancy of the MCB, or Molecular Cellular Biology Building that brought the departments of the College of Biological Sciences and undergraduate biology to the Minneapolis campus – This chart shows the very strategic and plan-full drive to replace outdated laboratory and learning spaces here at the University. Some of you will remember that the MCB replaced Owre, Lyons and Millard Halls – and now, with the opening of MBB, we've recaptured the research space of those old Owre, Lyons, and Millard buildings. This is an important fact to know - The Biomedical Discovery District does not represent a vast expansion of unneeded or unnecessary space – it represents a thoughtful replacement and needed expansion of integrated, interdisciplinary research space designed to

spur discovery and the serendipity of Aha moments. It's a physical space where the "We" of the Academic Health Center can flourish.



OTHER AHC CAPITAL INVESTMENTS	Total Cost (in millions)
Molecular & Cellular Therapeutics Facility	2.1
Mass Spectrometry Center	2.5
Minnesota Supercomputing Institute	0.4
Nuclear Magnetic Resonance Facility	10.0
Institute for Health Informatics	0.5
Dentistry Simulation Center	7.2
Equine Center	14.0
Life Sciences / Pharmacy Duluth	8.0
Vet Med Clinical Renovations	6.0
Vet Med Avian BSL3	2.5
AHC Classrooms / Educ Facilities / Simulations	18.6
Research Lab and Office Renovations	10.0
Total Additional Investments	**81.8**

Here are other AHC Capital Investments for you to review at your leisure – totaling nearly $82 million.

AHC Workforce Initiatives
5 Year State Funding Summaries

Primary Care	$ 10.8 M
Pharmacy, Duluth	$ 8.6 M
Nursing, Rochester & Expansion	$ 2.9 M
Hibbing, Willmar Dental Clinics	$ 1.2 M
AHEC	$ 1.5 M
Center for Allied Health	$ 9.6 M
Center for Interprofessional Ed	$ 1.0 M
MERC Program	$ 150 M*
TOTAL	**$ 185.6M**

UNIVERSITY OF MINNESOTA
Academic Health Center

Lest you begin to believe that we're only interested in buildings here in the Academic Health Center – here are the state funding investments in our workforce initiatives – including the $150 million devoted to the Medical Education and Research Costs program – totaling nearly $186 million.

Biomedical Science Research Facilities Program Goals

- Advance Minnesota's leadership in biomedical science by:
  - ✓finding new cures and treatments
  - ✓recruiting and retaining top research faculty
  - ✓capturing a greater share of research funding,
  - ✓fueling partnerships with the public and private sector
- Enhance AHC research capability and productivity by:
  - ✓expanding research space for attracting new recruits and retaining existing talent
  - ✓clustering faculty, support staff, laboratories and equipment from high priority programs to compliment research strengths
- Expand competitive jobs for Minnesota's economy by:
  - ✓creating short term construction jobs for Minnesotans (~ 5,000+)
  - ✓creating longer term jobs for Minnesotans in the biomedical industry (Business Activity Multiplier ~ 2.23 for every additional NIH dollar)

