



UNIVERSITY OF MINNESOTA

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Medical School

**Structural and Financial Challenges  
in the Medical School:  
Analysis and Approach to a Solution**

June 5, 2007

# The Challenges

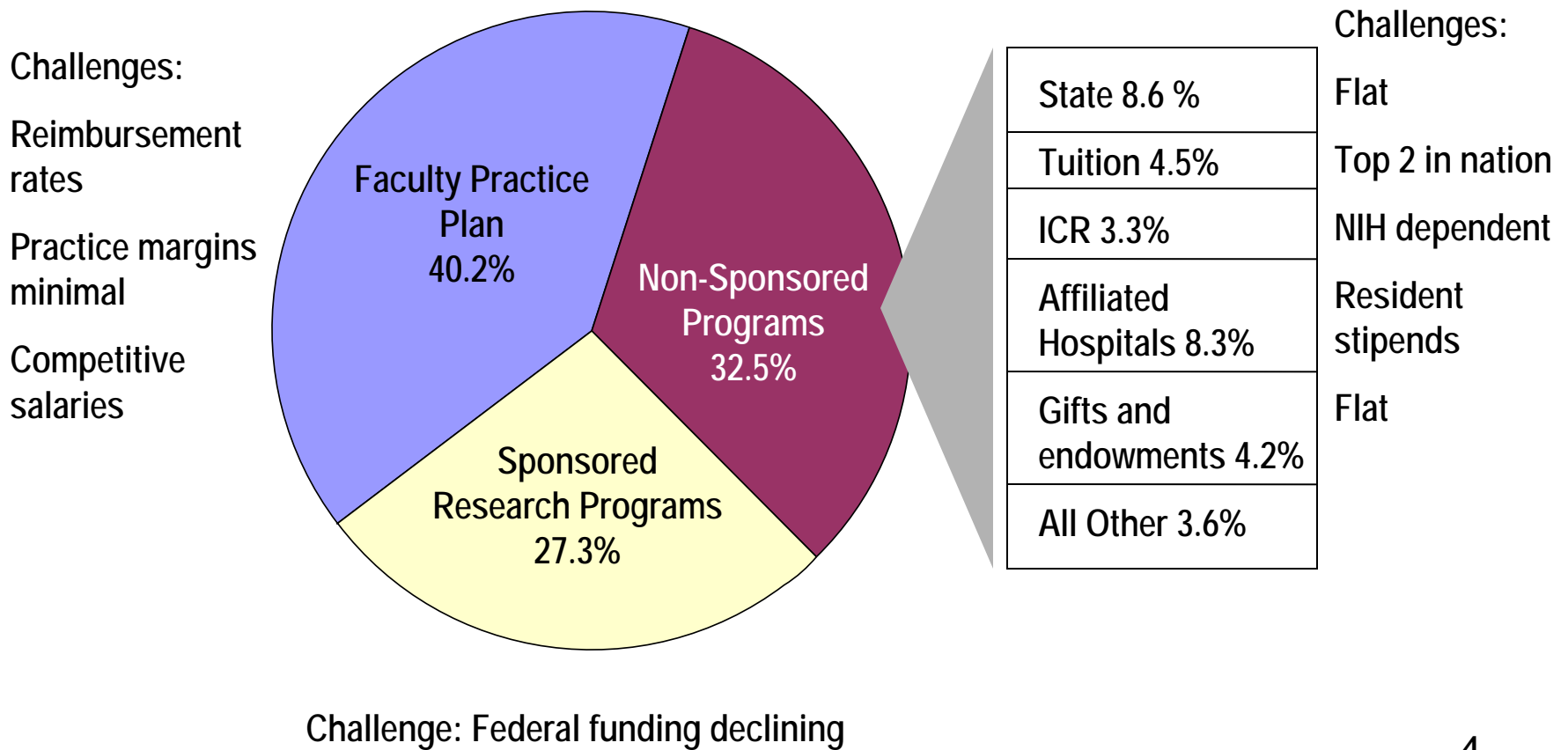
- The Medical School faces an increasing structural financial challenge arising from increasing costs combined with stress on traditional revenue streams
- The Medical School needs major investment in faculty and facilities in increasingly focused areas of growth that support the University
- The solution to both of these challenges requires a partnership among the Medical School, UMPPhysicians, the University, the State, Fairview Health Services, the business community and the community of grateful donors

