Minutes[•]

Senate Committee on Finance and Planning
May 26, 1992

Present: Burton Shapiro (chair), Karen Geronime, Virginia Gray, Craig Kissock, Fred Morrison, Jeff von Munkwitz-Smith, Roger Paschke, Irwin Rubenstein, Mary Sue Simmons, Charles Speaks

Guests: Margaret Carlson (Alumni Relations), Robert Dickler (University Hospital), Senior Vice President Robert Erickson, Associate Vice President Robert Kvavik

1. Status of University Hospital

Professor Shapiro convened the meeting at 3:15 and welcomed Mr. Dickler to the meeting to discuss the financial status of the Hospital and related issues.

Mr. Dickler began by observing that the Hospital is owned and operated by the Board of Regents and it ultimately reports to the Board. The Board of Regents established the Hospital Board of Governors, appoints it, and the Board of Governors is subordinate to the Board of Regents. The Board of Governors consists of 19 members: 12 public, 6 internal, and one student. In the delegation of authority to the Board of Governors, the Regents created three exceptions to the Governors' authority: approval of the operating capital budget, appointment of the General Director, and determination of the mission of the Hospital.

The Hospital maintains separate financial records, and has a mandate from the University to be financially self-supporting. The primary reasons are because of its size--the Hospital has about a $300 million annual budget--and because it is one of the most volatile elements of the University--a fluctuation of 1% in its budget is greater than the budgets of many academic departments. Of that $300 million, the State appropriates only about 4%.

To date this year, the Hospital has lost about $660,000; for the year, Mr. Dickler said, they are projecting a small loss of about $1 million.

The Hospital has been reducing its budget for the last three years; it has gone from 4100 to 3600 FTEs, and will reduce by 100 or more FTEs next year.

The Hospital also has responsibility for a debt of $162 million--which is University debt; if the Hospital could not pay it, the full faith and credit of the University is behind it. They have tried to keep reserves so that in the event of a major dislocation, the Hospital would be protected and could respond. These reserves are subject to periodic review. Mr. Erickson reported that the Hospital has, in reserves and cash or cash-equivalents, more than enough funds to cover the outstanding debt, were that necessary.

[•] These minutes reflect discussion and debate at a meeting of a committee of the University of Minnesota Senate or Twin Cities Campus Assembly; none of the comments, conclusions, or actions reported in these minutes represent the views of, nor are they binding on, the Senate or Assembly, the Administration, or the Board of Regents.

In addition, Mr. Dickler said, the Hospital spends $18 - $23 million per year--on average--in capital funds, in plant and equipment purchases.

He does not believe the Hospital currently constitutes a risk for the University, Mr. Dickler told the Committee. They have a strategic planning process in place which is both introspective and harsh about what the Hospital must do to retain its financial viability as well as meet its teaching, research, and service missions.

Three months ago the Hospital purchased the clinic at Red Wing. The Hospital has always had a statewide reach, through outreach programs and through physicians and clinics across the State. In the last 5 - 10 years, as health care delivery has become more corporate and system-based, a lot of physician practices have been purchased. Many of the ones the Hospital has worked with are no longer available due to changes in ownership and other changes. In order to preserve its statewide reach and the sites for education, outreach, and research, the Hospital has tried to stabilize relations with communities. The Hospital has not sought to acquire practices; the Red Wing clinic decided it no longer wished to stand alone and sought bids. The University was the successful bidder and the clinic has become a wholly-owned subsidiary of the University. It was purchased exclusively with Hospital funds. The Hospital will probably acquire additional clinics, but its primary interest is in stable relationships through whatever structure makes sense.

The Hospital receives no ICR funds, Mr. Dickler said in response to a question, but does occasionally receive direct payments from grants as rental; they are lucky if the payments meet the actual costs of occupying the space.

