MN HOUSE RESEARCH

Memorandum

March 3, 2023

To Representative Pelowski

From Nathan Hopkins

Subject University of Minnesota Hospital System: History and Context

Background

Fairview Health Services (a Minnesota-based nonprofit health system) and Sanford Health (a nonprofit health system headquartered in South Dakota) publicized a merger proposal in November 2022.[1] The most recent target date for completion of the merger is May 31, 2023.[2]

This proposed merger implicates the University of Minnesota, whose university hospitals and clinics are owned and managed by Fairview under a 1997 agreement between those two entities that runs until 2026. The University/Fairview relationship deepened in 2018, when Fairview, the University, and the independent University of Minnesota Physicians organization agreed to jointly market medical services under a single brand, "M Health Fairview."[3]

In January 2023, the University announced its intention of regaining ownership and control of its hospitals from Fairview. This includes the following four facilities: University of Minnesota Medical Center's (which has both an East Bank Hospital and a West Bank Hospital), the Masonic Children's Hospital, and the Clinics and Surgery Center. While the recently announced Fairview/Sanford merger was likely a catalyst to the University's plan, the reacquisition is part of a larger "vision" for academic medicine at the University which has been named "MPact Health Care Innovation."[4]

On February 24, the University announced a plan to pursue state funding through the legislature for reacquisition of its hospitals.[5] The total request would be $950 million: $300

[1] The two systems also entered merger talks in 2013, but that deal fell apart under criticism by public officials and others. Melanie Sommer, "Sanford withdraws from Fairview merger talks," MPR NEWS, April 10, 2013, available online.

[2] Michelle Wiley, "Fairview and Sanford say they'll take two more months to finish merger," MPR NEWS, Feb. 10, 2023, available online.

[3] Expanded Partnership with M Physicians and Fairview Health Services, UNIVERSITY OF MINNESOTA PHYSICIANS, Oct. 31, 2018, available online.

[4] University of Minnesota Board of Regents meeting materials, February 10, 2023, at p. 103, available online.

[5] Michelle Wiley, "U puts a number on acquiring its buildings from Fairview: $950 million," MPR NEWS, Feb. 24, 2023, available online.

million of which would be used primarily to reacquire the facilities, and $650 million of which would be used to fund operation of the facilities.[6]

Purpose of this memorandum

You asked for information regarding the history of the University's hospital system in order to provide context for legislative deliberations surrounding the University's proposed funding request. This memorandum will provide a brief overview of that history, with a particular focus on the lead-up to the 1997 agreement between Fairview and the University.

University of Minnesota Hospital System

When the territorial legislature established the University of Minnesota in 1851, it provided for a "department of medicine" in the University.[7] But it wasn't until 1883 that a "College of Medicine and Surgery" was established at the University.[8] This college was not, however, a teaching institution. It was, rather, a "board of examiners" that — pursuant to an 1883 state law — would license doctors to practice medicine in Minnesota.[9] This college was dissolved in 1887 when the legislature established a state board of medical examiners to serve this purpose.[10] Then, in 1888, the University's Medical Department was established by the Board of Regents.[11] The Department of Medicine consisted of a College of Medicine and Surgery, a College of Dentistry, and the College of Pharmacy was added in 1892.[12]

The Medical Department taught a variety of courses consisting of lectures and laboratory work, and, although the Department did operate a "dispensary" to provide outpatient medical services to the community, students had little contact with patients and the University did not initially have a hospital. But the standards of contemporary medical education had shifted and demanded large clinical facilities.

Early planning and fundraising for a University hospital began around 1905. In 1909 and 1910, several houses were purchased by the University to serve as temporary hospitals. These had a combined capacity of 43 patients. Then, in August of 1911, Elliot Memorial Hospital was opened. This was the first proper University hospital and had 120 patient beds.[13]

Establishment of the University hospitals was accomplished through a combination of private philanthropy, public fundraising, and legislative appropriations.[14] The University hospital

[6] Christopher Snowbeck, "University of Minnesota seeking $950 million to acquire, operate hospitals in Minneapolis," STAR TRIBUNE, Feb. 24, 2023, available online.

[7] 1851 Laws Ch. 3.

[8] University of Minnesota Department of Surgery, History: The Early Years, available online.

[9] 1883 Laws Ch. 125.

[10] 1887 Laws Ch. 9.

[11] J. Arthur Myers, MASTERS OF MEDICINE: AN HISTORICAL SKETCH OF THE COLLEGE OF MEDICAL SCIENCES UNIVERSITY OF MINNESOTA 1888-1966, p. 59 (1968).

[12] *Id.* at p. 64.

[13] *Id.* at p. 454-456.

