Minutes*

**Senate Committee on Finance and Planning**
**Tuesday, October 2, 2007**
**2:00 – 3:45**
**238A Morrill Hall**

Present: Judith Martin (chair), Rose Blixt, Lincoln Kallsen, Thomas Klein, Joseph Konstan, Russell Luepker, Kathryn Olson, Richard Pfutzenreuter, Justin Revenaugh, Terry Roe, Michael Rollefson, Gwen Rudney, Thomas Stinson, (Denise Seck for) Michael Volna, Warren Warwick, George Wilcox

Absent: Jon Binks, David Chapman, Steve Fitzgerald, Mikael Moseley, Kathleen O'Brien, Aks Zaheer

Guests: Senior Vice President Frank Cerra (Academic Health Center); Elizabeth Eull (Intercollegiate Athletics)

[In these minutes: (1) Medical School financial issues; (2) clinic project; (3) long-term funding plan for intercollegiate athletics]

## 1. Medical School Financial Issues

Professor Martin convened the meeting at 2:05 and welcomed Senior Vice President Cerra to discuss Medical School financial issues.

Dr. Cerra began by noting that it costs about $100,000 per year to educate medical students; the cost is high in part because of the low faculty-to-student ratio and the cost of such things as wet labs. To cover that cost, the Medical School receives about $20,000 per year in tuition and about $25,000 per year from the state. About $55,000 must come from elsewhere; the money comes from the practice plan, which not only subsidizes medical education but also research. There is simply no way that the Medical School can recover the costs of educating medical students from tuition.

In the case of research, for every $1 million the University receives in sponsored funding, it must find $250,000 in funds to support the research because indirect cost funds do not fully pay the costs of research.

Dr. Cerra explained that the revenue from the practice plan is generated by billing. Billing is done by RVU (work units), and each RVU has an amount that can be billed for—and each has a margin of profit built in. That margin has progressively narrowed over the years. Some of the decrease could be made up by volume, but when the margin gets very narrow, even increased volume does not help. The practice plan pays competitive salaries; the average clinical salaries have 20-25% state funds and rest the clinician must earn. So a narrow-margin organization is producing 40% of the revenue for the Medical School and subsidizes the education and research costs.

What does it cost to recruit a department head in the Medical School? Dr. Cerra related that the average cost of the last few (pediatrics, surgery, ENT) was about $20 million (for salaries, recruiting

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lines, laboratory upgrades, etc.). If the Medical School must do 4-5 such $20-million recruits, there is a problem. But if it does not recruit those individuals, the departments do not attract faculty, obtain grants, or get students.

So there is a structural problem with the Medical School budget. Dr. Cerra said there is room for internal reallocation and the possibility of more funding from Fairview for recruiting (Fairview provides some funding now). What has been done? First, he has provided a detailed analysis of the problem to the President. Second, he has charged the Medical School to identify a plan to fix the problem; he wrote a letter to Dean Powell asking her to engage the Medical School in the process and to look at the alignment of the Medical School with University of Minnesota Physicians (UMP, the practice plan) and the alignment of UMP with Fairview. There may need to be some restructuring of those relationships. Third, he has suggested there is a need to revisit the focused areas of research in the Medical School (neuroscience, cardiology, drug discovery, etc.). Those areas of focus generally define the research corridors with which the rest of the University connects in interdisciplinary research. There is need to be certain there is a commitment to focus because then they will know where to hire faculty in the next five years. Going forward, the net increase in faculty will be the key variable explaining costs. Fourth, there needs to be a financial approach to solve the structural deficit that must involve partnerships—with state funds, Fairview, ISOs, etc.—to decide what the Medical School will not do and how to move funds around. Fifth, the Medical School needs a commitment going forward that faculty and staff are ready to put their shoulder to the wheel to get to top-20 standing. Dr. Cerra said he expects to have the report in early November.

They know what the structural deficit is, they know the root causes, and they have a plan to correct it, Dr. Cerra said. They will lay out a 5-year plan. In the meantime, the University must define the rate of growth of the Medical School (e.g., 10? 20? 30? new faculty per year), which will be tied to the availability of new facilities, which is the reason the University continues to seek the Biomedical Research Facilities Authority for new buildings.

Is the rest of the Academic Health Center in a different financial position, Professor Martin asked? There is one other problem, in Veterinary Medicine, Dr. Cerra reported, but it is not as serious as the Medical School problem. They developed a plan to address it a couple of years ago that is on track. The other AHC schools are in pretty good shape.

