



Board of Regents - Thursday

May 2016

May 12, 2016

8:00 a.m. - 9:30 a.m.

Boardroom, McNamara Alumni Center

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1. University of Minnesota Health Agreement

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BOARD OF REGENTS DOCKET ITEM SUMMARY

Board of Regents

May 12, 2016

AGENDA ITEM: University of Minnesota Health Agreement

Review **Review + Action** **Action** **Discussion**

This is a report required by Board policy.

PRESENTERS: President Eric W. Kaler
Brooks Jackson, Dean of the Medical School and Vice President for Health Sciences
Bobbi Daniels, CEO, UM Physicians
Richard Pfitzenreuter, CFO and Treasurer

PURPOSE & KEY POINTS

The purpose of this item is to review the proposed agreement between the University of Minnesota, University of Minnesota Physicians (UMP) and Fairview Health Services (FHS). The goal of this integration is to create a single academic health system that will merge the UMP and FHS organizations – including hospitals, clinics, primary and specialty care services, other care continuum services, retail and specialty pharmacies, pharmacy benefit management services, rehabilitation centers, and hospice and home health care programs.

The proposed agreement will create a new entity with the characteristics necessary for a world-class academic health system. The integration will strengthen a shared academic mission to improve health, discover new cures and treatments, and educate the health workforce. It will also help to elevate the Medical School; deliver market-leading clinical quality, service, efficiency and growth; and strengthen the University’s place in the Minnesota’s health care marketplace.

Negotiation of the terms of the agreement began in October 2015. The executive team developed positions related to governance and leadership for the new entity. The University and UMP formed internal working groups to develop positions on several key issues, based on the principles agreed upon by all parties for the following areas:

- Finance and funds flow.
- Physician leadership and practice organization.
- Human resources.
- Academic relationships in education and research.
- Branding and communications.
- Compliance and risk management.
- Philanthropy.

Groups presented final drafts to the executive team at the end of 2015 and smaller teams began discussing priorities with teams from FHS. The parties jointly hired ECG Management Consultants as project manager and to facilitate negotiation. A joint search committee, with equal representation from FHS and UM/UMP, has been interviewing candidates to be the CEO of the new entity. The parties have agreed that the new entity will have the same start date as the new CEO.

A joint executive steering committee of representatives from the three parties has agreed on the major terms for integration. The terms of the agreement on these issues will be articulated during the Board discussion. Key issues resolved include:

- Funds flow to include fixed academic support, variable funding, a clinical innovation fund, and establishment of an additional program development funding lane.
- Physician leadership and clinical operating structure.
- Process for determining management structure.
- Governance, including the University of Minnesota Health board structure, Board of Regents reserved powers, and the role of the Vice President for Health Sciences.

BACKGROUND INFORMATION

- The University Hospital was sold to Fairview Health Services in 1997.
- University of Minnesota Physicians was founded in 1997.
- The Board approved a resolution approving forming a UM-Fairview integrated structure, currently called University of Minnesota Health, in May 2013.
- The Board approved a naming agreement for the integrated structure in February 2014.
- The Board heard an update on University of Minnesota Health in October 2014.
- The Board approved a non-binding Letter of Intent to fully integrate University of Minnesota Physicians and Fairview Health Services on October 9, 2015.



REGENTS OF THE UNIVERSITY OF MINNESOTA
RESOLUTION RELATED TO
University of Minnesota Health

WHEREAS, the University of Minnesota (“University”), the University of Minnesota Physicians (“UMP”), and Fairview Health Services (“Fairview”) share a goal to form an integrated academic health system, dedicated to high quality patient care, leading edge research, and the training of tomorrow’s workforce; and

WHEREAS, in 2013 the University and Fairview formed an integrated structure to streamline care, reduce confusion in the market, and generate additional revenues for the Medical School; and

WHEREAS, in October of 2015 the parties signed a Letter of Intent to form a fully integrated academic health system, including Fairview and all its affiliates and subsidiaries and the entirety of UMP; and

**** WHEREAS**, the parties now have agreed to terms of integration, including funds flow, governance and management structure, physician leadership throughout the system, the expansion of education and research, and operational structure; and

WHEREAS, under the terms of the branding agreement, the new entity doing business as University of Minnesota Health; and

