Senate Committee on Finance and Planning (SCFP)
September 20, 2016
Minutes of the Meeting

These minutes 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 minutes represents the views of, nor are they binding on, the Senate, the Administration, or the Board of Regents.

[**In these minutes:** M Health update; Biennial budget request]

PRESENT: Dan Feeney (chair), Catherine Fitch, Tracy Peters, Michael Berthelsen, Lincoln Kallsen, Jill Merriam, Paul Olin, Julie Tonneson, Michael Volna, Robert Goldstein, Jennifer Gunn, Karen Ho, Michael Korth, Fred Morrison, Karen Seashore, Erik van Kuijk, Mark Kanake

REGRETS: Bill Paulus, Aravind Boddupalli

ABSENT: David Fisher, Laura Kalambokidis, Sandra Potthoff, Varun Sood

GUESTS: Brooks Jackson, vice president for health sciences and dean, Medical School; Bobbi Daniels, chief executive officer, University of Minnesota Physicians, co-president, M Health, and vice dean of clinical affairs, Medical School; Mike Volna, interim vice president and chief financial officer/treasurer, University Finance; Julie Tonneson, associate vice president, University Finance

Chair Dan Feeney welcomed the committee and members introduced themselves. Feeney announced to the committee that he has been invited to participate in interviews for the new vice president for finance and operations. Feeney noted that he had a conflict with the interview dates, and may seek to name an alternate from the committee to attend in his place.

1. M Health Update – Chair Feeney introduced Brooks Jackson, vice president for health sciences and dean, Medical School, and Bobbi Daniels, chief executive officer, University of Minnesota Physicians, co-president, M Health, and vice dean of clinical affairs, Medical School.

Jackson began by providing an update on the status of the Fairview merger with University of Minnesota Physicians (UMP), presented to SCFP last year, which he said is no longer moving forward. The Fairview Board, Jackson said, was not comfortable with some of the reserve powers of the Regents, specifically a change in control of the organization, changing major academic affiliation and the substantial sale of assets. There was also disagreement on the authority of the vice president for health sciences would have, Jackson said, as there was a stipulation in the agreement from Fairview that the VP and the CEO of M Health would need to mutually agree on all issues surrounding education, access, etc. The Fairview Board voted to reject the University's final proposal, Jackson said, and noted that the University still has an affiliate agreement with Fairview.

Jackson said that there are some lost opportunities now that the agreement has not come to fruition; for example, he said, the reserves of UMP would have gone to departments, resulting in an immediate cash infusion. If the net operating income of the system exceeded the budget, Jackson said, the Medical School would have received 25%. Being part of an academic health system is very important, Jackson said, and makes a larger footprint, leading to expanded clinical trials and training. Jackson said that the University is now looking at other potential partners.

Feeney asked Jackson if there were now fears of competition from Mayo or Sanford, and asked if the University is at more risk because it doesn’t have a bigger footprint. Jackson said that this is possible, if for example Mayo built a major facility in Minneapolis.

Karen Seashore asked Jackson and Daniels to explain how the University’s affiliations look compared to peer institutions, and specifically how they manage finances in large hospital systems. Jackson said that in some ways, having large hospital systems are risky due to bundled payments, capitation, and outpatient incentives. Right now, the more we do, the more the hospital makes, Jackson said, but that is changing rapidly. Jackson said that most hospital systems also have clinics, physician practices, pharmacies, senior homes, etc., and there is a risk when dealing with a fewer number of large providers due to consolidation. Jackson added that building our own system would require a large amount of capital, and so it is more advantageous for UMP to join a larger system.

Seashore asked what the benefits were for affiliates. Daniels said that currently, 20% of the activity is done with other systems, including significant program development and filling of advantageous positions. Approximately 80% of business is here, Daniels said, whereas 80% of Fairview business on this campus comes from outside of Fairview. Common characteristics of top medical centers include close relationships between medical school faculty and the hospital, and a functional relationship with physician leadership that drives how care occurs, Daniels said. In addition, department chairs and other leaders in these ideal systems have a say in how the hospital is managed, how resources are allocated, and how capital decisions are made, Daniels added. Also common is significant financial support going to faculty, and this is an area where we’ve been deficient, Daniels noted; we are looking to achieve the characteristics of these top institutions.

Seashore asked Daniels to elaborate on our historical relationship with Fairview. Daniels said that the relationship developed over time, and started in 1996 when the Medical School and physicians were separate from the hospital. A series of agreements brought them closer together., Daniels said, and the most recent agreement is M Health; this is where we put in place what we thought would be a more functional management structure, shared virtual finance, and greater commitment to academic support. Daniels said that this still leaves us with gap to being able to replicate all things that top academic medical systems would have; the gap is less about structure, and more about achieving these aspirational goals.

Fred Morrison asked if M Health would survive the dissolution of this agreement. Daniels clarified that M Health is the functional, not structural, integration of UMP, University of Minnesota Medical Center (UMMC), and the parts of Fairview that UMP is involved in. This accounts for 60% of Fairview’s revenue, and more than that of their profitability, Daniels said.

Jennifer Gunn asked what the short term effects would be on residency programs and clinical research in general. Jackson said there are lost opportunities, but not a reduction in current offerings. Residents in particular are advantaged by larger health system, Jackson said, and clinical research should be enhanced through whatever health systems we partner with in the future.