[14] *Id.* at p. 82-83.

was meant to have a charitable mission. Sixteen regulations were developed by the Department's Sub-Committee on Hospital Management, the first of which stated:

> The University Hospital will serve the interests of the poor of the State of Minnesota and especially the worthy and self-respecting poor. It has no provision for pay patients.[15]

This policy changed rather quickly, however. In 1915, due to congestion and long waiting lists, the University hospital began changing a fee of ten cents per patient per visit.[16] And, in 1918, with approval of the Board of Regents, 50 beds in Elliot Memorial Hospital were reserved for patients able to pay a per diem charge.[17]

New facilities and buildings were added to the University's hospital facilities over the years, many of which were prompted by large philanthropic donations:

- 1924 – Todd Memorial Hospital (Ear, Nose, Throat); Cancer Institute
- 1929 – Eustis Children's Hospital
- 1937 – Psychiatric clinic for children
- 1951 – Variety Club Heart Hospital
- 1954 – Mayo Memorial Hospital
- 1958 – Masonic Cancer Hospital
- 1964 – Children's Rehabilitation Center
- 1978 – Phillips-Wangensteen Building
- 1986 – University of Minnesota Hospital

The 1970's were a time of major change for academic medicine. University hospitals had previously been conceptualized as public institutions with public missions, and they therefore relied on public support. But, in the wake of the establishment of Medicare and Medicaid, there were less uninsured persons, which diminished the need for university hospitals' charitable mission. University hospitals were now finding themselves within a competitive marketplace: vying with other hospital systems for patients and the revenues that came with them.[18]

In response, a number of changes came to the University's hospitals. For example, in 1974, the Board of Regents delegated governance and management of university hospitals to a Board of Governors appointed by the regents, reflecting the increased need for professionalized management of the University hospitals. The Board of Governors would remain in place until the merger with Fairview in 1997.

But these governance changes did not affect broader economic realities. The 1980's provided even more dramatic change for the health care industry. Regulatory and competitive

[15] *Id.* at p. 456.

[16] *Id.* at p. 460.

[17] *Id.* at p. 462

[18] Dominique A. Tobbell, Interview with Gregory W. Hart, University of Minnesota Digital Conservancy, 2012, at p. 9, available online.

pressures, in addition to rising costs and developing technologies made public and private payers more cost-sensitive, resulting in increased pressure on traditional providers to contain costs and on consumers to share more of the costs.[19]

This was a harsh environment for academic medicine. The University hospital conceived of itself as providing specialized high-end care that it could price at a premium, and part of that premium pricing would go to support education and research.[20] But payers pushed back against this premium pricing. Health insurers were watching their bottom lines and sending enrollees to hospitals with lower costs; they did not want to foot the bill for teaching and research that had been priced into treatment at academic hospitals.[21] Furthermore, the University's market share was very small relative to other health systems in the state, making it impossible to rely on patient volume to cover its own costs.[22] On top of all this, the University still had considerable debt related to the 1986 construction of its new hospital facility.[23] Frank Cerra, a Dean of the Medical School and Provost of Health Sciences in the mid-90's, described the situation in a 2014 interview:

> [T]he Hospital began to experience some financial issues, call them cost overruns, shortfalls, whatever you want to call that. They were no longer in the black. The reimbursement rates were changing because the premiums were pulling out anything for education and research that were charged to the people in the plans. At the same time, the Hospital was beginning to get more and more control over what it did, but its market share continued to shrink. So in the early 1990s, it became very clear that the Hospital was chewing up its University allocated reserves to balance its budget and that it was in a death spiral and was going to die if something wasn't done.[24]

This dire situation forced the University to look for a partner in the marketplace. The arrangement would have to be unique and cooperative. Private healthcare systems depended on the University as a pipeline of trained physicians and acknowledged its research innovations, but no private system in a competitive marketplace would want to take ownership of those expensive functions in a direct way. Yet the University was desperate for patients, bargaining leverage with insurers, and (most fundamentally) revenue to fund their operations — including the teaching and research that is essential to academic medicine.[25] A university hospital was essential for academic medicine's unique tripart mission of research, training, and patient care, but the University was realizing that ownership of that hospital might not be essential for

[19] Morrison EM, Luft HS, "Health maintenance organization environments in the 1980s and beyond," *Health Care Finance Review*, 1990, at p. 81, available online.

[20] Dominique A. Tobbell, Interview with Frank B. Cerra, University of Minnesota Digital Conservancy, 2014, at p. 45, available online.

[21] Judith Yates Borger, "Economic Scalpel Cuts Deep at U," ST. PAUL PIONEER PRESS, Nov. 14, 1999, at 1A.

[22] Tobbell *supra* n. 18 at p. 31.

[23] Gordon Slovut, "Fairview may help pay off 'U' Hospital debt," STAR TRIBUNE, Nov. 18, 1995, at 02B.

[24] Tobbell *supra* n. 20 at p. 45.