WHEREAS, the Board of Directors of University of Minnesota Health will be appointed half by the community members and half by the Board of Regents; and

WHEREAS, University of Minnesota Health’s structure is ensuring consistent, affordable, high-quality patient care across the system, market leading quality and service, efficiency and growth, creation of new knowledge and translation of that knowledge, a strengthened commitment to training the next generation of health care providers and elevation of the stature of the University’s Academic Health Center and the new Integrated Academic Health System; and

WHEREAS, this integrated academic health system is an important step toward ensuring success of the tripartite mission and becoming a world class Medical School and a world class health system; and

**** WHEREAS**, the University, UMP, and Fairview have negotiated a definitive agreement to create a new fully integrated academic health system and have identified a strong candidate for CEO of University of Minnesota Health; and

**** WHEREAS**, this agreement was approved by the University of Minnesota Physicians board on XXX , by the UMP faculty on XXX and by the Fairview Health Services board on XXX.

NOW, THEREFORE, BE IT RESOLVED that the president and the vice president for health sciences are hereby authorized to enter into definitive agreements reflecting the parties' obligations and commitments related to the development and operation of an integrated academic health system.

**** Pending agreement.**

Update on University of Minnesota Health

Eric W. Kaler, President

Brooks Jackson, Dean of the Medical School/VP for Health Sciences

Richard Pfutzenreuter, CFO and Treasurer

Bobbi Daniels, Vice Dean of the Medical School, CEO of UMP



UNIVERSITY OF MINNESOTA

Driven to DiscoverSM

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Our Vision: University of Minnesota Academic Health System

Full integration with Fairview Health Services in order to provide exceptional patient care, fortify a robust pipeline of health care professionals for the state, contribute to the state's economic vitality through medical discoveries and innovation, and serve Minnesota's health needs, from community-based public health through highly specialized care and treatment.



Shared Goals

- Strengthen our shared mission to heal, discover and educate for longer, healthier lives
- Help elevate the Medical School and Academic Health Center nationally
- Bring new treatments and cures to patients more quickly
- Deliver market-leading care, provider of choice
- Prepare the next generation of health professionals



Agenda

- Key Deal Points Being Negotiated
 - Governance
 - Physician leadership and clinical organization
 - Group Structure
 - Funds Flow
 - Education and Research
 - Branding
- CEO Search
- Due Diligence
- Next Steps



Key Deal Points - Governance

- University of Minnesota Health (UMH) Board of Directors will include 7 Board of Regents appointed members, including the Vice President for Health Sciences (VPHS) and 7 community members
- Initial designees are Brooks Jackson, MD; Regent Patty Simmons, MD; Ken Roering, PhD; Carol Ley, MD; Ann Hengel and Dave Murphy
- U of M Board of Regents retains reserve powers in cases of:
 - Moving UMH principal office out of state
 - Governance matters including decreasing the number or proportion of board members, elimination of matters requiring VPHS approval or supermajority
 - Change in control of UMH as a legal entity and/or sale of all or substantially all of UMMC or CSC
 - Any major academic affiliation that has an impact on the AHC



Key Deal Points - Governance

- Issues requiring mutual approval of the VPHS and CEO
 - “Lead Physician”
 - Senior executive positions with substantial responsibilities for medical education and research
 - New service lines and leaders
 - Terminating UMH employment of multiple faculty physicians in same specialty, department chair or division leader
 - Change in baseline mission support beyond the first term
 - Consultation required on issues such as UMH senior leadership positions and termination of faculty physicians (from UMH employment)



Key Deal Points - Governance

Issues that require a supermajority (11/14 or 75% of quorum) include:

- Mission, vision or values
- Appointment of the CEO
- CEO and “Lead Physician” compensation
- Strategic plan, capital and strategic budgets
- Change in control of UMH, major transactions including substantially all assets of UMMC or CSC
- Any restructuring of UMP, including change to the common paymaster arrangement
- Declaration of financial exigency or any resulting change in the fixed mission support
- Amendment, modification, or termination of the Articles of Incorporation, Bylaws of UMH or legacy UMP
- Removal of any UMH Board of Directors



Key Deal Points – Physician Leadership

- “Lead Physician” will be a faculty member appointed by the CEO, with approval of the VPHS. The “Lead Physician” will also be the Vice Dean for Clinical Affairs.
- Academic chairs or their respective designees will serve as the clinical leads for the specialty and subspecialty units at UMMC. Over time specialty and subspecialty physicians will be managed as one group.
- In that capacity, chairs will report to the “Lead Physician”.
- Physicians will be included in all levels of decision-making.
- UMP and FMG structures will remain in place initially.