Mr. Dickler also reported that there is no significant relationship with Boynton Health Service, which is a free-standing entity under the Vice President for Student Affairs. There are relationships between Boynton and Medical School departments, and emergency care for Boynton patients is, by contract, provided when Boynton is closed.

Mr. Dickler was asked about the pros and cons of a sharper separation of the Hospital from the University. He explained that this is an issue that has been debated a lot among public university hospitals. Five or six have separated and become non-profit corporations, and in all cases they were more of a state agency than part of the university--and they were generally in financial trouble. The debate has now moved to more stable university hospitals, such as Minnesota, for a number of reasons. First, the need for a dedicated governance system able to make final decisions in an environment which is changing very rapidly. Second, functioning within the University system makes life more complicated for both the University and the Hospital (e.g., separate books have to be maintained, but then merged at the end of the year, etc.). Third, hospitals "scare the hell out of most universities they are a part of" because if there is an economic loss, how will the university absorb it? Minnesota is in good shape, he said, but the industry is so volatile that a number of universities are asking if both would not be better off separated. There are no formal discussions of separation taking place at Minnesota.

Dealing with the acquisition of the Red Wing clinic would have been easier if the Hospital were separated from the University, Mr. Dickler agreed, but there are also reasons to stay with the University, he pointed out. First, the Hospital is an integral part of the University; it is a laboratory for the health sciences, and they interact very differently with the University Hospital than they do with any other hospital. The Hospital does receive benefits from the association, such as the State funds and a broader set of services provided by the University that the Hospital does not need to replicate. Separation, moreover, is very difficult; apart from the Hospital building itself, one cannot tell where the Hospital ends and other health science units begin. And there is probably a benefit to the University, because the Hospital adds to its statewide presence and mission.

Discussion also touched on the possibilities and benefits of affiliation with other area hospitals (discussions are underway) and the number of beds occupied (the University is at about the same level as many area hospitals).

Asked about what might happen in the next ten years, Mr. Dickler explained that about 25 years ago the University decided the Hospital would be a referral center, a hospital for hospitals, and that it would not directly seek patients; there would be very little primary or secondary care. The plan was extremely successful; the Hospital became a referral hospital and its funds were put into specialized and sophisticated programs to treat the most complex medical problems.

That is no longer a viable strategy, Mr. Dickler said, as health care has moved to an integrated delivery system where patients are captured and retained rather than sent out of the system. The Hospital is at a disadvantage in that it has the most sophisticated programs, some of which can be duplicated at other hospitals--leaving the University at the high end of the cost range while other hospitals duplicate the lower-cost treatment programs. When health care deliverers pay average cost, the University's higher costs make it vulnerable.

As a consequence, the Hospital will follow both a metropolitan and an outstate strategy. In the metropolitan area, it will potentially become part of one or two health care delivery systems that combine physicians, insurance, and hospital; the University Hospital may be the specialty component. Outstate, there will likely be a network of 8 - 12 primary University sites (which could be owned, joint ventures, or long-term affiliations). There are, Mr. Dickler cautioned, a number of barriers to accomplishing these objectives, and they are contingent on anyone wishing to deal with the University. Some are reluctant to join the University and its public way of doing business.

The advantage to joining with the University Hospital is the access to very expensive technology, the access to teaching, and access to recruitment of primary care physicians.

Professor Shapiro thanked Mr. Dickler for joining the Committee.

Mr. Erickson, following Mr. Dickler's departure, commented in response to a question that the Hospital probably has relatively low deferred maintenance problems. It has had very good management for a very long time, he said, and has accomplished a great deal.

2. Discussion of Space Rental

The discussion next turned to space rental, on which, Mr. Erickson said, there remains much work to do. A preliminary listing of spaces, and costs, has been compiled--and a number of errors in it have been identified.

There are a number of issues which must be address, he told the Committee. One is departments which have been "space poor" for a long time; there must be a filter of some sort to determine, given the staffing in a department, how much space it should have, so that the plan does not incorporate past unfairness. Another issue is the difference in quality of the spaces.

