

Minutes*

Senate Committee on Finance and Planning
Tuesday, October 20, 2009
2:00 – 3:45
238A Morrill Hall

Present: Russell Luepker (chair), Jon Binks, Sarah Chambers, Devin Driscoll, Steen Erikson, Kara Kersteter, Lyndel King, Joseph Konstan, Judith Martin, Fred Morrison, Kathleen O'Brien, Paul Olin, Richard Pfutzenreuter, Mandy Stahre, John Worden

Absent: David Chapman, Jennifer Dens, Lincoln Kallsen, Thomas Klein, Gwen Rudney, Terry Roe, Michael Rollefson, Karen Seashore, Thomas Stinson, Michael Volna, Warren Warwick, Aks Zaheer

Guests: none

[In these minutes: (1) cost pools; (2) fees; (3) Morris; (4) merger of University of Minnesota Physicians with Fairview]

1. Cost Pools

Professor Luepker convened the meeting at 2:00 and said the first two agenda items would be a follow-up to topics discussed at the last meeting: cost pools and student fees. He also noted that the mini-retreat on future financing of the University would be next Wednesday afternoon; he encouraged Committee members to read the report presented to the Board of Regents at its October meeting.

Vice President Pfutzenreuter talked about the cost pools last week and referred Committee members to a website so that they could better understand them, Professor Luepker recalled. After the meeting, he asked Professors Morrison, Seashore, and Zaheer to review the website and report back with recommendations. He asked Professor Morrison for his views.

Professor Morrison said he would start with the bigger picture about these costs. There are a lot of costs in the University that are not connected with any particular college, such as heating, the Office of the General Counsel, the Treasurer, etc. Up until about ten years ago, these costs were paid by taking part of the general budget and allocating it to those offices. It became clear that this approach could let in a lot of free riders—administrative units that would take the money but not provide much in return. As with a number of institutions around the country, the University decided to allocate these costs.

There are two ways to allocate costs. One is to put a meter on everything (so the attorneys in the General Counsel's office bills colleges for their time, and so on), but that is was not seen as very efficient. Some institutions simply use a percentage of budget—every unit pays 30% or 40% of its budget for institutional costs. The University has adopted a slightly more nuanced approach, and assesses different costs in different ways using different formulae. Electricity can be metered; space is charged by the square foot; student services are charged by the number of students, and so on. The result was 16 cost pools, each of which has costs allocated in a certain way.

* 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.

Three problems arise, Professor Morrison said. One, the costs will exist. The question is how to allocate them, and this mechanism seems to be a pretty good one. Two, how much are the costs? He said he has been concerned that the allocations are automatic and that cost-pool units do not face the same rigor as the colleges do (which have fixed budgets). The services say "these are our costs" and allocations are made, but there has been an increase in support costs each year, versus reductions in academic budgets. There needs to be better control of support operations. Third, are all cost-pool costs ones that should be allocated out? The costs of the scholarship programs that have been initiated are spread out over all the colleges—but not all of them benefit. Are there costs that should be taken from the general operations & maintenance funds rather than billed to colleges, and the O&M allocation to colleges reduced accordingly in a planned way?

Professor Morrison said he did not see anything wrong with the cost-pool allocation system, but acknowledged that he was on the committee ten years ago that recommended it be created. The percentage taken for cost pools has doubled in the last ten year, primarily because of the decline in state funding and the corresponding increased need on the part of the central administration to cover costs. He said he has no prescription to fix the problems.

Professor Luepker next read the comments from Professor Seashore (who was unable to be at the meeting):

- (1) While I am sure that there is an "explanation" for both the allocations and the changes, what belongs in each cost pool, and why it should/could go up or down is absolutely impossible to discern. The additional data sheet that is on the website is even more confusing.
- (2) I think that we need to have written (not oral) detail about the cost pools that have gone up or stayed the same where the explanation is not obvious (e.g., student services appears 4 times in the change spreadsheet – and while the detailed sheets explain where the presidential scholars/middle income scholarships appear to be allocated, and the grad school one is pretty self-explanatory – the other one makes no sense to me at all). In addition, since the details sheet doesn't record change, it is impossible for anyone to determine how the costs are working.
- (3) The committee needs to ask why the data are so impossible for a normal person to understand, why they haven't responded to our earlier request for an oversight committee, and how they would propose to implement such a committee.

I think that we should get responses in writing, especially to 2 (what is in each cost pool, and the comparison data from last year on the cost pool details) before we ask for another oral presentation.

Professor Luepker also reported that Professor Zaheer sent him a message that he (Professor Zaheer) found it very difficult to disentangle the information on the websites.