## The Structural Financial Challenge

- Increasing costs to support a nationally competitive Medical School are rapidly outpacing the capacity of existing revenue sources:
  - clinical practice
  - sponsored research
  - tuition
  - state support
- The structural financial challenge is estimated to be \$29 million

Medical School

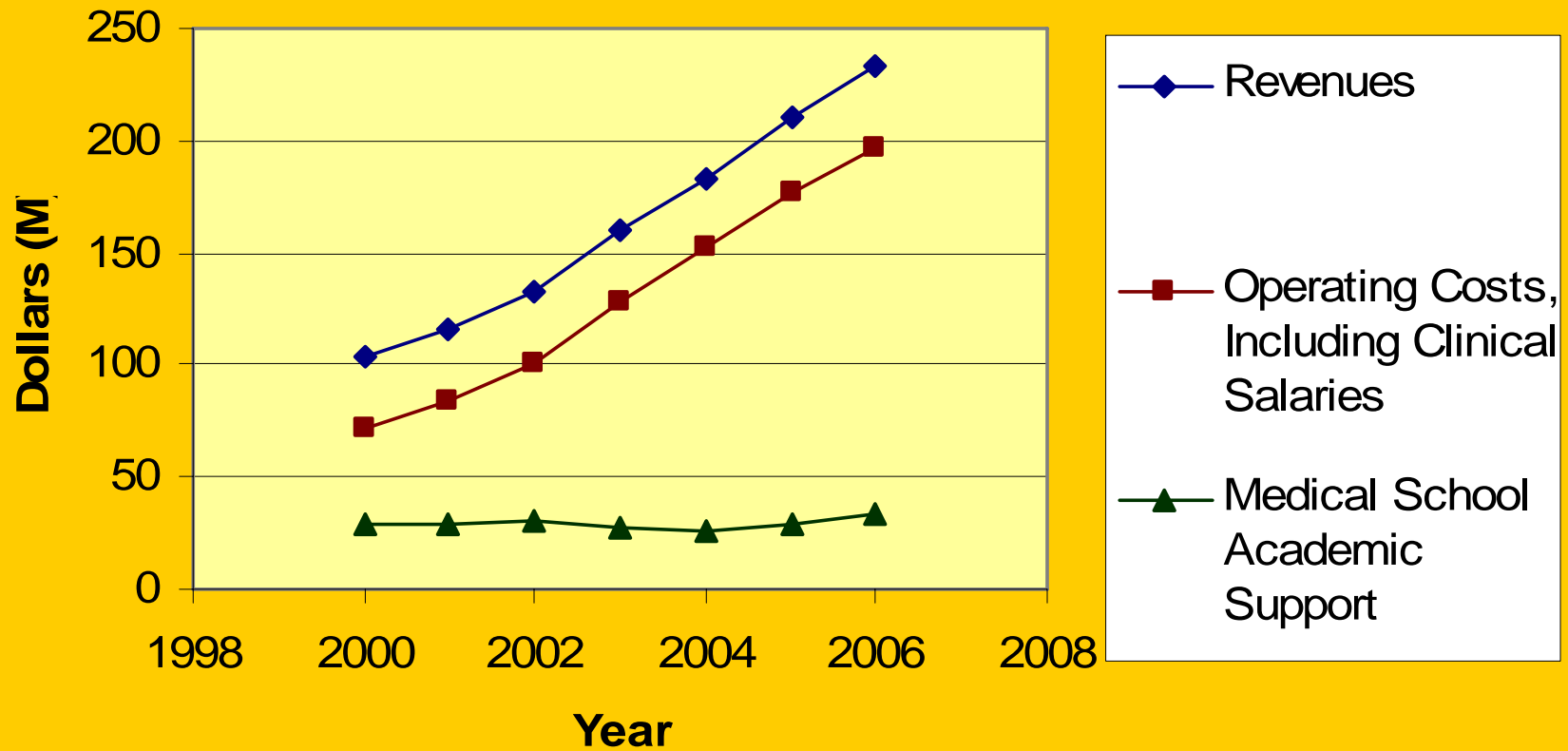
## Existing Funding Sources of the Medical School Budget = \$574 million (includes UMPhysicians)

