<u>MINUTES</u>
University of Minnesota Medical School
Faculty Advisory Council

April 7, 2009

The meeting of the Medical School Faculty Advisory Council (FAC) was held on Tuesday, April 7, 2009 at 4:00 p.m. in Room B646 Mayo Memorial Building and 146 School of Medicine Duluth (via ITV). Carol Lange, Chair of the FAC presided.

<u>Members Present</u>: Drs. Aviva Abosch, Sharon Allen, Robert Bache, Vivian Bardwell, Susan Berry, Peter Bitterman, James Boulger, Joseph Brocato, Levi Downs, Esam El-Fakahany, Sean Elliott, Gwen Halaas, David Hunter, Stephen Katz, Carol Lange, Teresa Nick, James Nixon, Christopher Pennell, Teresa Rose-Hellekant, Yoji Shimizu, Carol Wells, and Jo-Anne Young.

<u>Dean's Office Staff Present:</u> Dr. Roberta Sonnino, Ms. Patricia Mulcahy and Ms. Allison Campbell Jensen.

Welcome
Dr. Lange called the meeting to order at 4:05 p.m. and turned the floor over to Dean Powell.

Medical School Budget
Dean Powell explained that this budget presentation has been presented to the Department Heads and will be presented at the upcoming Faculty Forum. Additionally, this presentation will be given on the Duluth campus later in the month.

Dean Powell explained that the federal stimulus will provide approximately $72M of funding to the University budget, but Governor Pawlenty has cut that $72M from the recurring University budget, rolling the budget back to the amount funded in FY2006. For the next two years, the University will maintain current funding levels because the federal stimulus will fill in the gap left by the cut in State funding. In FY2011, the budgets will start at the FY2006 funding levels.

The Medical School departments have been asked to model 10% cuts to recurring budgets. The Dean then explained that with the new University budget model, which was introduced by the University two years ago, the academic units are now being charged for central services. Prior to this new budget model, the State appropriation plus indirect cost recovery (ICR), plus tuition revenue would be put into a central pool, and then allocated out to the academic units. The current model allows the ICR and tuition revenue to go directly to the academic unit, with the State appropriation going through central allocation (as previously done). Because the units are capturing more ICR and tuition revenue with the new model, the University now charges the academic unit for utilities, custodial services, libraries, research administration, IT costs, student services, technical services (including email), etc. Space and utilities are consumption based. Other fees, such as the technology and library fees, "cost-driver" based, which are allocated based on relative share of identified cost driven variable.

Due to the large number of volunteer faculty that are needed to teach in the Medical School, these costs are particularly high. The Medical School is paying a very high percentage of these costs pools because of the large number of adjunct faculty who may or may not be using these services.

For the first two years of the new model, the Medical School simply charged its departments the previous 8.8% IRS tax for these costs, and centrally paid the costs pools from the Dean's

Commitment fund. But the amount for the cost pools increased over those two years and the revenue wasn't increasing as fast. This year, the Dean chose to change the formula by assigning some of the cost pools to the departments. As the Dean explained, departments can manage their own space better than it can be managed centrally. Many departments, in turn, sold space that they either weren't using or couldn't afford. Of the 26 departments, only three had paid too much from the previous IRS tax, the remaining 23 were not paying enough.

In turn, the Medical School gave the departments back 75% ICR, but assigned the research cost pool. The technology fees, which are based on faculty numbers, were also assigned out to departments. Student service and administrative cost pools stayed within Medical School administration, at the cost of $67M this year.

The departments are being asked to make their 10% cuts partially because they are being asked to absorb more of these cost pools, which can increase annually by substantial amounts. Departments are also being asked to model out three years of budgets, based on an estimated 2.5% salary increase and 4.5% cost pool increase for FY 2010 and each additional year. The issue with this model is that ICR is not increasing, which is a major source of revenue in this financial model, but the cost pool does increase.

The Dean explained that the departments have done a very good job at looking at these issues. For departments that are in deficit, there are interest free 7-year loans available from the University, but the department must prepare a budget that does not have a recurring operations deficit because these are one-time loans.

The Medical School budget is balanced this year and almost balanced for next year. The FAC asked what departments can do to generate revenue to help pay for these increases. The Dean explained that basic science departments can bring in more grants, but try not to use much additional space for the grants. Additionally, dollars can be generated by doing undergraduate teaching, which generates tuition revenue. Clinical departments have the opportunity to generate clinical revenue.

The Dean explained that the School needs to take a closer look at its programs and determine what we can afford. If certain departments or centers are not sustainable, then they must be reassessed. Departments must be allowed the flexibility to generate more revenue where they can.

An FAC member asked at what point in the process does the University perform a sustainability review of their budget model. The Dean did not know if the University had plans to review the model in the near future.

The meeting was adjourned at 5:00 p.m.

Respectfully submitted,

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Jeni Skar
Staff to the FAC