

## **Senate Committee on Finance & Planning**

Minutes of the Meeting

May 19, 2015

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

In these minutes: [Academic Health Center update; Update on legislative appropriations]

PRESENT: Gary Cohen, chair; Paul Olin, Dan Feeney, Russell Luepker, David Fisher, Erik van Kuijk, Fred Morrison, Jennifer Gunn, Jill Merriam, Taylor Barker, Catherine Fitch, Linc Kallsen, Renee Cheng, Michael Korth

REGRETS: Pam Wheelock, Karen Seashore, Richard Pfitzenreuter, Kara Kersteter, Samantha Jensen, Karen Ho, Tracy Peters

ABSENT: Quinn Jurgens, Michael Volna, Megan Wiza, Laura Kalambokidis

GUESTS: Brooks Jackson, dean, Medical School and vice president, AHC; Dr. Bobbi Daniels, vice-dean, Clinical Affairs and CEO, UMPHysicians; Terry Bock, associate vice president, AHC; Pete Mitsch, CFO, Medical School; Julie Tonneson, associate vice president, University Finance

### **1. Academic Health Center financial and budgetary issues**

Professor Cohen welcomed Brooks Jackson, dean, Medical School and vice president, AHC and Dr. Bobbi Daniels, vice-dean, Clinical Affairs and CEO, UMPHysicians, who directed committee members' attention to a brief presentation providing background on the AHC.

AHC Mission:

- Prepare the next generation of health professionals who will care for our families and communities
- Discover and deliver new treatments, cures, and ways to promote health
- Contribute to the economic vitality of our health industries in Minnesota

Academic Health Center Facts:

- One of the most comprehensive health sciences centers in the nation
- Six schools: *Dentistry, Medicine, Nursing, Pharmacy, Public Health, Veterinary Medicine, and a Center for Allied Health Professions*
- 20 Interdisciplinary Research and Education Centers
- 6,200 students in 62 programs (professional, graduate, undergraduate)
- Conduct over \$400 million in health research annually
- Provide care to over 1,000,000 patients

FY14 AHC Budget: \$1.1B sponsored and non-sponsored expenditures

AHC Shared	200,105,633 (18%)
College of Pharmacy	56,915,455 (5%)
College of Veterinary Medicine	97,031,639 (9%)
School of Dentistry	73,976,245 (7%)
School of Nursing	26,075,344 (2%)
School of Public Health	136,888,375 (13%)
Medical School (excluding UMP)	506,753,199 (46%)

Jackson briefly reviewed FY14 AHC revenue profiles, AHC shared units and funds, AHC space, the Biomedical Discovery District, and went on to discuss Health Professions Education:

- Highly regulated through accreditation standards, licensure and certification requirements for practice
- High workforce demand driven by an aging population, retirements, and health care reform
- High number of applicants; high retention; and high “on-time” graduation rates
- Lengthy time to educate and train health professionals: didactic and experiential
- Clinical and experiential learning, including over 1,700 affiliated training sites across Minnesota and internationally
- Competencies demonstrated through standardized patients and examinations
- Use of simulations and technology for competency development
- Interprofessional education and training

Major Challenges in Health Education:

- Changing healthcare environment
- Difficulty predicting future workforce needs and practice models
- Growing disincentives for choosing and practicing primary care
- Reduced state and federal funding for education and training: *impact on tuition and student debt*
- Difficulty finding training/practice sites that model health care the way it should be delivered: *working in teams with providers practicing at the top of their license*
- Access to clinical rotation sites for education

Jackson reviewed health research, sponsored research and training FY14 awards and expenditures, AHC-wide health research priorities, and how research was funded at the University, which included:

- Competitive grants and contracts
- Indirect cost recovery on grants and contracts
- State appropriations
- Clinical revenues
- Gifts and endowments

- Business and industry contracts
- Royalties and licensing fees

Jackson then reviewed NIH research rankings, trends in health research, and the University's strengths in the changing research world, including:

- One of the most comprehensive AHCs in the nation
- History of strong interdisciplinary research
- Programs and centers of national strength
- Investments in research facilities: Bio Discovery District
- Investments in research infrastructure
  - Global Health
  - Clinical and Translational Sciences Institute
  - Genomics
  - Informatics
  - Center for Magnetic Resonance Research

Daniels described how patient care was integral to nearly everything that was done in AHC. Patient care provides training for students and is an important source of clinical revenue, and is central to how the University teaches and conducts research, she said.