At the start of the program, it will be merely a matter of number shuffling; funds will be transferred from central accounts to the units, who will then control the money. Another issue to be resolved is when a department chooses to give up space--does it obtain 100% of the benefit? 50%?

There are no firm answers to these questions, Mr. Erickson said, but moving toward the plan is important in order to know full costs and to help conserve energy. He recalled that a plan for charging for space was implemented while he was at SuperValu; they went from a situation where every department wanted more space to a situation where suddenly 10% of the building became available. After the plan is in place for a year or two, he said, it will no longer be an issue.

Asked when the plan would be implemented, Mr. Erickson said the administration is working toward July 1, 1993--which would provide time for discussion. In order to incorporate data into the budget planning for 1993-94, fairly firm information will be needed by the end of calendar 1992.

One Committee member said the idea was a good one but that the administration should not "mush" too many factors together as the funds are distributed; it may look like a shell game. It may also look like reallocation by central administration that is not being articulated--something that occurred with some of the most recent budget documents. In addition, Mr. Erickson was asked, once funds are allocated to the units, will they have any real choices? Will they have choices about standards of maintenance or control over heating? One has the sense that one must buy the standard package or nothing; there should be optional menus from which a department can select, or the option to go outside.

Mr. Erickson responded that departments can always purchase additional services, and many do so. As for going outside, he said the administration is committed to working with University people--and has worked with the unions on wages as well as tried to increase the quality of equipment available. The University must provide services cheaper and better internally--or look elsewhere.

Asked about the use of ICR funds to pay for space, Mr. Erickson observed that ICR funds are SUPPOSED to pay for the indirect costs of research--but the University, by and large, has not used them for that purpose. Right now he and Senior Vice President Infante are trying to bring together the budgeting of the three major sources of discretionary funds available to the Board of Regents: the O&M funds, the ICR funds, and the reserves; as they do so, they intend to raise questions about how to pay for repairs and to maintain the University's infrastructure. Another issue to be raised is the University's ICR rate; at present it is 40%, which is low by comparison to other research universities--and that is no badge of honor, Mr. Erickson commented. He is prepared to argue that it should be increased--and if it is, the money should be put into infrastructure expenses. There are ICR funds used to rent space, he noted.

Some units, it was pointed out, have no control over temperatures, so it would be unfair to charge them for heating when their only options are use of the windows. Mr. Erickson explained that data from several years will be used in allocating funds, so that lack of control should be taken into account in the baseline data--and trying to drive up expenses during this year will not be a successful way to increase the base for space funding. Moreover, he pointed out, some control systems are very expensive; relying on the windows may be much cheaper. Another possibility is conversion from steam to hot water heat, which permits control over temperature; with steam, it's either off or on.

Mr. Erickson cautioned that one must recognize the process will not be perfect the first couple of years the plan is in place; there must be an iterative process of surveying space and assessing charges. The basic principles are clear; the issues mentioned earlier must be dealt with, among which the most difficult is the existing allocation of space. Committee members commented that the current allocation is based on a) politics, and b) alchemy. That iterative process, one Committee member urged, should be clearly defined as part of the plan itself, so that corrections to the plan can be part of the plan itself.

Recalling that at one point telephone expenses were paid centrally, and then allocated to departments, it was suggested that if the plan is put in place, there must be a commitment that the space funds will not be the first ones cut when financial times are tough. SEE budgets are the most vulnerable in lean times, it was pointed out; space cannot be the most vulnerable. It already is, Mr. Erickson responded; the University has received no new funds for maintenance for five or six years.

The University has talked recently about laying off people, commented one Committee member; it should talk about laying off space, too--there are buildings which are not worth pouring money into. Mr. Erickson agreed; in conjunction with Assistant Vice President Markham, he has begun compiling a list of buildings that a) should be improved, b) should receive the minimum funds necessary to keep it open, and c) should be torn down. The Committee discussed the future of several buildings and the possible moves that might ensue if some are demolished.