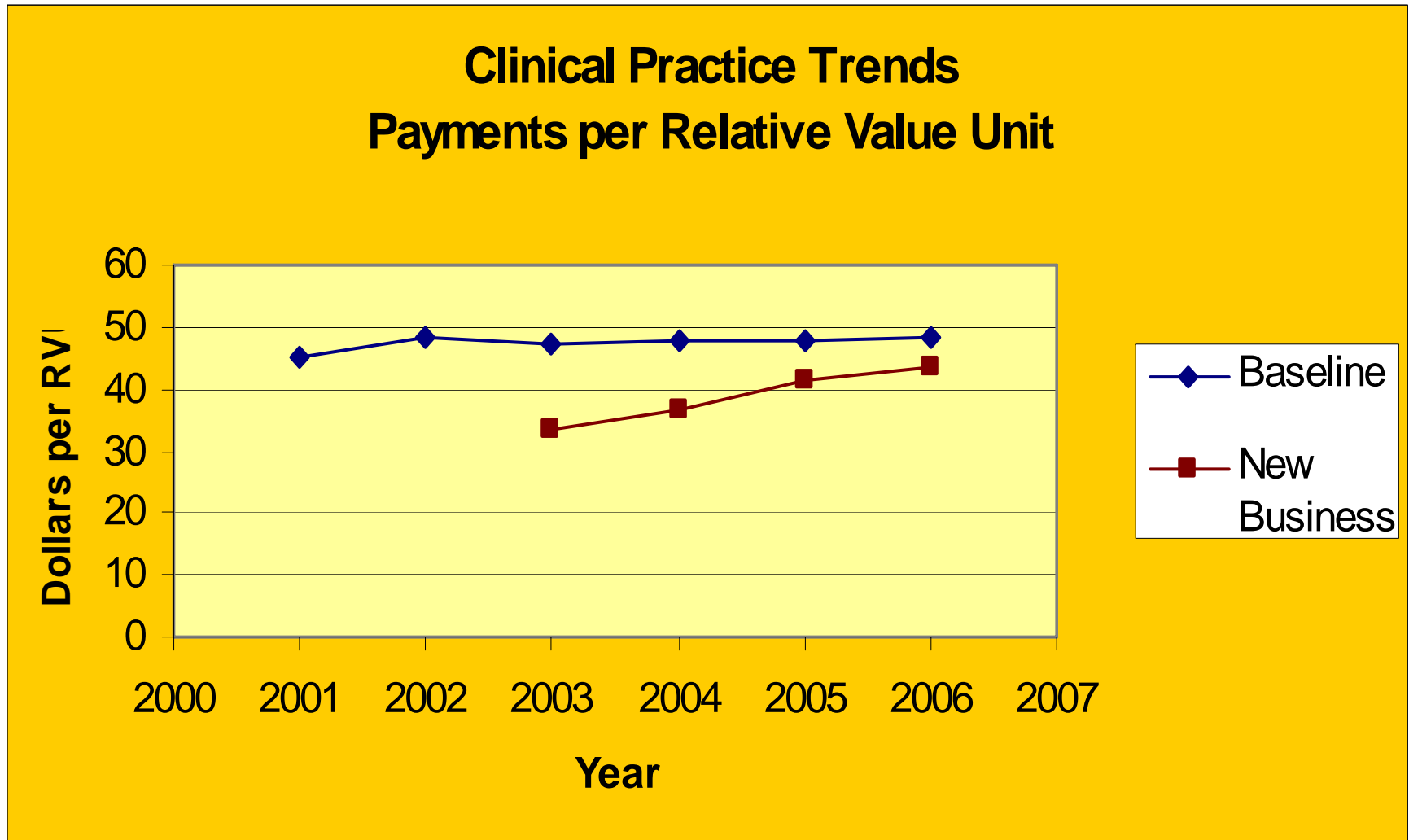


## **Stress on Funding from Clinical Practice**

- Financial margins for clinical practice have decreased nationally
  - Minnesota leads the trend.
- Practice plan needs increasing number of clinical faculty to just remain competitive and meet patient care demands.
- Practice revenues no longer sufficient to underwrite research and education