Professor Wilcox asked if it is clear that the deficit will be reduced if the Medical School hires more of the right faculty. By itself, no, Dr. Cerra said. There are two parts to the question. There are risks in relying on the sponsored-project market to obtain funding. But the Medical School is a destination of choice because of its vibrant research community and collaboration across borders; nine times out of ten they get the person they want when hiring. The risk in recruiting faculty is low; those who have been hired have generated $200+ in NIH funding or in clinical revenues. What he worries about is a point that Vice President Mulcahy has been making: For every dollar of direct cost the University receives, and the associated indirect funds, 25-30% of indirect costs are not covered. Those costs are covered as part of the institutional and state commitment to the University's infrastructure, and by UMP. So simply recruiting more faculty and obtaining more research funds will not solve the problem, but if the Medical School can leverage other revenues and gifts, it can make the situation work. They must use an all-funds budget and take the one stream of revenue and use it where it is needed.

How big is the annual problem in the Medical School, Professor Konstan asked? About $8 million, Dr. Cerra replied. How do the numbers compare with other medical schools, Professor Konstan then inquired; is $100,000 per year to educate medical students high, low, or in the middle? Dr. Cerra said he is not sure because the data are difficult to obtain (because it is difficult to match expenses across

institutions). He said they can compare tuition; the University is second- or third-highest among public medical schools. The tuition level affected applications for awhile, but not now. There was a reduction in Minnesota residents, but this trend has reversed, and those who are applying are more academically qualified. He said he gave up on trying to compare the costs of education, but they are starting to look at debt; the average medical student graduates with $135,000 in debt.

Professor Konstan asked if the structural imbalance is itself stable. With clinical revenues declining, research agencies not paying full indirect costs, and the increasing difficulty of obtaining sponsored research funds, are they looking at a contingency in 20 years when NIH might not be as generous and clinical revenue is not as available? The balance in revenues could be knocked out of whack. They have taken such a look, Dr. Cerra said. They can fix the structural deficit; the question is what lies underneath it. They have taken the approach of diversifying revenue streams and maximizing each one.

The Medical School produces 70% of the doctors in the state. If it is to continue to do so, will it support them at the right level of excellence? If not, that decision should be made. If the school is not obtaining the funding to achieve excellence, it will slide into mediocrity. If it is to be excellent, it must get into the top 20. If one assumes that NIH will continue and that Medical School faculty will compete in the NIH market to receive funds, it will do well if it achieves the level of excellence it seeks.

What is being given up when the Medical School recruits a head for $30 million rather than $1 million, which is what occurs in the rest of the University, Professor Konstan asked. Traditionally, the dean came from within the Medical School, Dr. Cerra said; Dean Powell is not only the first woman dean, she also came from outside. The department heads typically came from within as well; that changed after the turbulence in the 1990s. It is a seller's market for faculty and the University can't change that; the Medical School must compete and must be more "businessey" than parts of the University that are more heavily-financed by the state. The Medical School must tighten its belts and obtain more funding; the health-care system is not short of money, the question is where the money goes. They also need to look at number of legal issues (e.g., there are 600 pages of Medicare rules).

Professor Roe posed two questions. One, there must be other institutions facing these same problems; what are they doing? Two, to what extent are tuition revenues part of the problem? Dr. Cerra reviewed for Professor Roe the costs of educating medical students and the level of the University's tuition; tuition pays about 20% of the cost of education. There are also about 2500 faculty in the community who help educate medical students pro bono; without them there would be no Medical School (or other AHC colleges). Medical education, he concluded, is an expensive proposition.

This is a national problem, Dr. Cerra said. Dean Powell has taken a national lead on redefining the educational path for physicians, building on new technologies available, to try to speed up the process. The effort is in an early stage. There was a flurry of plans for new medical schools in recent years, but most have put the brakes on because they are so expensive. Other schools are looking at the same problems that Minnesota faces, and while it is difficult to compare them one to one, the models are similar and all are struggling. There is no national solution and the market will get worse before it gets better, Dr. Cerra predicted.

To what extent can the Medical School externalize costs, Professor Roe asked, such as having chemistry taught in another department? That is possible, Dr. Cerra said, and the Medical School has dropped its requirement of organic chemistry; they look at requirements and courses constantly.