Daniels presented highlights of University of Minnesota patient care in Minnesota:

- UMN Health: statewide resources for patient care, primary to specialized care
- Over 1 million patients visits in our clinics and hospitals
- University of Minnesota Medical Center (UMMC), part of Fairview Health Services, is the primary teaching hospital
- University of Minnesota Physicians (UMP) is the second largest integrated practice in Minnesota

Daniels reviewed clinical practices in the AHC schools. She noted there were several national trends that affected the practices:

- Hospitals, clinics and health systems need to reduce costs to compete in the market
- Needs to be closer integration of education, research and care
- Needs to be closer integration of governance, organizational and administrative structure to align strategy and operations
- Faster track to move research discoveries to practice
- New models of interprofessional, team-based education, training, and practice
- Focus on wellness and population health

Daniels went on to discuss the future of patient care at the University, saying it was challenging due to factors such as reduced reimbursement rates, intense market competition, and high demand. However, the University is well positioned for the future, and Daniels cited:

- Great history of innovation and bringing it increasingly into the clinical practice at different levels.

- Implementing professional team-based care as rapidly as possible
- All the AHC schools are planning to grow their practices
- Looking at every opportunity to increase collaboration and integrate practices across schools.

Daniels discussed UMN Health:

- Established with approval of Fairview Board, University of Minnesota Physicians Board and Board of Regents in May 2013
- New structure to govern, manage and operate better our academic clinical enterprise
- Shared commitment to:
  - Support education and training
  - Advance research
  - Support innovation and clinical excellence
  - Improve the health of individuals and communities
- Integration is key across the care spectrum

Daniels said one of the most exciting things they were currently doing was the programmatic development for the University of Minnesota Health Clinics and Surgery Center [Note: called the “Ambulatory Care Center” in earlier planning phases]. The construction is to be completed in October 2015, and the building will be opened in March 2016. The University finances it, and UMP and Fairview are covering long-term leases. New and innovative care models are being developed, and Daniels said they were looking at every single step of the patient care process and completely re-engineering it. This will be a freestanding clinic for the most part, so it will decrease the cost of care for patients.

Jackson added they were moving to an integrated system, and similar consolidation was occurring throughout the nation. He said they wanted to be an academic health system that achieves economies of scale and standardized procedures.

The committee went on to discuss the information presented.

Professor Morrison asked if there was sufficient intake of patients and how they were getting physicians to refer patients. Daniels said Fairview had a very strong primary care network and was very well respected in the community. The relationship with Fairview needed to be strengthened, and the University needed to establish innovative care and retail models and try to lead the market. Jackson added that another advantage of working with Fairview was the many insurance companies they work with, which allows the University to keep patients in its network.

Morrison then asked about the \$30M appropriation by the legislature and if it was a biennial or annual figure. Jackson said it was biennial, that is, \$15M per annum recurring (one-third of what was requested).

Cohen asked about a recent column in the *Minneapolis Star Tribune* by Dr. Robert Wilson, which cast aspersions on the Fairview University Medical Center. Jackson responded that the relationship had never been better and they were making major progress on delivering on several of the stated goals. However, Jackson acknowledged, the operations have been under-capitalized,

both in terms of facilities and academic support. They were in discussions about having truly an integrated health system and how to invest money strategically. Jackson stated the University could not have a world-class medical school without a world-class health system and vice-versa.

Professor Luepker asked about the income currently going into the medical school from Fairview and UMP. Daniels said in addition to the previous figures noted, approximately \$40M in academic transfers are made from the clinical practice to support research and education. She added that as part of improving the relationship with Fairview, they had negotiated line items of support. The intent of working with Fairview was to develop an academic health system, help the system grow, deliver efficient and effective care, and provide value to the market. Daniels stated this was an exceptionally competitive market and to generate the margin, they needed to perform in an exceptional way. Jackson added they needed to get to economy of scale, as reimbursement is flat or going down.