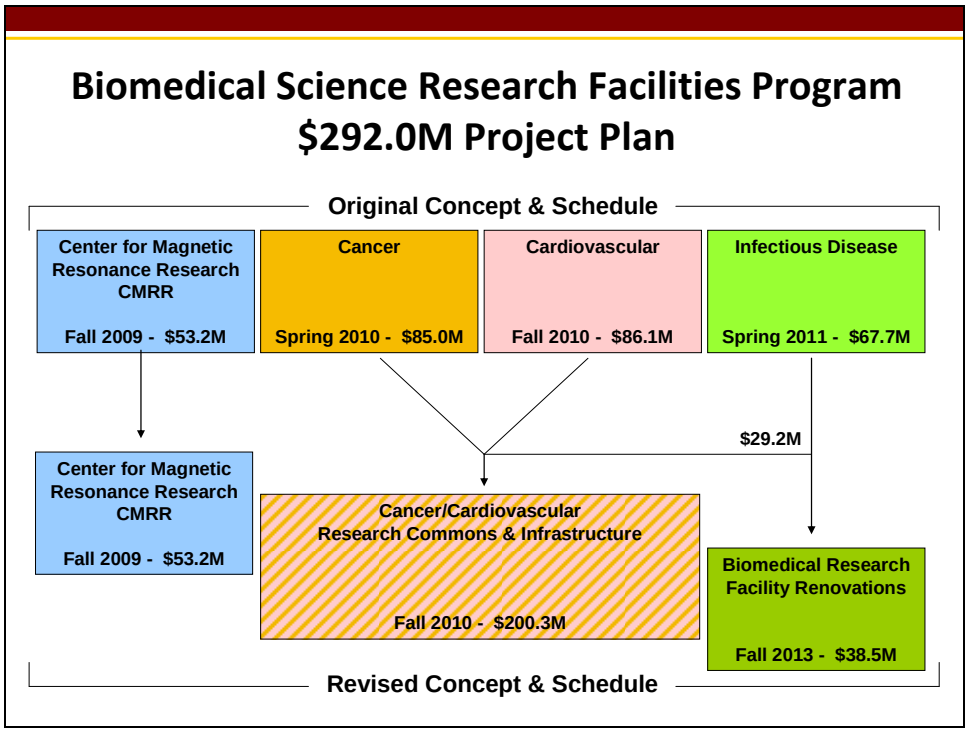
Now – back to the Biomedical Discovery District

I want to ensure you are all familiar with the program goals for these facilities – this is about:

- advancing Minnesota's leadership in biomedical science,
- enhancing our research capability and productivity, and
- expanding the number of competitive jobs for Minnesota's economy.

These are the goals supported by the University's Board of Regents – and the state legislature in their funding approval.

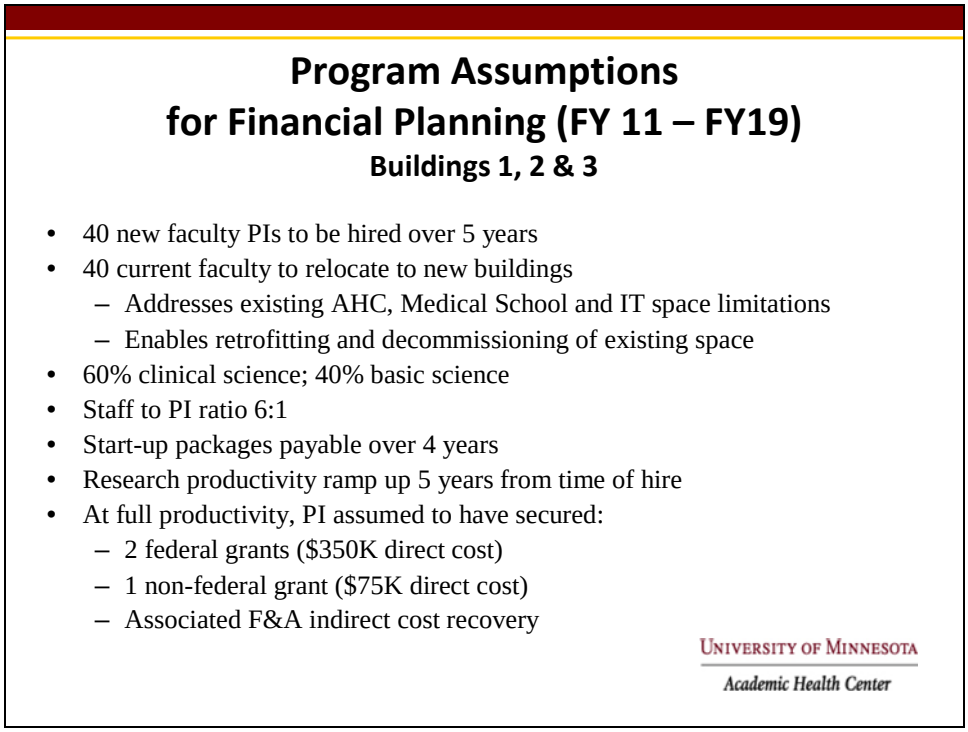
Here's a quick visual reminder of the location of our new district – in context with the stadium, and the research business district to the East.