Also a national complaint, Professor Konstan said, is that the administrative burdens on faculty members continue to increase. Part of the question of justifying cost pools is whether they make life better or are getting behind. He said he has looked at the numbers and still feels like it is a shell game; one can move money around and can say it is at the dean's discretion, but ultimately it is a central-administration decision. Tuition goes to the colleges but then central administration takes it back. He recalled hearing during the discussion of the Graduate School that some deans do not want to pay for Graduate School services they do not receive, but people may forget that the colleges were initially given

money to cover those charges—if one does not recall the history, it all seems arbitrary. Professor Konstan said he also did not believe that increased transparency has led to better management of costs and better decisions. An oversight committee would be a start, but one can ask if the exercise of adopting the new budget model did more than restructure the paperwork.

Professor Martin said she has thought about this for a long time. The categories of items in the cost pools are murky (e.g., student services appear in four different cost pools). There was a request that the deans have an opportunity to discuss cost-pool changes before the cost-pool compacts are made. When the cost-pool compacts are in the fall and academic cost-pool compacts are in the spring, there is a disconnect between the two processes and who reviews and has influence on what and how rates are set. Are the deans consulted? There is a deans' committee that is consulted, Vice President O'Brien responded.

Vice President O'Brien went on to comment that she can understand looking at the cost pools and asking what is going on, and it is a legitimate question to ask what units are receiving for the money. In University Services, for which she is responsible, there is a robust consultation process, but she cautioned that analysis needs to get at what services are and if they are important. One must ask if University Services is doing things that are not important to faculty and students—and one must ask if units want services at the A, B, or C level. University Services has 12% fewer FTEs now than they did last October 1, she observed, and explained that what drives their costs is space—something they do not make decisions about. When space increases, so do their costs, and that has to be taken into account. She noted that she has in the past raised with the Committee the issue of the need to eliminate space.

Professor Konstan asked Vice President O'Brien if reductions and efficiencies have been achieved because of the visibility of the budget model or because that is what she was brought in to accomplish. It is because of the visibility and because she established a consultative group to help, Ms. O'Brien said (e.g., there is a different level of custodial services than there was a year ago). Professor Konstan said that when it is economically feasible to do so, University Services can offer different levels of service and let units decide which one they want—and when there are University standards that must be met, it cannot let units adopt lower ones.

Mr. Worden said that students are concerned about the budget cliff and that not enough has been done quickly enough. Students are not seeing results and need an explanation of what has been done.

Professor Luepker offered a summary and next steps. In tough economic times, all are anxious about costs and doing more with less—or doing less with less. The cost pools are a lightning rod for the colleges and there are worries that people don't understand what drives them. The sequence of events with services doing their compacts in the fall is a problem; those who get to the trough first may get more. He suggested the Committee follow Professor Morrison's and Seashore's suggestions: it should hear more than the current website offers and receive more written information about changes from year to year, so it can see how things change over time. We need more data than has been available up to now; and we should find out more about how well the deans' committee is working. He said he wants to keep this issue on the front burner.

Professor Martin asked what became of the Faculty Consultative Committee motion in April, 2008, about cost-pool consultation. The President referred it to central administrators for review, but the Committee has heard nothing back.

2. Fees

Professor Luepker recalled that the Committee received a report on fees at its last meeting; he noted that Vice President Pfutzenreuter had responded to the request that he provide questions for the Committee. The Committee never reached the questions at the last meeting, so he suggested it return to them and to talk about fee categories.

Mr. Pfutzenreuter said he had no new information since the last meeting. His goal is to keep the discussion percolating with the Committee and the senior academic officers. He said he did not believe there is any clean, crisp answer to the questions about any one fee; what is needed are criteria by which to judge fees (mostly collegiate fees, not course fees).

Professor Morrison recalled that there once was differential undergraduate tuition, but it was abolished. Now one is seeing differential costs show up in the fees. One does not see them at the graduate and professional level because they are differential. Is it time to reconsider uniform undergraduate tuition? Should students pay more when the program costs more? There are ways to game the system, he acknowledged, but there are also ways to stop the gaming. That has been talked about, Mr. Pfutzenreuter said; he suggested the Committee talk with Provost Sullivan. It was noted that Vice Provost McMaster has informed the Committee on Educational Policy that differential undergraduate tuition is a non-starter.

Part of the question about fees is fairness, Professor Konstan said. What happens when a student matriculates in one college and takes courses in another? What about part-time students? There needs to be a central policy, and perhaps there needs to be a discussion about something akin to University tuition and college tuition. Everyone would pay the same University tuition and then pay the college tuition, which could be called a fee. Presumably they could be arranged to be covered by financial aid.