Karen Ho asked if the University had looked at other universities that have a regents system. Daniels said that those hospitals are often owned by regents, but we are unique in that we have a community/private hospital system. That's also where some tension comes in, Daniels said, and the balance of governance (through a 50/50 board) was meant to address this. This was based on best practices from around the country, Daniels said, what we have to work with, and what the regents need to protect our academic mission.

Morrison asked if it was sustainable to only work with Fairview, since the market is very consolidated. Daniels responded that there are areas where we are going to be very competitive (primary care, for example), and there are other areas where we are less competitive but want to be the provider for high-cost services; this requires a large referral network from a provider like Fairview. What isn't consolidated is the heterogeneity and relationships between payers and health systems; in other markets, there are silos, but here it's a semipermeable membrane. Jackson added that the vast majority of patients want to stay local.

Feeney asked how much jeopardy the University would be in if the Fairview agreement was not renewed, since they own the hospital. Jackson said that the affiliation agreement ends in 2026, and three years of notice is required to non-renew. From Fairview's perspective, Jackson said, the majority of their net income is from our agreement, so it seems unlikely they will not renew.

2. Biennial Budget Request – Chair Feeney introduced Mike Volna, interim vice president and chief financial officer/treasurer, University Finance, and Julie Tonneson, associate vice president, University Finance, to provide an overview of the biennial budget request.

Tonneson provided an overview of the Chapter 69 and H.F. 2749 FY16 and FY17 appropriations to the committee. Operations and maintenance appropriations were $559,111,000 in FY2016, Tonneson said, and $560,011,000 in FY17. Special appropriations included money for agricultural and extension service, health sciences, the Institute of Technology, special system expenses (such as general research, Labor Education Service, Natural Resources Research Institute, Center for Urban and Regional Affairs, Bell Museum of Natural History, and the Humphrey exhibit), and the University of Minnesota and Mayo Foundation Partnership, Tonneson said. Primary care education incentives cost $2,157,000 in each year, and the appropriation to the Academic Health Center under Minnesota Statutes, section 297F, is $22,250,000 each year, Tonneson said. The total general fund base (less primary care initiative and academic health center appropriation) moving to FY18 and FY19 is $626,349.

Tonneson provided a timeline for the biennial budget request, noting that the Biennial Budget Proposal is drafted for board review in September, approved by the Board of Regents in October and submitted to the State; the Governor's Higher Ed recommendations are received in December, legislative session and testimony occurs in January, and the appropriation finalized in May of 2017 for FY18-FY19.

The FY2018-FY2019 budget request is focused on five key areas, Tonneson said: student success, MnDrive, Core Mission support, health training restoration, and the Bell Muesum. $143 million is being requested from the State of Minnesota. Tonneson provided information regarding the trend of state appropriation dollars over time, noting that in 1997 state appropriations to the University were 5.6% of the state's general fund, and now are just over 2% of the general fund. The University's FY19 request is 5.6% less than in FY08 after adjusting for inflation.

Tonneson provided the committee with data on the history of requests and final appropriations since 1996. In the eight biennia with a base increase, the University received 69% of the amount requested (ranging from 42.6% this biennium to 87.8% in 2006), and the average enacted increase over those eight biennia has been 9.8%.

Morrison asked Tonneson to explain what happens to this data when accounting for reallocations and tuition increases. Tonneson responded it will depend on pay increases and enrollment, but that they hope to keep resident tuition flat. Tonneson added that reallocations are currently planned at about $12 million in FY18 and in FY19. A non-resident tuition increase has been supported by the Board of Regents in the past, so an increase in that rate (at least for the Twin Cities) is planned somewhere in the 7.5%-15% range. Tonneson said they are looking at administrative reductions, but may need to also look into mission reallocations. Tonneson said that these numbers assume full appropriation; if we don't get that, we have made no commitment on tuition rate increases.

Feeney asked if there is the potential for program closures due to budgetary constraints. Tonneson said that the University cannot likely sustain the current base within current revenue pressures, and so programs may need to be prioritized.

Feeney said that strategic planning is often idealistic, and asked Tonneson if the University would need to make more strategic cuts, since many departments are spending down their reserves. Tonneson replied that spending of balances at the department level is up, though this could be strategic; the finance office is watching these balances carefully. There is the potential for increased funding, when the state feels that they have a vested interest in University programs.

Jennifer Gunn asked for information regarding projected student demographics. Linc Kallsen said they have this data on a regional level, and any growth in the student population is likely to be in diverse populations, and not evenly distributed. These students will have different service needs.

Gunn asked for updates on major financial issues at both University of Minnesota Duluth and University of Minnesota Rochester. Tonneson said that Rochester's financial situation has improved; Duluth is not out of the woods yet, but fall enrollment was high which is a positive development.

Karen Seashore asked if the University had done any modeling relating to economic improvements. Kallsen responded that graduate education has experienced a six year downward trend, though not evenly distributed, and there was concern for some colleges.

Feeney said that it seems some colleges want to increase enrollment, but aren't able to due to institutional size requirements. Feeney asked what is being done to fix this issue and increase enrollment, leading to more money for colleges. Tonneson said that there is facility planning going on which could help with this issue; specifically, the STEM building in the current budget request.

Seashore asked if modeling for facilities intersects with facilities usage, i.e. accounts for the lower usage of chemistry labs in summer. Tonneson said that University Finance investigates space issues and tries to come up with solutions for units, but the decision lies ultimately with the college dean. Kallsen added that the top 20 enrolled courses are currently offered in the summer term, with space available; in order for this to be a viable solution, there would need to be more interested students.

Hearing no further business, the meeting was adjourned.

Barbara Irish
University Senate Office