Let me share with you how we decided to review the original project plan.

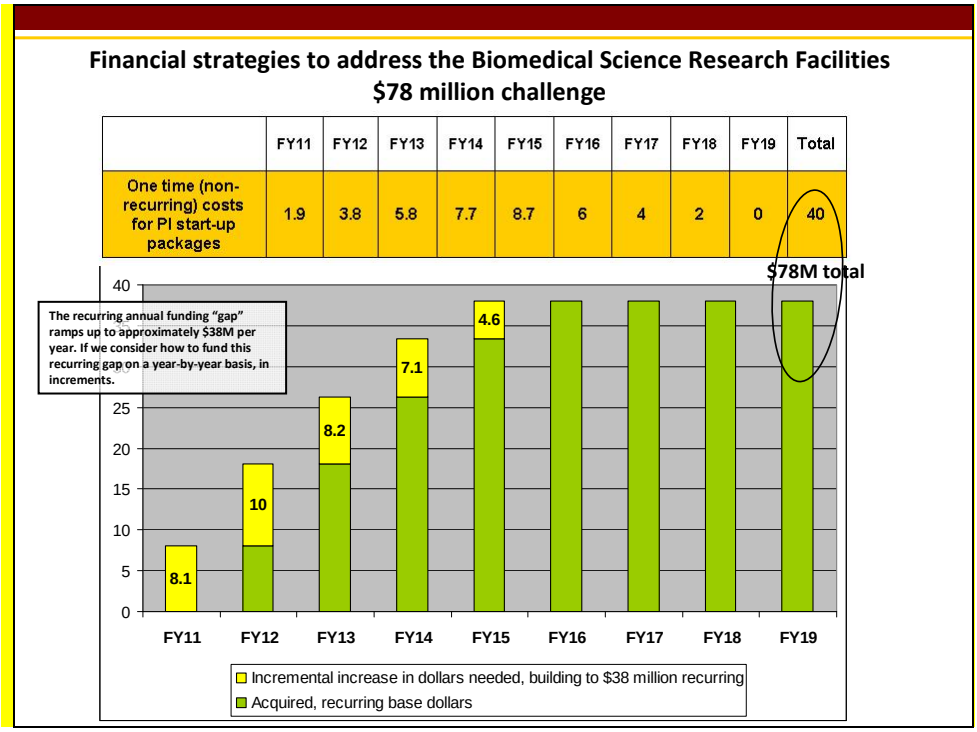
In our state and nation's new economic normal, we were seeking

1. Infrastructure efficiencies
2. Common use support services: RAR, Instrumentation, Amenities
3. More efficient use of "wet lab" research space
4. Better alignment of space for interdisciplinary research
5. Greater alignment and coordination in planning faculty hires, assigning space and in the use of release space to support research productivity
6. Having sufficient resources to assure the appropriate remodeling and refurbishing of current lab space which will address existing AHC, Medical School, and Institute of Technology space limitations, while enabling retrofitting and decommissioning of existing space.



And here are the program assumptions for financial planning purposes from this year, through the next eight years.