Cohen said the University of Minnesota was the only university-based hospital/medical school complex in the state, and asked how that was being capitalized upon. Daniels said UMMC had grown 11% in new patient visits over the last four months, and had gained the most market share of all the hospitals and health systems across the Twin Cities. She attributed this to the programs and the work the faculty were doing.

Cohen noted the environment for federal research was becoming more difficult, and asked about substituting other sources of research support and how it might figure in future strategies. Jackson said a significant amount of research was funded by philanthropy: they projected \$75-\$80M, most of it related to research. He noted the University had also made it easier to work with companies in industry supported research and technology commercialization. Cohen asked about contract research with the medical devices industry. Jackson said there were some clinical trials associated with medical devices but the big money was in pharma of which Minnesota had very little.

Professor Olin asked if the University was well positioned to meet the demands of health care and if there were enough resources being put into creating appropriate models. Olin also asked about student debt. Jackson said student debt in dentistry averaged \$206K, the highest of all the AHC schools, and 3.5% tuition raise was planned for dentistry. Jackson said the medical school had kept tuition flat for two years in a row and some strategies had been deployed to reduce the debt load, such as scholarships. He noted that debt load affected students' choice of specialty, and said they had to figure out other ways to cut costs so as to keep tuition lower, including exploring the possibility of shortening training programs.

Professor Feeney discussed risk management for the AHC, saying several years ago the committee had talked about the AHC's risk profile, considering how large the AHC is in comparison to the rest of the University. Feeney said this created a major issue with risk management, as so many eggs are in one basket. Associate vice president Terry Bock said they were at less financial risk than they had been, but there was risk around the research portfolio, given the status of NIH funding. Cohen asked how buildings factored into this, particularly the Mayo building. Jackson said they were looking at how to vacate and raze Mayo. The Governor's Blue Ribbon Committee on the Medical School recommended \$200M for health sciences education and clinical research facilities on the Twin Cities campus, which will allow vacating

old facilities. Jackson said they needed to depend on the state for those monies; otherwise it would be difficult. The 2015 legislature authorized \$10 million for to program and design new facilities.

Cohen asked what the \$30M appropriated for research would be invested in. Jackson said it would be put toward the ultimate goal of 100 tenure track faculty, consisting of approximately ten medical discovery teams that would build on the strength of current faculty and infrastructure. These teams would focus on certain areas, making the University first class in those areas. He said they currently had the money for about three discovery teams, and they were trying to align clinical research with health care delivery.

Luepker said about ten years ago, \$30M from the tobacco settlement was given to AHC for the same initiative. Luepker asked why it didn't work and how it could be better. Bock clarified the amount was closer to \$20M, and there had been a number of successful recruitments. He said he viewed it as a different approach and the new initiative would be more focused, not as fragmented across research efforts as before.

At this point in the discussion, the committee agreed to go off the record.

Cohen thanked Jackson, Daniels and Bock for the discussion.

Cohen updated the committee on its recent discussion with the University of Minnesota Foundation, and said he had talked to Doug Gorence, president and chief investment officer, UMF Investment Advisors, and Stuart Mason, associate vice president, Asset Management, Office of Investments and Banking, about whether distribution rates from the endowments would be sustainable in the long range. Cohen said he would like to prepare a draft letter asking that the figure be reconsidered because the current payout was unlikely to be sustainable. He said he would distribute a draft of the letter to the committee before the next meeting.

## **2. Update on Legislative Appropriations**

Cohen welcomed Julie Tonneson, associate vice president, University Finance, who provided an update on the University budget planning and the legislature's higher education appropriation. She distributed information to the committee and reviewed the appropriations.

Incremental Resources: totals \$78.5M

- \$26.6M - state appropriation increase (not \$53.2M, on annual basis)
  - \$11.1M to hold down cost of attendance & support research, education, and public service
  - Using \$8.7M (78%) to buy down tuition
  - \$15.M for Medical School, response to Blue Ribbon Commission
  - \$500K for Alzheimer's/dementia research - added to University-Mayo partnership
- \$15.1M - tuition
  - Resident undergrad - using state money to buy down from 3% to 1.5%