3. A New Agenda Item

It was suggested by one Committee member that an agenda item for the next meeting should be the instability of University policies. It appears that all policies are up for grabs, it was said; the tuition policy will be reconsidered, there is talk of going to semesters. One cannot have firm expectations, which may be good, but rational planning becomes very difficult--one can only react.

Mr. Erickson agreed, and said that is why it is important the University have a strategic plan in place. It has done a very good job of academic planning, but has ignored strategic planning and has not discussed basic policies. Such planning is even more important in a decentralized institution, where a basic understanding of the rules is necessary.

Professor Shapiro thanked Mr. Erickson for his comments.

4. Space for the Alumni Association

Professor Shapiro next welcomed Ms. Margaret Carlson, Director of Alumni Relations, to speak to the Committee about space for the Alumni Association. He recapitulated the presentation that Michael Unger, Alumni Association president-elect, had made to the Faculty Consultative Committee on May 14, and then asked Ms. Carlson for her comments.

She began by saying she was unsure why she was meeting with the Committee but welcomed the opportunity to support and reinforce Mr. Unger's comments. She then commented on the importance of space not only as a physical place but also as a symbol of alumni presence on campus--and the strong feeling of the Alumni Association that it should be located on campus rather than at the FMC building. She reviewed the costs associated with moving to the 5th Floor of the Campus Club and said that the Association is willing to forego some of the improvements. Also a problem has been a lack of information about the costs that would be involved in moving to the FMC building.

The Association has been told it is an irritant on this subject, and while this is not a reputation they want in fact or perception, they feel very strongly about staying on campus. (To which one Committee member responded, the Committee CHERISHES its role as an irritant!)

Committee members discussed the various issues associated with funding the improvements in the Campus Club, the impact on and relationship with the Campus Club, the advantages and disadvantages of the FMC location, and the views of the volunteers who work with the Association. The quality of the space, Ms. Carlson emphasized, is significantly less important than that it be on the campus; the FMC building, she said, would be like being in any downtown office building.

Of particular interest to the Committee was the relationship between money the University might spend to remodel the 5th Floor for the Association and the manner and extent to which the Association might then return those funds through services or programs; it was not clear to Committee members exactly how this exchange would work.

The Association would be willing to spend $291,000 of its endowment money for new programs that would benefit the University (e.g., scholarships, recruiting, mentoring, etc.) in return for the University picking up the costs of the remodeling the 5th Floor, Ms. Carlson said. Some of the improvements will have to be made whether the Association occupies the space or not, she observed, but it will not be there to enjoy the long-term benefits--because the move to the Gateway Center will probably take place in about 4 years.

Discussion also touched on the schedule and funding for the Gateway Center, to be located at the corner of Oak and Washington. Those who spoke were generally sympathetic with the desire of the Alumni Association to not be placed in the FMC building.

Dr. Kvavik, in response to a question about the views of the administration, responded that the primary concern is what is NOT happening because the Association has not moved out of Morrill Hall. There is a whole series of moves awaiting the vacating of the first floor of Morrill Hall, moves which have an impact on academic programs. The administration has no disagreement with the desire of the Association to be on campus, but with space available in the FMC building, and academic programs waiting for moves, there is a concern that remodeling of the 5th Floor could set the entire process back another 6 - 8 months. The original plan was that the Association would be out of Morrill Hall last January, and remodeling could only delay the moves even more. There is also a question, he commented, about the use of the 5th Floor; given the shortage of student space, what should be the long-term use of Coffman?

Asked about alternatives on the campus, Dr. Kvavik expressed doubt that there is any other location large enough to house the Alumni Association staff and functions.

The Committee agreed it would return to this issue at the next meeting.

The meeting was adjourned at 5:00.

-- Gary Engstrand

University of Minnesota