Mr. Driscoll said, with respect to Professor Morrison's point and uniform undergraduate tuition, that a uniform rate says the institution values all disciplines the same, humanities and technology, a position he strongly supports. Professor Martin then asked Mr. Pfutzenreuter if there is a timeline to develop fees policies. They need to have them by February or March of next year, Mr. Pfutzenreuter said.

Professor Luepker said the Committee has been cruising at 30,000 feet and that it should not get involved in the discussion of uniform undergraduate tuition at this time because it has many implications that go beyond fees. He said that the Committee knows there are a lot of fees, the rationale for which is not always clear. There needs to be a central policy and place to decide on reasonableness and the rationale for fees; because there should be equity across the system, this cannot be a local decision. Second, there must be a decision about what fees will be used to pay for. Third, it must be determined if the money is spent the way that was intended. Fourth, there need to be reviews, because fees can creep up 5-10% per year and are not reviewed at the central level. Students may see fees as an increasing percentage of their bill each year; is that wanted? Is it necessary? Who has oversight and control?

Mr. Pfutzenreuter suggested looking first at the course fees, which are easiest to deal with. In response to Professor Luepker's last questions, Mr. Pfutzenreuter reported that all fees are in a central system and must be approved. His office, however, does not have the resources to evaluate them all, so they flag the larger ones for evaluation, but they need a framework to evaluate the merits of proposed fees. There is a gray area, and there is a sense that collegiate fees are being used to pay for some things that tuition should pay for. They would like to be able to say "no" to some collegiate fees, but they have no framework by which to judge them and to disapprove them.

Professor Morrison inquired whether, in the case of course/service fees, they should be allowed only for consumables, and put into accounts that can only be used for that purpose. The college and campus fees may need consolidation, and perhaps every college should be allowed one fee, which would be differential tuition by the back door. They have seen college fees used for such things as advising and accreditation, Mr. Pfutzenreuter reported.

There is a philosophical point about the college and campus fees, Professor Morrison commented. There used to be lots of little banks, each with its own philosophy of charges. When banks merged, they thought they were saving money because they had a uniform fee plan. One question he has is why different people in different parts of the University making different decisions about late fees, transcripts, and so on? These should be uniform standards. But that raises another question: Why are there different offices in different parts of the University dealing with the same thing? Wells Fargo consolidated these things in one office.

Professor Konstan suggested there was too much creative energy being wasted on fees. Anytime one sets up a framework and rules for fees, when the entire University is under-funded, everyone will find a reason why they need fees. The technology fee was the first way to obtain additional funds. And one can ask about course fees as well—why is a piano tuner for a music class different from a course assistant in another department? Colleges are creative enough that they will come up with justifications for fees. The question is not whether the technology fees are being spent on technology, it is whether the colleges are spending more than they did before. There is a collection of activities for education, based on what the University's peers do, that make more sense than micro-rules.

Mr. Driscoll disagreed. When there are fees, accounting for what they are being spent on helps salve the wound for students paying them. It is necessary for the Humphrey Institute to explain how it spends the \$250 in fees that it collects from students. Ms. Stahre said that the student senate is investigating what tuition dollars actually pay for, such as what percentage to salaries, because tuition is increasing so rapidly but students are not receiving more for the money.

It is not meaningful to separate what tuition dollars are used for, compared to state dollars, Professor Konstan said. Professor Morrison said that the increased tuition dollars are being used to pay for state prisons and social welfare programs, because the state is taking money away from the University to pay for those things. Mr. Pfutzenreuter said the University knows what state and tuition dollars are spent for, and that will include the cost pools.

Professor Luepker said it appears that most Committee members support imposing fees but also that they must consider the customers who must pay them, i.e., the students. The Committee has been provided a series of specific questions about fees, he noted, but said he was not sure the Committee could or should get into discussions about individual fees. From a policy standpoint, he agreed with Mr. Pfutzenreuter that they need to be looked at more carefully, and the Committee might comment on a framework for approval and follow-up that his office might develop. The fees are spiraling up, a phenomenon that affects those they teach, he concluded.

For collegiate fees, Mr. Pfutzenreuter said, they need to establish criteria by which to judge them. He agreed with Professor Konstan that some course fees cover costs that should be paid with tuition. He said his office would prepare a framework and criteria and bring them back to the Committee for discussion in late winter.

3. Morris

Professor Luepker reported that several members of the Faculty Consultative Committee, including him, visited the Morris campus the previous week. He said he found it a very useful experience because he had had no concept of its mission or how it functioned. He said it is important the Committee knows about Morris because it represents the campus. They are 150 miles from the “home office” and can feel neglected.