### Clinical Practice Activity



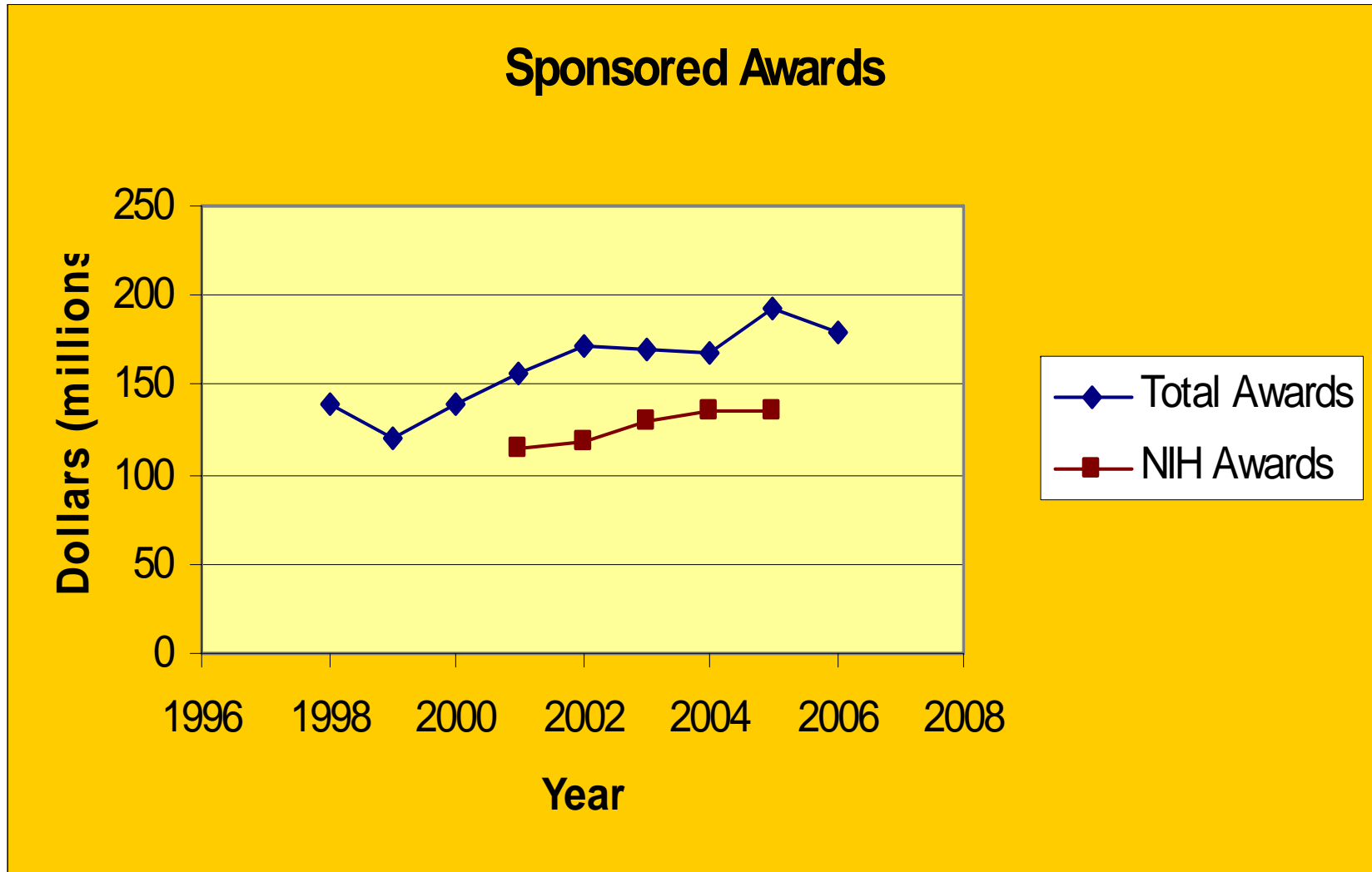


\* RVU is a standard unit of clinical work

## **Stress on Funding for Sponsored Research**

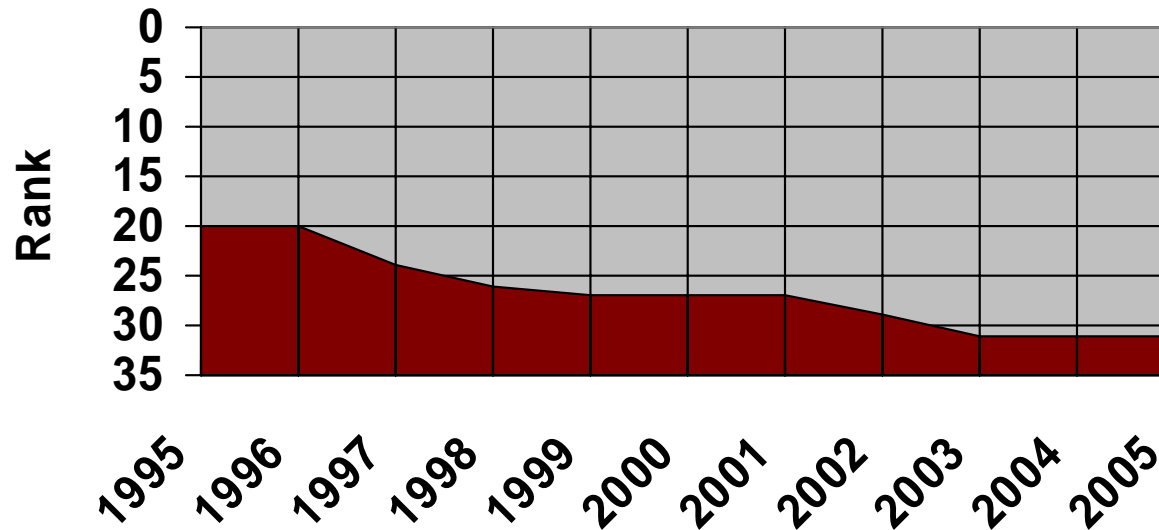
- Decline in NIH rankings, despite increase in total dollars
- Flattening of NIH budget
- Cross-subsidy required to support sponsored research
- Loss of research-intensive faculty
- Costs of remaining competitive
  - Faculty retentions and recruits
  - Facility construction and renovation





Cross-subsidy for doing research: NIH 20%;  
all others, 30%

## NIH Rankings UMN Medical School



- Largest decline among medical schools that were in the top 30 in 1996, despite increased NIH revenues.
- Ranking movement by competitive institutions since 1996:
  - Vanderbilt (from 24 to 15)
  - Mount Sinai (from 30 to 20)
  - Oregon (over 30 to 24)
  - Maryland (over 30 to 25)
  - Colorado (stayed at 22)
  - Wisconsin (from 25 to 28)
  - Iowa (from 26 to 30)