If one looks at the income stream in the medical profession, how long does it take students to pay off the debts, Professor Roe next asked? Is the University or state over-subsidizing medical education? That question goes to the debt-starting salary ratio, Dr. Cerra said. In a few specialties and sub-specialties, the physician revenue is high; in most it is not. In family-practice and primary-care, physicians start at about $150,000 per year, which is about the same as their debt level, and it takes them 20-22 years to achieve a return on that investment, if he remembered correctly the last analysis he saw. While family-practice and primary-care income is improving, this statistic disturbs the prospective next generation of doctors. One must also understand that the current payment system pays more for technical work than it does for cognitive work.

Professor Martin asked if the deficit in the Medical School would be worse if the University had not sold the hospital ten years ago. It would be, Dr. Cerra said. Controversial as it was, it was good for the University. Fairview has turned the hospital into a margin-generator. The University has leases and contracts with Fairview and Fairview does contribute to the recruitment of department heads. The hospital has done well and Fairview could manage costs in a way the University could not. Moreover, in the mid-1990s the AHC was on the way downhill; Fairview lives and breathes the market, which left the AHC to work on its academic mission and allowed it to regain its stature (e.g., it has tripled the amount of NIH funding it receives). That would not have happened if the University had kept the hospital.

What will happen in 50 years? Dr. Cerra said the University's best shot is to have the right leadership doing the right things in order to get through the next 20 years.

Professor Luepker commented that Dr. Cerra had presented a rather glum picture. What are the new revenue streams that Dean Powell will obtain? If St. Thomas establishes a medical school, the University will no longer educate 70% of the state's physicians. And what is the impact of the new budget model?

Dr. Cerra responded by saying first that the new budget model has helped them understand the root causes of the deficit and the transparency has helped understand the costs and revenues. It has been a good tool to help them understand where they are and enables them to model what happens if state funds or tuition or other revenues are increased. There will be gifts, he said, and new learning platforms that can generate revenue, and a different approach to the marketplace. Revenues change year by year, he said, and what is required is hard-core management by bright people.

With respect to St. Thomas, there is no way they can solve the health care problem by training more providers using the same paradigm practiced the same way. It would cost $1 billion in new money to solve the access-to-health-care problem by simply increasing the production of providers. His response to St. Thomas is that there is a problem with a shortage of family-practice and primary-care physicians, especially in outstate Minnesota. Part of the solution resides in producing more primary-care/family-practice physicians, but the care-delivery model also needs to be changed to use more nurse practitioners and clinical pharmacists, frequently working in effective models of team care. Chronic care is the big gorilla in the room—how to prevent it and how to manage it when needed—nurse-centric and pharmacy-centric models need to be developed using care teams.

Even if St. Thomas goes ahead, Dr. Cerra said, he would not view them as a competitor and would work with them to help solve the workforce issue. Just creating another medical school will not solve the workforce issue, however, because there is also need for pharmacists and nurses. To establish the school, they will need to figure a budget of $1 million per student per year, or $50 million per year—and they still won't have a building. It is also not possible to tell students what area of medicine they will

practice in; they can be cajoled, they can be offered debt forgiveness, but they can't be forced into primary care or family practice.

Professor Wilcox said that even for him and his colleagues, in a well-funded department, it looks like people will need twice as many grants as they now have because University funding of departments is decreasing. Generating department operating funds requires that grant funds pay a higher percentage of faculty salaries. Each grant usually funds 20-50% of a faculty member's salary, so several are required to fully cover the salary. A significant fraction of the faculty have to have multiple grants to compensate for those who have only one. When NIH dollars are flat, increasing the number of grants will be difficult. For basic scientists, Dr. Cerra agreed, there will be pressure to obtain more grants per person. But most NIH funding (about 80%) is in the clinical departments. If basic science faculty were to double their productivity, and begin to account for 30-35% of NIH funding at the University, that would feed the process that ultimately leads to medical advances that end up in the hands of companies. The clinical departments have been very successful and are probably at capacity; for someone to get another grant would mean pulling him or her out of the clinic, which reduces revenue. So faculty capacity must be increased, which means that they need more space.

Professor Martin asked Dr. Cerra if he was thinking about potential pressure to change the health-care system to something that is not now known. If there is a change in Washington, there will be pressure to change coverage and access. Dr. Cerra said he believed the access problem would be solved in the next 5-6 years, but not the cost problem. It is not clear if solving the access problem will make costs worse; economists debate the question. He agreed that health care is likely to be a major issue in the presidential election.