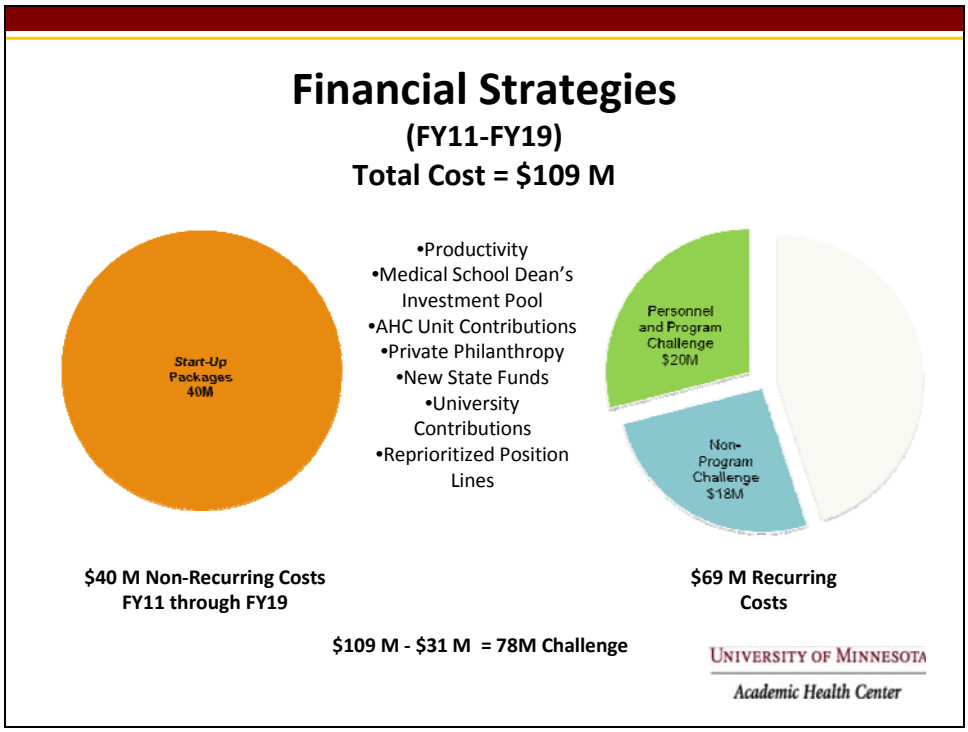
1. We're planning to hire 40 new faculty PIs over the next five years
2. Along with at least 40 current faculty the new buildings will be populated
3. We're planning these new facilities for use by 60 percent clinical science and 40 percent basic science faculty
4. We are using a staff to PI ratio of six to one, with start up packages payable over four years.
5. We're expecting research productivity ramp up for five years form time of hire – and at full productivity defined as two federal grants, one non-federal grant, and associated indirect cost recovery.



To make this work, there is a need for both recurring and nonrecurring funds:

a. there is a need for $40M of one-time funds, primarily over the first 6 years as the faculty recruiting is completed

b. there is a need for $38M of recurring funds over the first 5 years, best thought of as $7.6M recurring incremental each year for 5 years, adding up to a total of $38M



The model assumes $31M of revenue derived from the grants and the associated ICR recovery.

A number of new faculty hires have already been built into budgets.

Other sources of revenue to support this project will come from University and state resources.

The Import of this Investment

- Building future of biosciences in MN; not becoming a fly-over state
- Partnership with business community and state government
- Innovation to prevent, treat, and cure disease
- New grant dollars
- New investment dollars
- New jobs