## Loss of research-intensive faculty

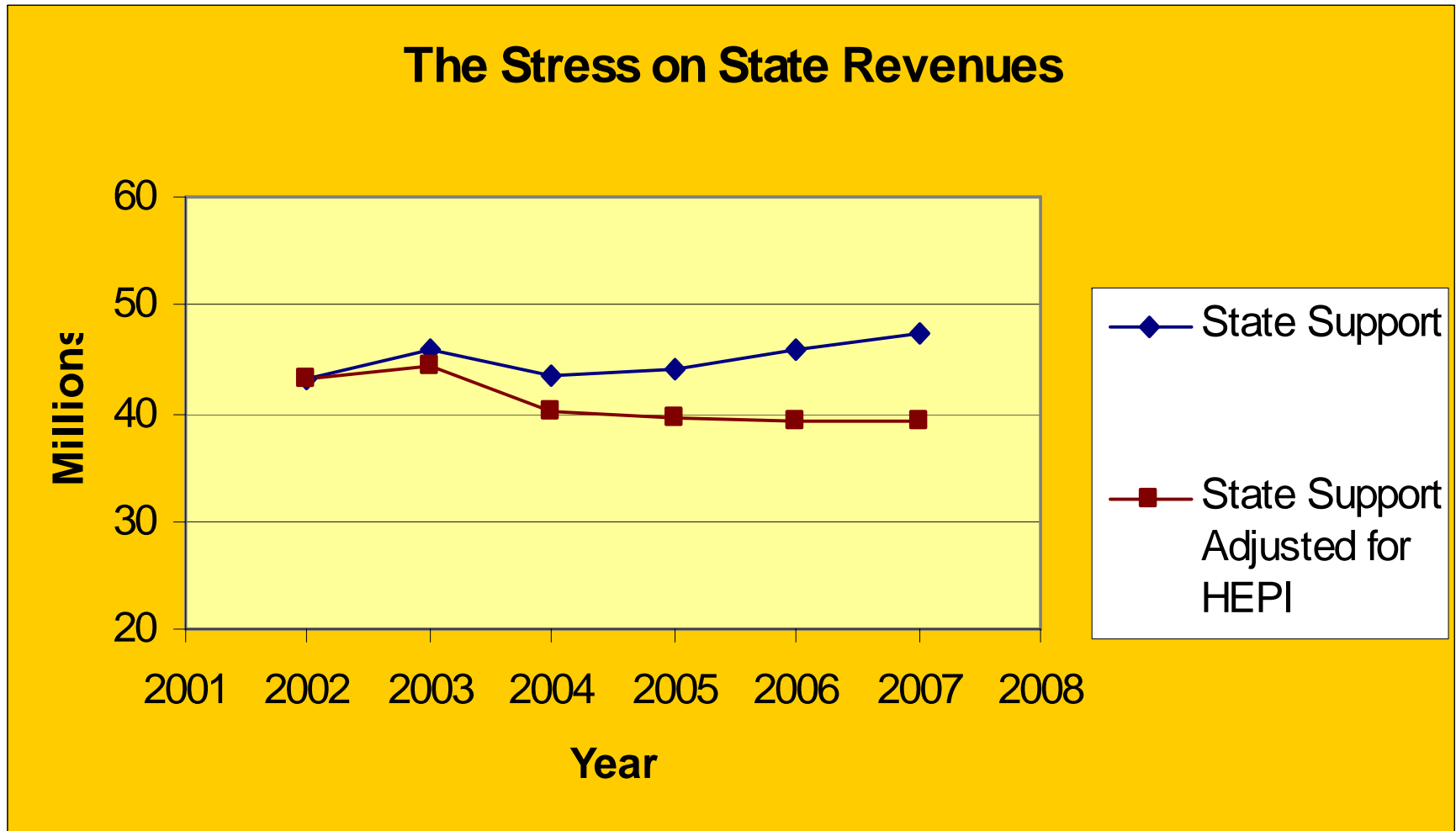
	<u>1994</u>	<u>1999</u>	<u>Current</u>
Tenured & Tenure Track Faculty	<b>539</b>	448	<b>486</b>
Non-tenure Track Clinical Faculty	<b>99</b>	169	<b>312</b>
Total Full-time Faculty	<b>638</b>	<b>617</b>	<b>798</b>

## The Stress on Tuition Revenue

- Tuition elasticity is very limited
- Tuition pays for a degree and is set for each student at the time of admission
- Each medical student is incurring increasing debt; 2006 graduates, \$135,000 average debt
- The increasing student debt is affecting student career choices, e.g., family practice
- Not possible to increase tuition to offset the structural challenge

## Medical Student Tuition

- Ranked #2 in tuition for public medical schools
  - To remain competitive, implemented “guaranteed,” cost-of-degree tuition plan
  - Starting in 2004, the tuition rate for each incoming class is fixed
- Tuition remains less than 5% of overall revenue
  - Impact on revenue if tuition rate is increased:
    - 0% \$481,000
    - 3% 574,000
    - 5% 636,000
    - 10% 791,000



**2002 as the base year**

**O&M, specials & tobacco (not recruitment piece)**

## **Increasing costs to be competitive**

- Recruiting department heads
- Recruiting and retaining faculty
- New and remodeled facilities
- Compensation
- Increasing University administrative costs
- Educational costs

## Increasing Costs: Department/Unit Heads

<u>Department/Unit</u>	<u>Total MS Commitment</u> (in millions)
Pediatrics (Schreiber)	\$ 20.5
Surgery (Vickers)	21.6
Anesthesiology (Prielipp)	6.4
Cardiology/LHI (Garry)	19.0
Stem Cell Institute (Slack)	6.0 +
Assoc. Dean for Clinical Research (Ahluwalia)	4.2
Stroke Center (Qureshi)	5.6 +



## **Growing Cost of Individual Faculty Recruitments and Retentions**

1997	(Ravdin Recruitment) Individual Faculty Packages	\$ 475,000
2002	("Tobacco" Initiatives) Individual Faculty Packages	\$ 750,000
2007	(Garry Recruitment) Individual Faculty Packages	\$ 1,300,000
2007	Wagner/Blazar Retention	\$ 2,400,000
2007	Largaespada Retention	\$ 3,300,000