It is a terrific school, Professor Martin said. A significant proportion of Morris faculty members are in the Academy of Distinguished Teachers and most faculty members at Morris are delighted to be there. They get to teach smaller classes and have more interaction with students. And that is more costly, Professor Luepker added. But it is a liberal-arts campus like St. Olaf, Carleton, and Gustavus, Professor Martin responded.

4. Merger of University of Minnesota Physicians and Fairview Health System

Professor Luepker next reported on the last Board of Regents' meeting, where Senior Vice President Cerra made presentation on "Evaluating Integration of the Clinical Enterprise." Copies of the slides that Dr. Cerra used with the Regents were distributed to Committee members. This is a massive reorganization in a major portion of the University, Professor Luepker commented, and it caught his attention not only because it is a new direction for health-care settings but also because this is a billion-dollar-per-year enterprise (or more). The reorganization proposes the integration of the Fairview hospital management corporation with the University of Minnesota Physicians (UMP) and the University of Minnesota.

Fifteen years ago there were many different practice plans, for each of the medical specialties, each with its own billing office, and they dealt with large sums of money. There were problems with some of them, so the various plans were consolidated into UMP to eliminate those problems.

He would like to ask Senior Vice President Cerra to join the Committee to talk about this proposal. He also intends to ask Mark Eustis, the CEO of the Fairview system, to meet with the Committee to provide his perspective.

It struck him, Professor Luepker related, that apart from the financial magnitude of the proposal, there are a number of other questions that should be addressed.

-- Where does research and education fit in with this new, integrated organization? The presentation was mainly about the reorganization of clinical practice.

-- Who runs the organization? It appears that the proposed Board of Directors will be composed of non-University people, and it appears that the organization will be run like a business.

-- The intent is to pay clinicians salaries competitive with the community. Clinicians at the University are now paid less than the market; clinicians in private practice work hard, but they do not usually have teaching or research responsibilities.

-- There are no dollars figures included in the presentation, but the amounts involved must be very large. Where will the dollars come from and what is the University getting involved in? One motivating factor is to gain market share and compete better with other health-care systems—but those systems now take University students and train them for free.

There are a number of elements to this plan that go beyond the Academic Health Center, he concluded, and the AHC is such a big part of the University that this issue clearly falls into this Committee's bailiwick.

What leapt out at her, Ms. Kersteter said, is that there is little about the teaching mission in the presentation, and that is more expensive in a teaching hospital. She said she was also concerned about the residency program; if that is done badly, there would be a big impact on the community. If the new Board of Directors is primarily external, Mr. Erikson said, it is not likely it would focus on the educational mission of the Medical School. One could look at this proposal from a very different perspective and not understand that it more expensive to have a teaching hospital.

Professor Konstan said that if one looks at this from the 50,000-foot level, one can understand that the health-care industry is in a storm and people want to lash the rafts together, but one needs to be concerned that the University doesn't lash itself to a rock, which this could be. Second, he said he would like to see a statement about the mission that the Board of Directors would be sworn to uphold, because it does not appear the mission would be the same as the University's mission. Finally, he recalled the time when the University sold its hospital to Fairview; that was supposed to solve the problems. Now this document shows a whole bunch of problems that weren't solved. Why is the current system not serving the academic mission? This is like trusting the people whose last rocket didn't reach the moon when they say this next one will -- why trust the rocket scientists who failed? Will this arrangement just be in place for the next dozen years and then will there be something new? This feels a lot like "trust me," he said.

Ms. Stahre observed that no one in the School of Public Health (where she is a Ph.D. student) sees patients. If some of these changes take place in the AHC, will that affect the accreditation of the School of Public Health? Professor Luepker said he did not know, although he doubted that it would.

Professor Luepker said he agreed with Professor Konstan: the mission of the new organization is not clearly stated (and perhaps it is simply economic survival), other than "advance excellence and innovation in integrated patient care, medical education and research."

Professor Olin said this proposal would set up a role conflict for individuals who will work for two organizations: the Clinical Scholar work versus the profit-driven organization. The mission is thus important. There have been two structures in place, one devoted primarily to education and one primarily profit-based. How would this proposal affect AHC finances? How would it address the Medical School deficit?

Professor Morrison said there is a big push in health care to develop integrated systems, and this proposal is oriented in that direction. The federal government may prefer integrated systems in the health plans it supports, and thus require them, and they may save some money. The Mayo Clinic is a model for this kind of integration. Most years it does well. That is the good side. The bad side, he said, that the Mayo Clinic has a good little medical school, but could not run a large medical school in its environment—and they know it. The idea of the plan for the University hospital and clinics seems to be to solve financial problems of the Medical School and the hospital by putting them in a box and separating them financially from the University. The University will provide the research and education infrastructure and the credibility of an academic connection. The financial infrastructure required to run the Medical School and its research operation will be carried by the University.