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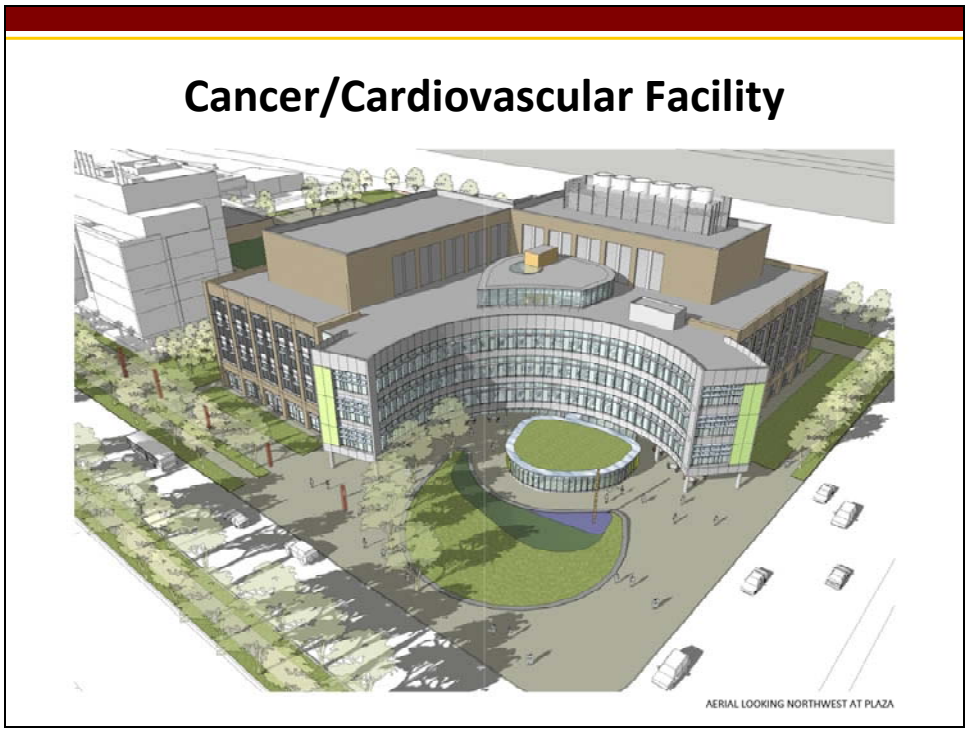
After all the bar and pie charts speaking to the costs – here's where the Regents and University leadership refocused attention – the Import – and impact of this investment – right there with the bipartisan support from state government and the support of both the public and private sectors of the state.

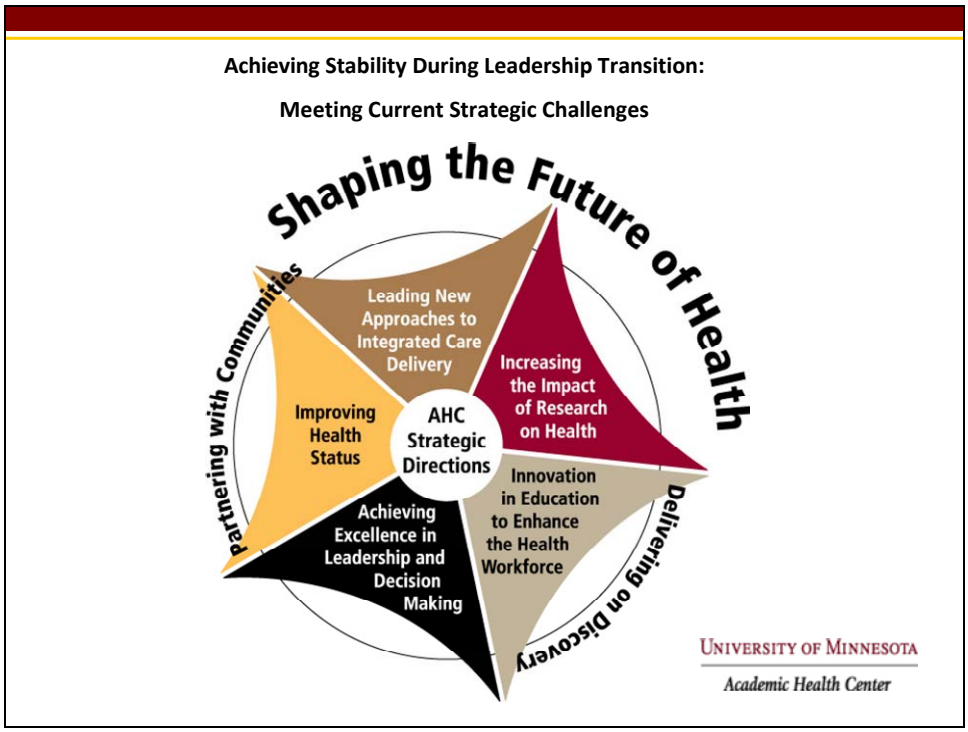
This is about ensuring Minnesota does not become a flyover state; it signals a true partnership with the business community and state government, along with the innovation to prevent, treat, and cure disease.

