Minutes*

Senate Committee on Finance and Planning
Tuesday, May 18, 1999
3:15 – 5:00
Room 238 Morrill Hall

Present: Stephen Gudeman (chair), Jean Bauer, Charles Campbell, Wendell Johnson, Gerald Klement, Richard Pfutzenreuter, Jane Phillips, Terry Roe, Susan Carlson Weinberg

Regrets: Catherine French, Cynthia Gillett, J. P. Maier, Peter Robinson, Charles Speaks

Absent: Eric Kruse, Terrence O'Connor, J. Peter Zetterberg

Guests: Senior Vice President Frank Cerra; Ms. Liz Eull (Office of Budget and Finance); (informally, after the meeting had adjourned: Executive Vice President Robert Bruininks and Associate Vice President Richard Pfutzenreuter)

Other: Barbara Van Drasek (representing J. P. Maier)

[In these minutes: proceeds from the sale of the hospital; legislative outcomes and the budget]

1. Proceeds from the Sale of the Hospital

Professor Gudeman convened the meeting at 3:20 and welcomed Senior Vice President Cerra. Before turning to the question of the hospital sale proceeds, he inquired of Dr. Cerra if he had any observations on the recently-concluded legislative session.

Dr. Cerra did. The endowment proposal turned out much better than anyone had anticipated two weeks ago, and he was thankful for the $8 million per year it provided. Realistically, however, it will not be enough, and they will continue to press the AHC story.

Dr. Cerra told the Committee that he became aware, at the end of the legislative session, that there was overwhelming support from all corners of the University for the AHC request. That is the first time he has seen the CLA professoriate, for example, give wholehearted support for an AHC request. He said he wanted to thank the entire institution, because the University would not have received the funding without support from the entire University.

Dr. Cerra then turned to a summary of the disposition of the proceeds from the sale of the hospital to Fairview. In broad categories, the numbers were these:

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Total estimated cash available:	295.2 million
Hospital debt retirement	138.9
Hospital employee, other costs	17.5
Transition payments for education and research	51.5
Medical School transition costs	6.9
Space renovation	24.0
Contribution to enterprise project	10.0
ALG settlement/litigation costs	26.0
Committed funds	287.6
Balance	7.6 million

Comments about these items:

-- The transition payments for education and research are supported by the University in a managed care environment, and are completed in August, 1999. Dr. Cerra said these are a best estimate; there are not good data on education and research costs in the hospital.

-- The Medical School transition costs are funds that were lost because time and attention was diverted from patient care.

-- The $24 million for space renovation is for remodeling the leased space when it is returned from Fairview. A lot of space was leased to Fairview; when it is returned to the University, it needs refurbishing appropriate for its use. Currently, $16 million of the $24 million is being used for the Jackson remodeling and will be replaced by the University so that it is available for the remodeling of the space to be returned from Fairview.

-- The contribution to the Enterprise Project was a decision made by the University, and allowed the payroll assessment on departments to be waived for a year.

-- Of the $7.6 million remaining, $4 million will be used for the NIH grant offset required by the settlement of the grants management issues with the United States, and the balance will go to faculty support in the Medical School.

In response to a question, Dr. Cerra affirmed that financial problems remain, even though the trust has been set up. The Medical School will be within about $2 million of balancing its budget this year, but next year there will be a deficit of $7 - 8 million, and that has to be addressed. He said he expected one-two years of deficits before the numbers come under control.

Dr. Cerra also reported that there has been faculty attrition of 18% over the last four years, most of them faculty with high salaries in the clinical departments--which would lead one to think there would be an excess of revenues over expenses. That has not happened; they would have reinvested the money, but instead are seeing a barely-balance budget. The attrition has slowed recently, he said, because the word is getting out that this is a good place to work, and new faculty recruits have been "top-shelf." Word is also getting out that the financial problems are being addressed effectively (which is not the case at some of the University's peers, which are only beginning to face the problems).