Professor Martin said that when she reviewed the slides, she had the feeling the proposal privatizes something that is public. Is the Board of Regents concerned about that? It is also extremely

unclear whether this organization will be in the University or not. Does an affiliation agreement with the University mean it is not in? That it is a "kissing cousin"? That would be completely different from what the AHC has been. This seems to be a very big deal that needs a lot of attention, she concluded.

What chunk is falling away from the University, Professor Konstan asked? As he reads the proposal, he said, AHC faculty who are not completely clinical will be University faculty, but a larger percentage of their time will go to the new health system than they would spend on UMP. He said he agreed with Professor Morrison that this proposal would carve off the viable part of the AHC and leave the rest hanging around the University's neck. He said he worries that the University will go down this path without articulating well what will happen—because that would generate opposition. The role of this Committee is to ask where things are going so "we can shed light on it."

Ms. Kersteter inquired about the time line of the integration and whether there would be opportunities for public comment. She feared a repeat of the sale of the University Hospital, when hospital employees arrived at work one day to find that they now worked for Fairview. There had been no warning or even rumor of the change.

Professor Olin asked if there had been any discussion of Fairview finances. What is in it for them, he asked? One can only speculate, Professor Luepker said, but perhaps branding. It will be the University of Minnesota system with a Board of Directors more like Fairview.

Professor Luepker said he had raised the questions with the Committee. Senior Vice President Cerra provided the slides, he reported, but he also cautioned that much has happened since the presentation to the Regents (10/8/09) and that this is an evolving process. If it happens, however, it could happen rapidly, Professor Luepker surmised. He said he would like to present, ahead of time, the questions that have been posed at this meeting to the guests to be scheduled, rather than see the Committee simply presented with a slide show.

Professor Olin reported, in response to a question from Professor Martin, that the AHC Faculty Consultative Committee has asked for the report from the consulting firm but has been told they are not finished. They have had no in-depth discussion of this proposal, he said. Professor Martin said she hoped the AHC FCC would demand consultation for themselves and their colleagues to ensure a positive academic outcome.

Professor Konstan said that it would be helpful to have faculty experts on health-care systems join the Committee if it is to have a meaningful discussion. Professor Luepker agreed and said he would identify individuals from the Division of Healthcare Policy and Research who could join a meeting.

There are two pieces involved, Professor Morrison said: the financial, and the one he is more concerned about, the educational. How is this still part of the University? Do they just need the cover of the University? "Affiliation" with the University does not equal a real relationship with the academic operations of University. He said he was also concerned about how the other colleges of the AHC, Dentistry, Public Health, Veterinary Medicine and perhaps Nursing would fit into this enterprise, and about whether the Medical School could become simply a trade school within the new hospital entity.

If the mission is to deliver light unto the health-care systems of the nation and show them how to operate, Professor Konstan said, would one start with the people who run hospitals or with the doctors and the public-health professionals? He said he did not believe one would start with a hospital-based system and he expressed doubt that is the way to get to the next generation of health care. Professor

Luepker recalled that Professor Morrison had talked about vertical integration in health care; Allina and Medica tried it and the Attorney General took the organization apart.

The Regents will receive a plan that they will need to approve, Professor Konstan observed. He suggested it would be useful to invite a faculty group to provide an alternative plan with a vision that reflects their view, and to ask the Board of Regents to explore alternatives. He said he did not know if a group of knowledgeable faculty would prepare a vision of how the AHC and the clinical enterprise should look in ten years. That would be a logical approach, Professor Luepker agreed, but that is not the way the AHC is approaching the issue, and the financials are not available. At some point one must believe people think about vision and goals at a high level, Professor Konstan said, and if a group talked to the Regents, the Board could charge people who know about the financial issues to look at the vision and make it work.

This plan is for the integration of the CLINICAL enterprise and has nothing to say about all the rest of what goes on, Professor Martin said. That is the biggest piece, Professor Luepker responded, and without it the AHC could not train students. Professor Martin said she understood that point but contended that integration of the clinical enterprise cannot work without talking about education and research. This is driven by financial issues, Ms. King pointed out. Where will the money come from if they are to pay competitive salaries, Professor Olin asked? And what about the new CEO and new administrative levels required to run the new organization, Mr. Erikson asked?

Ms. Stahre said that this proposal has an ominous tone and may have much broader implications than just the clinical enterprise.

-- Gary Engstrand

University of Minnesota