- It represents new grant dollars
- New investment dollars, and
- New jobs for Minnesota



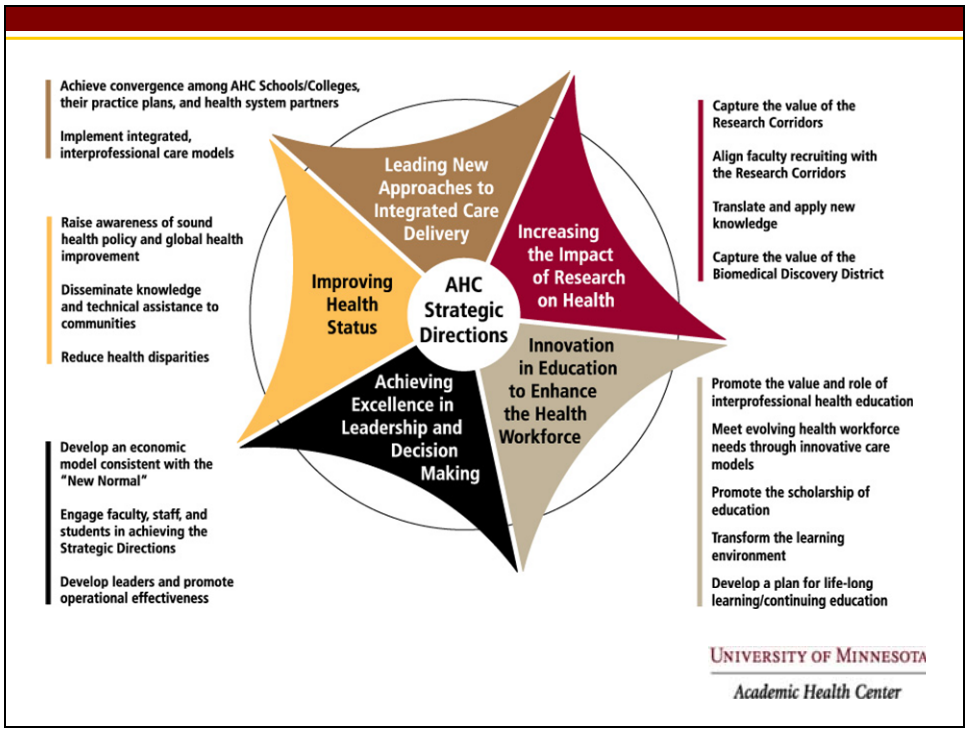
And here's an artist's rendering of the new Cancer/Cardiovascular Facility that represents the gateway to this Discovery District.

I wish to give a public acknowledgement and a hearty thanks to all the faculty and the leadership who gave freely hours of their time in defining the programs and working in completing the pre-design. The schematic diagrams will be going to the Board of Regents for approval at their June 2010 meeting, and we expect to break ground in July 2011 and complete construction in 2013.



And now we're back to our priorities – and a focus on shaping the future of health.

As I showed at the beginning – our strategic priorities today are very similar to those that founded our Academic Health Center 40 years ago. These priorities – this direction – allow all of us to remain focused or somewhat stable during the leadership transitions we face – both here in the health sciences and at the University level. Nothing that's taking place should pull us off our focus or commitment on shaping the future of health by partnering with communities and delivering on the discoveries we make.