Ten to fifteen years ago, the core delivery and education systems were way apart and one did not believe it needed the other. They are trying to bring them back together so they are the same, and there must be decisions on the funding issues. For example, there are four different systems of electronic medical records in the Twin Cities and the four systems do not talk to each other. These systems have cost millions of dollars. There is also no common protocol for central venous line access; each health system uses a different one, and then the University is blamed for not turning out people the systems can use. These kinds of problems need to be fixed; there has to be agreement on care delivery models and the University should play a leadership role in developing them.

There is also need for payment reform. A physician needs to see a patient every nine minutes to make money; that is a problem that must be fixed.

## 2. Clinic Project

Dr. Cerra next reported on the clinic project, which he said has two pieces: one, a new children's hospital, and two, new clinics. Both are part of Fairview's plan to revitalize facilities (both University and Riverside), which will support the entire clinical faculty. The new children's hospital will be on Riverside, so it will be new bricks and mortar but the hospital itself is one of the oldest and largest in the nation and is currently within the adult hospital.

The new clinics are badly needed. Those in Phillips-Wangensteen were built to handle about 150,000 patient visits per year; at present there are about 600,000 visits. The new clinics are needed for education, research, and treatment.

The cost of the projects will be $500-600 million, including increasing clinic research.

There has been talk of an arms race in health care; the only way to eliminate it is to eliminate the marketplace. There was a group that supported a single children's hospital but the private market finally did not permit it to happen.

Professor Konstan said he had learned a lot in the last hour. What role does this Committee or the Faculty Consultative Committee play in where things are doing? Will there be a point at which the President will need to make a decision about maintenance or growth of the Medical School? Will this Committee or FCC be asked to weigh in on the question? In the past, the faculty typically have not been asked. Since Dr. Cerra has posed a number of questions, Professor Martin said, it is reasonable to assume he would return to the Committee to discuss the answers. Dr. Cerra said he found the dialogue useful and said the faculty in the Medical School must be connected to the decisions or the plans will go nowhere.

The new budget model has given everyone the advantage of transparency, Professor Martin said. She understands that in the past there were subsidies to the Academic Health Center but it was hard to make the argument that they existed; now it is not. Dr. Cerra agreed, pointed out that subsidies move in both directions, e.g., fringe benefit rates, and said Professor Konstan's question was the one to ask: where is the University going as an institution and how will it be supported? Professor Konstan noted that this is the Committee on Finance and Planning and he was not sure this group has been consulted as part of the decisions on where to invest compact pool funds and other centrally-allocated funds in order to provide an all-faculty view on priorities.

Vice President Pfutzenreuter reported that he was in a meeting earlier in the day that was considering the University's next biennial request and said that they did not do a good job last time consulting with the faculty and the deans. They need to identify a way to get discussion of the choices. There needs to be more discussion at this Committee and with other groups in order that they understand the framework and the alternatives.

Mr. Klein commented that part of the "understanding" people have comes from the background and history. It would help build clarity in the future if there was candid discussion with faculty about where misunderstandings have occurred in the past so that they do not serve as a filter that blocks understanding of current ideas and circumstances. Dr. Cerra agreed and said he intended to hold more public sessions to talk out the issues. He has also suggested to the President that there needs to be more engagement at the faculty and department level across the University; he said he does not know how much of what happens at the deans' council gets to departments. The question is how to get information to the faculty, because if the University is to do what it says it intends to do, it will need a different way of doing business.

Professor Martin thanked Dr. Cerra for joining the meeting.

## 3. Long-Term Financial Plan for Intercollegiate Athletics

Professor Martin now welcomed Elizabeth Eull, Associate Director of Athletics, to the meeting to discuss the long-term financial plan for athletics.

Ms. Eull related that about 18 months ago the athletic department started to talk with the President about doing a long-term financial plan. When Joel Maturi became athletic director in 2002, he met with the President and reached an understanding about how intercollegiate athletics would become less dependent on central funds. Last fall they took a look at the situation and spent several months developing a new plan. It will by dynamic, Ms. Eull pointed out, because the plan did not include the hiring of Tubby Smith, which changed the salaries in men's basketball as well as the aspirational goals of the program.