- Resident graduate/professional - using state money to buy down from 3.5% to 2.5%
- NRNR (non-resident, non-reciprocal) up 3.5% for graduate/professional generally
- NRNR undergrad - up \$1,350 on TC campus (7%) and \$461 at UMD (3%)[more in future]
- \$30.5M - Reallocations
  - \$8.4M approved from TC academic units for strategic plan
  - \$22.1M from all units to balance budget
  - So far an estimated \$13.4M of this \$30.5, plus another \$4M from other non-sponsored funds - so \$17.4M will be administrative reductions toward the \$90M
  - Of the \$30.5M, \$5.8M is not yet fully itemized; units are working with decisions but plans are not yet complete, so the \$17.4M will likely grow
- \$6.3M - Other resources
  - Includes things like FY15 tuition yields above budget, central reserves transfer, increase in international fee, increased sales, etc. in units

Incremental New Spending: totals \$78.4M

- \$23M - compensation increases at 2% average plus fringe (2.5% UMN and UMC faculty)
- \$739K - merit-based financial aid
- \$15.5 - Medical School and Alzheimer's (appropriation)
- \$8.4M - TC strategic plan pool (post budget)
- \$1.4M - system wide strategic investments (post-budget)
- \$23.3M - itemized recurring academic investments in colleges, campuses and support units
- \$3.5M - mission support and operations recurring investments
- \$2.6M - facility operations (debt, leases, utilities, etc.)

Other noteworthy points:

- After 3 of the 6 years (through FY16) administration reallocations will be at least at \$58M of the \$90M (64% of goal)
- A typical full-time Minnesota resident student who qualifies for the State Grant program and/or the increases in these grant programs. Total cost of attendance includes tuition, fees, room, board, and other miscellaneous living expenses.
- TC room & board lowest in Big 10 for FY16
- Human Subjects - document will include paragraph on timing and funding
- Relatively few and minor increases in fees

Tonneson also noted an appropriation to the Commissioner of Agriculture of \$4.5M for FY16 for grants to the University, and \$4.9M for FY17.

President's FY16 Recommended Operating Budget  
 FY16 Budget Framework (Primarily State Appropriation and Tuition Funds)

<b>Incremental Resources</b>	
Increased State Appropriations	\$26,600,000
Tuition Revenue Increase	\$15,100,000
Unit Resources	\$36,800,000
Total Incremental Resources	\$78,500,000
<b>Incremental Expenditures</b>	
Compensation	\$23,000,000
Student Financial Aid	\$750,000
Academic Initiatives	\$48,550,000
Mission Support and Operations	\$6,100,000
Total Incremental Expenditures	\$78,400,000
<b>Balance</b>	\$100,000

Tonneson said they would be recommending a tuition increase to the Board of Regents. Luepker asked if the deans had been notified about tuition levels, and Tonneson said there were a couple of pieces to tuition: one was the non-resident rate, of which deans had been aware from the beginning and had submitted estimates around that. They had estimates from every unit, and there were also some professional schools, such as dentistry, that had submitted increases above that for both non-resident and resident students.

Morrison referred to a federal statute to go into effect in January 2016 that veterans receive resident tuition whether they are residents or not. He asked if that had been figured into the tuition calculations, as it would affect many units. Tonneson said it had not been specifically factored in and that the Office of Undergraduate Education might have this information.

Taylor Barker asked if the Minnesota House proposal for \$2.9M for the Crookston and Morris campuses got through the conference committee, and Tonneson said it had not been included in the final bill.

Feeney noted the trend in linking faculty raises and tuition increases, and said it appeared the thinking was that if faculty wanted a raise, the students would have to take a tuition hit. He asked if that was the foreseeable future for the University in general, saying that since there were no compensating increases in state dollars or philanthropy, everything was dependent on tuition. Tonneson said a lot of revenue sources on the margin could help the operating budget, but not enough to pay for compensation increases for any employee group. Raises are always the largest cost increases, she noted.



Luepker noted that the average total debt for students graduating from r dental school is \$206,000, 91% of students have loans, and yet tuition is going to be raised 3.5%. Olin said he was concerned to learn that not only were class sizes going to be increased, there would be tuition increase on top of that, and asked where it would end. Olin said most faculty would say tuition is too high as it is, yet there were no discussions in the dental school about how to reduce the cost of the education, which he felt could be accomplished.

The committee agreed to go off the record for the remainder of the conversation.

Hearing no further business, Cohen adjourned the meeting.

Mary Jo Pehl  
University Senate Office