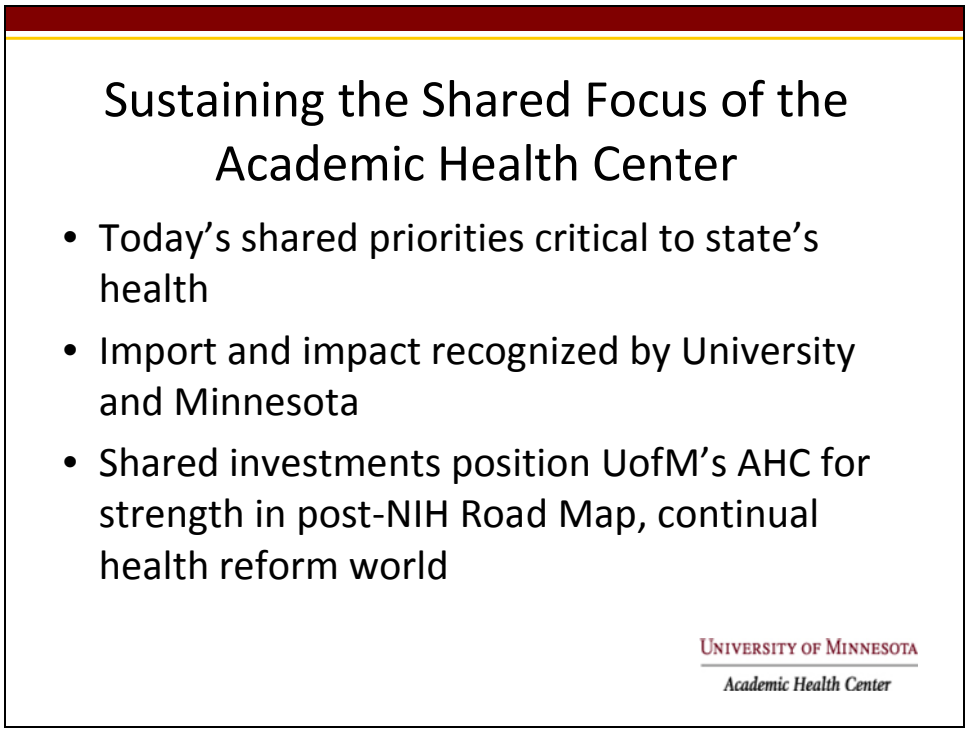


These individual strategies behind each goal are now leading to work plans for the leadership to work with the faculty and staff on as we continue to work on the latest iteration of our challenges and not loose ground during this transition which could take the next 18 months.

The SVPHS Work Plan

1. Fairview relationship	Bucket dissolution, name use, ACC, new financial agreement, academic program development and support
2. Biomedical Discovery District	Financial model, construction, faculty hires, current faculty improvements
3. Research Corridors	Faculty Steering Group, web-site, hiring alignment
4. Education	Coordinated, integrated development of e-education, service platform improvements, interprofessional education development and national organization, AHEC network
5. Financial Plan	Working with all AHC Schools and programs for FY11 and for approach to next biennium
6. CTSI	Program and financial plan for FY11; resubmission of CTSA, CUB development
7. Leadership Transition	Achieving stability for next 18 months, working with AHC Deans, working with President's Office, focusing on the current challenges we need to make progress on to position ourselves for new leadership

And I want to share with you my work plan for the next eight months. This has been consulted with both the faculty consultative committee and the AHC Deans and schools, as well as President Bruininks – who were quite helpful in ensuring all components were fully articulated and that I am focusing on the areas of greatest need for the next 8 months.



Here's what I'm hoping you'll take home from this presentation.

Our work - our priorities - today are as critical to the health of the state as they were when that external advisory committee helped establish our shared focus 40 years ago.

Both the University and the State of Minnesota recognize the importance and impact of our work on behalf of the state's physical and fiscal health – hence the investment of resources in us – in the "we" of the health sciences.

The shared investment decisions we've made over the past decade are based on ensuring we are positioned for a strong future in a post-Road Map era of sponsored research, with continual health reform on the horizon, for a health care delivery world we've only begun to

imagine, and for the new economic normal we are currently experiencing.

I am very upbeat about our future and believe we can indeed shape it and make it happen.

As always, I am interested in your thoughts and suggestions; please feel free to use my secure e-mail that you all know well.

And now – I'd like to open up the discussion to all of you.

Questions

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