AHC FINANCE AND PLANNING COMMITTEE

February 3, 2000

Minutes of the Meeting

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

PRESENT: Dan Feeney (chair), Katie Dusenbery, Carol Wells, Michael Speidel, Katherine Johnston (ex officio), Timothy Church

REGRETS: Patricia Tomlinson

[In these minutes: Update on questionnaire regarding annual merit salary determination and Medical School finances]

Professor Feeney reported that the deadline for responses to the questionnaire regarding annual merit salary determination was January 31. The committee has received 29 of the 53 questionnaires sent to department heads/chairs in the AHC. Professor Feeney indicated he would send final reminder to those who did not respond. It was noted that Pharmacy was inadvertently omitted from the electronic mailing. A memo will go to them explaining the oversight and giving them two weeks to respond to the questionnaire.

Next, Ms. Katherine Johnston, CFO for the AHC, provided an overview of a number of charts that illustrate the financial challenges for the Medical School in the next decade. Three of the most critical challenges are:

1. Correcting the structural imbalance in the budget
    - Reducing dependence on patient revenues historically used to support medical education and research.
    - Maximizing available resources.
    - Identifying new sources of funding

Surviving in a competitive market, both locally and nationally

- Recruiting faculty.
- Retaining faculty (both those recruited by local private practice organizations and by universities throughout the country).
- Planning for the replacement of retiring faculty.

Responding to the demand for interscholastic training and the continued transition from in-patient to out-patient settings.

Ms. Johnston directed members' attention to the first chart that identifies the three major funding sources - sponsored programs, non-sponsored and physician organization. An accompanying pie chart showed a breakdown of the non-sponsored programs, indicating that the Medical School generates most of its own income. Approximately 9% of its budget comes from the State. Over the last four years revenues have grown to $152 million and expenses have increased to $168 million, making it necessary to use the reserves to fund program costs. When asked if the hospital operations were included in the historical financial data, Ms. Johnston replied that it was not - it was accounted for separately because hospital accounting principles were used. She then went on to talk about Chart 4 that depicts actual and projected patient revenue. In 1995 the actual revenue was $106.5 million. Revenues rose in 1996 but only to steadily fall to $104.7 million in 1998 and then back up to $105 million in 1999. The administration is preparing for a 3% decline every year, she noted, adding that the projected revenue for FY 2001 is $98.7 million. Ms. Johnston sited two factors that contribute to the decline: 1) there are fewer faculty to produce and, 2) contract negotiations have gotten tighter. She pointed out that some of these numbers are camouflaged by the dissolution of the old practices group that happened on January 1, 1998. All of the assets of the old DPG's that came into the University in 1998-99 are non-recurring, she said. Ms. Johnston then moved on to the chart depicting the "whole" Medical School budget. The only part of the practice plan included in this group are the academic transfers that come in to support the Medical Education and Research Program in the Medical School and the reimbursement of University staff who do clinical activities. It is projected that over the next seven years expenses will grow faster than revenues. If something is not done there will be a gap of approximately $27 million by FY 2006 and that is a conservative estimate, Ms. Johnston emphasized. If we draw on the reserves at about the same rate as we did last year, it would be depleted at the end of 2002, she concluded.

Members went on to talk about a number of other issues related to the finances of the Medical School. These include:

Sponsored Research Activity: Over the last four years sponsored project proposals have gone down significantly but the award rates have started to increase.

Faculty Trends: There is a decline in the number of tenure/tenure track faculty and an increase in the number of other faculty. This lead to a lively discussion about the financial impact of faculty and staff reductions; age distribution of tenured faculty; cost of recruiting faculty; cost of retaining faculty; and faculty recruited away from the University of Minnesota.

Members next reviewed the charts regarding the historical enrollment and trends and teaching loads for clinical faculty.

The following were identified as possible solutions to the solve the problems:

- Persuade the Legislature to support the AHC.
- Spend time on private fundraising.
- Continue to stress the expectations of an institution of higher education. Unlike a corporation an institution of higher education is expected to produce the same quality and quantity regardless of a reduction of appropriations.
- It is anticipated that a direction will come out of the visioning process and then choices will need to be made.

Members moved on to discuss ICR rates and then the human resources organization in the AHC.

The discussion regarding the finances of the Medical School will continue at the February 17 meeting.

Hearing no further business, the meeting was adjourned at 6:00 p.m.

Vickie Courtney

University of Minnesota

AHC