Ms. Eull distributed a handout illustrating three models (projected six years into the future) that the President asked them to consider. One is a status quo model, which projects revenues increasing from $62.7 million to $78.5 million, expenses from $61.3 to $75.2 million, and a year-end balance increasing from $1.4 million to $22.2 million by 2012-13). This model, Ms. Eull said, leaves a lot of money on the table that they want to invest in the program. The second model is aspirational (growing and moving toward being the "model" department among Division IA schools), which shows slightly great revenue growth and expenditures and a fluctuating year-end balance of plus/minus $1 million. The third model is the "model" department, which projects similar revenues but significantly increased expenditures and a balance after six years of $(34.3 million). The model department they cannot afford right now, Ms. Eull observed,

Athletic department revenues are very diverse, Ms. Eull observed: ticket income, gifts, the Big Ten Conference, the NCAA, licensing, the WCHA, concessions, and a central University allocation. The primary expenses are the teams (salaries, recruiting, travel. food, equipment) and support units (medical, equipment room, conditioning, academic support, and facilities. Athletics also pays debt service on athletic facilities. The grant-in-aid budget (about $8.6 million) supports 324 full scholarships, some of which are for one student, others of which are divided among two or three students.

The President decided the department should focus on the aspirational model as it develops its budget, Ms. Eull said. What would be the difference if the department moved to that model, Professor Martin asked? The department has struggled with salaries, Ms. Eull said; many of the assistant coaches and support staff are at the bottom of the Big Ten. This model would move them to the 50$^{th}$ percentile. It would also allow putting more money into the upkeep of facilities, more into academic support, more into student-athlete welfare (e.g., mental health services), and development of depreciation reserves as well as establishment of a revenue reserve. Their revenues are volatile, she said, and while she has been very conservative in estimating revenue, the department cannot run on a shoestring.

Mr. Kallsen said that they tried to benchmark the department versus other institutions; if it wants to be in the upper third, it must do X. The funding in the aspirational model would put the department at the top of the Big Ten in terms of academic support for student-athletes.

Professor Martin asked what the amount of the central subsidy is at the present. In 2001-02 it was $8.7 million, Ms. Eull said, and the plan was to reduce it to $5.7 million by 2007-08, and they made the goal: the current year allocation is $5.6 million. The long-term financial plan continues a central allocation to athletics, although her assumption is that the amount will decrease. Vice President Pfutzenreuter said he believed the President did not wish to reduce the central support below the level of funds provided by the legislature (originally in a state special allocation) for women's athletics and meeting the University's Title IX obligations. The question is whether the allocation should be increased by inflation, cut, or frozen. Professor Martin recalled that there was an agreement several years ago that

the central allocation would be reduced to the original level of the state special appropriation. Professor Konstan observed that with the state budget cuts in the last several years, that appropriation would also have been eroded; the allocation should not be zero but the question is what amount it should be.

Revenues shift around, Professor Konstan commented, but there appear to be no changes predicted that would lead to increased revenue, or at least the projections do not forecast increased attendance at events or donations. Ms. Eull said they took the approach of estimating revenues conservatively. There will be increased income in 2009-10, when the new football stadium opens, but she is not estimating revenues on what Coach Tubby Smith might do. They hope revenues increase significantly but the financial model does not assume any extraordinary increases. Mr. Pfutzenreuter said that he still worries, given the volatility of revenues, that the balances may be too low.

In future discussions, Mr. Klein said, it would helpful if Athletics would bring information about the funding, ranking in the Big Ten and performance of their academic support services. It would be useful to look at measures such as the progress in graduation rates vis-à-vis the investment in academic support, rather than simply focusing on salaries in the athletic department. Ms. Eull agreed that item does get buried and said that the President and the Athletic Director are very student-athlete focused. Mr. Maturi reminds people that they only reason the athletic department is there is because of the student-athletes. Sometimes people can forget that. Academic support and seeing how Athletics views their performance are a high priority with the Faculty Senate and here, Mr. Klein said, even if not in the newspaper.

The Committee discussed the possibility of ticket resale, which can be done with the ticketing system currently used by the athletic department.

Ms. Blixt recalled that a significant number of the student-athletes were in General College; where are those students going now? Are special needs being met? Ms. Eull said that the department takes very good care of student-athletes with the academic center. Students at risk are flagged early and there are expectations of them in the program in order to help them succeed. They invest in learning specialists, counselors, etc. She said she worries more about non-athletes with special needs. If student-athletes go to class and take advantage of the resources available to them, they will not fail. If the University is serious about graduation rates, it must be serious about the graduation rates of all groups.

Professor Martin thanked Ms. Eull for her report and adjourned the meeting at 3:50.

-- Gary Engstrand

University of Minnesota