## Increasing Costs: New and Remodeled Facilities

<u>Facility</u>	<u>Medical School Cost</u>
MCB	\$ 3.8 M
Cancer Center	5.2 M
CMRR	3.6 M
Vascular Biology	2.0 M
Surgery	3.7 M
Simulations Center	2.0 M
717 Delaware	10.7 M

## **Increasing costs: Compensation**

- 60% of the faculty are paid less than the 50<sup>th</sup> percentile of their AAMC peers. This includes clinical salaries.
- The practice plan pays the clinical salaries, the Dean's tax, and supports some academic salaries
- Central allocations, including tuition, for compensation provide 25% of faculty salaries

## Impact of Salary Mandates

<u>Funding Source</u>	<u>Fiscal 2006 Total Salaries &amp; Fringe Cost</u>	<u>Impact of 3.5% Mandate</u>
O&M/Tuition	\$ 43,745,000	\$ 1,531,000
Tobacco/ICR	30,537,000	1,069,000
Other Non-sponsored	<u>59,744,000</u>	<u>2,091,000</u>
Total Non-sponsored	<u>\$ 134,026,000</u>	4,691,000
2007 Central Allocation for Compensation Increases		< <u>820,000</u> >
<b>Unfunded Mandated Salary Increase</b>		<b><u>\$ 3,871,000</u></b>

**Notes:**

- Impact on sponsored programs is additional cost of \$2,658,000, which is not totally recoverable on grants
- Medical School “subsidy” of the University fringe benefit pool is ~ \$1,900,000 annually

## Increasing Costs: Education

- GME Administrative Expenses
- Developing the new paradigm of medical education: MED 2010, simulations, interdisciplinary education, workforce
- Graduate student costs

## Uncompensated Administrative Costs of Graduate Medical Education

Faculty Administrative Costs	\$2,845,000
Department Non-faculty Personnel	2,590,000
Department Non-personnel Costs	1,588,000
Dean's Office Costs	<u>1,081,000</u>
<b>Total Cost of GME Administration</b>	<b><u>\$8,104,000</u></b>

## The Structural Financial Challenge

- Salary support for newly hired tenured faculty \$3.5M
- Structural deficit in education and research \$13.8M
- Graduate student stipends \$3.7M
- GME administrative costs \$8.0M

## Medical School Goals

- Move into the Top 20 of Medical Schools through innovative research excellence in the targeted areas of neuroscience, infectious disease and immunology, diabetes, cardiovascular and pulmonary medicine, and cancer.
- Be a national leader in innovative medical education, providing learner-centered education for patient-centered care.
- Provide exemplary clinical care delivery by collaborating with faculty and partner hospitals to continually improve excellence and educate students to seek ways to improve care outcomes.



## **The Challenges: Investment Needs**

- Investment is required in faculty, facilities, and the infrastructure that supports them
- Partnership is needed among the Medical School, UMPPhysicians, University, State, Fairview, and the business and health communities
- A multi-year plan of focused, affordable growth needs to be developed in the next few months

# Investments Needed to Achieve Goals

## 1. Investment in Facilities

- CMRR Research Expansion
- Heart Research Building
- Cancer Research Building
- Clinic facilities renewal
- Renovation of existing research space

## 2. Department Head Recruitments

## 3. Recruitment of Research-intensive Faculty

Need 53 faculty to return to 1994 level; need 175 to achieve Medical School and University goals

## 4. Competitive Faculty Salaries

## 5. Funding to Address Structural Imbalances

- GME Administration
- Graduate Student Stipends
- Budget Model Adjustments

# DRAFT

## Financial Problem & Solution Map

A) Base Structural Problem - \$29 Million/3 years

PARTNERS

OVER 3 YEARS

Medical School	\$5M
State - new \$	\$7M
University – add'l \$	\$9M
Fairview	\$5M
Affiliates	\$3M

# DRAFT

## Financial Problem & Solution Map

### B) Investment Needs - \$600 Million/7 years outer bookend

NEED	PARTNER	INVESTMENT
Facilities	State	\$310M
New Chairs	University State Fairview UMPhysicians Philanthropy	\$192M
New Faculty	University State Fairview UMPhysicians Philanthropy	\$84M

## Next steps

- Further discussion and plan to address structural challenge within 2 months
- Further discussion and plan for investment within 4 months