What they need to do is (1) balance the budget, and (2) plan investments where needed, such as in the biological sciences and in the clinical science departments. Only 6-7% of the budgets of the clinical departments have come from state funds, with most of the money coming from clinical income. The $8 million per year from the endowment will be used to help the departments; it will not solve the problem, but it is movement in the right direction. Asked about the longer-term plan for these departments, Dr. Cerra said that beyond the endowment money, when reallocation of retirements occur, the position will revert to the dean for reassignment to basic or clinical science departments.

One Committee member asked if it was thought that all of the money from the sale of the hospital would be gone in three years. Dr. Cerra said it wasn't thought about that way; it was intended that the money benefit the AHC schools, and some has while some has not.

There is legislative interest in seeing the health providers put money on the table for teaching, Dr. Cerra reported. Legislators want to see an increased sense of civic responsibility, and in having health providers pay their fair share for educational costs.

Professor Gudeman thanked Dr. Cerra for his comments.

Following Dr. Cerra's departure, Committee members observed that there remain liabilities in the AHC that the rest of the University must absorb, which will amount to a tax on the rest of the University. It was also thought that some of the liabilities could be dealt with more creatively. Asked if the theory was that the hospital belonged to the University, so it should share in the revenue from its sale, one Committee member said it was For years there was worry that the hospital would drag the University down, and money was shifted into the hospital to save it; as a result, the University should share in the proceeds. Even more discouraging, it was thought that the proceeds would help solve AHC funding crises, but in three years the money is gone, and significant problems remain.

2. The Budget

Professor Gudeman next welcomed Elizabeth Eull, from the Office of Budget and Finance, to report on the outcome of the legislative session. She distributed a table laying out the biennial appropriation approved by the legislature. The amounts the University requested/received, in broad categories, are as follows:

Compensation	95.9 million	69 million
Undergraduate Education	32.6	15

Health Professional Education	[37]	[16] (endowment)
Connecting the U to the Community	20.5	11
Promoting Quality Service	24.6	9.1
Net of tuition	(11.9)	
Total (excluding endowment)	198.7	104

Discussion touched upon a number of points.

-- Asked if there were funds for custodial standards and equipment for new buildings, Ms. Eull said the appropriation included $9.1 million (under promoting a climate of quality service) for "repair and betterment," some of which will have to be spent on building operations. These are costs the University will incur, and will pay for them somehow. She explained that the legislature has given the University $104 million in new money, and designated expenditures only in the State Specials (some of the funds in "Connecting the U to the Community"); the rest is a block grant. The Governor supported all five of the initiatives, as did the legislature, but the University can spend the money as it sees fit.

-- There were two endowments created in the Health and Human Services bill, one for medical education that has two elements. One is for the University, for education of health professionals; the other is for MERC, which pays the stipends at clinical sites for residents and fellows. The estimated proceeds from the endowment for the University is $8 million per year.

-- What happens if the University does not spend the money as allocated in the appropriation? Ms. Eull explained that the appropriation is a block grant, and has no amounts allocated in law for particular purposes; the amounts she presented for each of the five initiatives come from legislative working papers, not the law. To some extent the legislature expects the University to spend the money as indicated, but it also understands and appreciates that the institution makes better decisions on how to operate the institution than does the legislature. Some elements are more important to the legislature than other (e.g., the agriculture state specials). The legislature also understands that with a reduction from $198 million to $104 million, the dynamics of how the money will be spent changes, because the University has certain costs it cannot avoid.

-- The annual budget amounts will be worked on very soon, so the President can bring numbers to the Board of Regents in early June for review and in late June for action.

-- The nature of political support for the University was discussed, including the difference in support by metropolitan and outstate legislators, and the difference in support for MnSCU and for the University. The University, it was observed, belongs to everybody--so it belongs to nobody.

-- All of the funds appropriated are recurring, unlike the last biennium, when a large portion of the funds were non-recurring. Asked if those non-recurring funds had been used for recurring expenses, Ms. Eull said that had been avoided, so there were not now ongoing obligations that had been supported with non-recurring funds.

All in all, an increase of $104 million in recurring funds "is nothing to grumble about."

Professor Gudeman thanked Ms. Eull, and adjourned the meeting at 4:30.

-- Gary Engstrand

University of Minnesota