Key Deal Points – Group Structure

- CEO and Lead Physician, in consultation with the VPHS, will initiate a “best of” assessment regarding physician organization structure.
- Initially, UMP will retain separate benefits for employed physicians and staff. Over time an alternative structure may be developed.
- Total compensation will be at market competitive levels.

PENDING: UM/UMP position is to treat legacy UMP as a division with an agreed on budget to manage.



Key Deal Points – Funds Flow

- **Fixed Academic Support: \$75 million**
 - Amount reflects current support to the Medical School from UMP and Fairview
 - Amount fixed for the first 5 years
 - Starting in year six, inflated by CPI annually
 - Structure review at each 10- year interval
 - Downward adjustment if board declares “financial exigency”
- **Variable Academic Support: Based on total M Health Operating performance**
 - No payment if less than NOI budget
 - 25% if more than NOI budget
 - Use is directed by the Dean of the Medical School



Key Deal Points – Funds Flow

- **Clinical Innovation Fund: \$1 million annually**
 - Invest in clinical innovation and clinical research
 - Partner faculty and non-faculty physicians
 - Advance UMH clinical quality and safety objectives
- **Capital Planning: Language consistent with the LOI**
 - 5-year financial plan developed post integration
 - Plan for private inpatient rooms and modernization of operating rooms
 - Foundation to pursue philanthropic opportunities



Key Deal Points – Education and Research

- UMH and the AHC are priority partners for education affiliations
- Graduate Medical Education (GME) commitments will be determined by the UMH Board
- The new system will facilitate an expansion of training sites for Medical students and students in Nursing, Dentistry and Pharmacy
- The LOI states that clinical research will expand throughout the system



Key Deal Points - Branding

- The new entity will do business as University of Minnesota Health
- The University retains ownership of the name
- Entities to be branded M Health include hospitals, clinics and pharmacies
- Entities that may have an endorsement from M Health include organizations like Ebenezer, but only after further review, and approval by the University
- Criteria will be put in place to determine which components of Fairview use the name and which can use it in the future
- There will be an ongoing working relationship between University Relations and the UMH marketing function



CEO Search

- Two excellent candidates have been identified
- Both candidates are academic physicians from strong academic health systems
- Third-round interviews include meeting with the inaugural UMH Board and President Kaler
- Goal is a contract and offer prior to closing
- CEO in place is a condition of closing



Due Diligence

Due Diligence Areas of Evaluation

- Financial Diligence – Quality of Earnings, Cash Flow & Contingencies
- Preferred One Financial Diligence
- Tax (Including Preferred One)
- Employee Benefits/Human Capital
- Reimbursement
- Information Technology
- Compliance & Regulatory
- Billing and Coding
- Facilities & Fixed Assets
- Risk Management Insurance

Evaluation Framework

- Financial Strength & Efficiency
- Understanding of the Organization
- Evaluation of Risks & Opportunities
- Integration Complexity
- Services and Capabilities
- Legal compliance



No individual Show Stoppers, but need for Work Plan to address concerns prior to closing and enforceable contract terms to assure completion of essential improvements.



Due Diligence – Follow up

- Issues that need to be mitigated will require a plan (including funding) as a condition of closing.
- The work plan will be overseen and implemented by the new UMH Board.



Next Steps

- Negotiations continue on outstanding points.
- Legal documents to be completed.
- Documents will be made available to the BoR, UMP Board and UMP faculty.
- Robust outreach and communication to faculty regarding terms of the deal. This will include department meetings, faculty forums, email, website, and 1:1 or small group conversations.
- Preferred vote sequence: UMP Board, UMP faculty, Fairview Board, Board of Regents.
- CEO offer extended.
- CEO starts, University of Minnesota Health begins.