[25] Glenn Howatt, "U health unit seeking cure – it needs to decide," STAR TRIBUNE, Sept. 8, 1995, at 01D.

accomplishing that mission. As a 1993 report from the University's Office of the Vice President for Health Sciences stated:

> Quality education is based on quality research. Research is best done in a university setting. The teaching and research functions need faculty. Faculty need to be paid. In medicine, the States do not allocate sufficient funding to adequately attract and pay faculty. They must earn their income from patient care. They can do so "in the community" or within the University setting; many do both. However, the University clinical setting uniquely offers the kind of interface, synergy, and cross-fertilization needed to truly integrate education, research, and patient care.
>
> Does all this mean that things should stay as they always have been at the University? Absolutely not.
>
> Does this mean that the University should discontinue its long tradition of its many community-affiliated teaching programs? Certainly not.
>
> Does this mean that the University must own and control all of the facilities in which its clinical programs are located? No.
>
> Does this mean the University must own its University Hospital? Maybe not.
>
> Does Minnesota need a core facility and faculty dedicated to teaching, research and the best of patient care? Yes—Minnesota needs a University Hospital.

Accordingly, any arrangement would likely involve a complex series of cooperative agreements, rather than a simple cash sale.

The University entered negotiations with several health care organizations about possible partnerships, including Allina, which was the largest health system in Minnesota at that time.[26] But Fairview was able to offer the most amenable arrangement for the University because it was uniquely "willing to support research and education."[27]

After more than a year of negotiations, in January 1997, the University and Fairview finalized a set of more than ten agreements governing their arrangement.[28] The key components of the affiliation between the University and Fairview involved:

> (a) the acquisition by Fairview of the University Hospital and subsequent integration of that facility with the Fairview Riverside Hospital to form a single Fairview-University Medical Center;
>
> (b) the establishment of an academic affiliation agreement between the two organizations; and

[26] *Id.*; Tobbell *supra* n. 20 at p. 46.

[27] Tobbell *supra* n. 20 at p. 46.

[28] Glenn Howatt, "Fairview University Medical Center – Ground Rules," STAR TRIBUNE, Jan. 7, 1997, at 3B.

(c) the establishment of an agreement between Fairview and the University's faculty practice organization, the University of Minnesota Physicians.[29]

For a more comprehensive summary of the Fairview/University agreements, see the attached Executive Summary prepared by Frank Cerra, Provost of Health Sciences, dated January 7, 1997.[30]

[29] University of Minnesota Academic Health Center Affiliation Evaluation: Report of the External Review Panel, University of Minnesota Digital Conservancy, March 2001, at p. 1, available online.

[30] Frank Cerra, Executive Summary of the AHC-Fairview Affiliation Agreement, University of Minnesota Digital Conservancy, 1997, available online.

EXECUTIVE SUMMARY OF AHC-FAIRVIEW AFFILIATION AGREEMENT

PREPARED BY: PROVOST CERRA
January 7, 1997

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I) WHY DO THIS?

A) Why is the University/AHC entering into this relationship?

1) To increase access to patients to maintain and enhance the AHC mission and the clinical competency of its faculty.

2) To enable the AHC to be competitive in the healthcare marketplace.

3) To enhance the efficiency and effectiveness of clinical services provided in the academic setting.

4) To preserve and grow an on-site, world-class hospital and clinic system for the AHC.

5) To provide new opportunities for education, research and service/outreach development.

6) To stabilize a portion of the AHC financial base by ensuring greater community support for the AHC mission.

7) To enable the health professions to achieve relevance, leadership and excellence into the 21st century.

B) Why is Fairview entering into this relationship?

1) To fulfill a need for a modern, world-class hospital on the cutting edge of technology and therapeutics to complement and enhance its community-based health care delivery system.

2) To have access to the world-class faculty of the AHC.

3) To continuously improve the quality of the healthcare services it provides to the community.

4) To enhance its competitive position in the market, and broaden its integrated delivery system.

5) To fulfill a community responsibility to support the academic mission of the AHC.

6) To enhance its opportunities for achieving an integrated , an academic/community-focused, health care delivery system.

II. WHAT IS THE GENERAL AGREEMENT?

A) What has the University/AHC agreed to do?

1) To transfer the University hospital, its outpatient clinics and services, its associated and affiliated clinics and sites (with exception of CUHCC) and parking sites.

2) To lease UMHC land and space and AHC space to Fairview that is required for the functioning of the Fairview-University Medical Center (FUMC) and its programs. All lease space has associated rent charges.

3) To use FUMC as the principal focus for the flagship clinical, education, and research activity of the AHC faculty.

4) To work with Fairview in competitive contracting and healthcare system development for all AHC health professionals. 5) To assist in providing clinical services efficiently, effectively and at community benchmarks for performance where appropriate.

6) To continue support of the base programs at FUMC, i.e., those that exist at UMHC today.

7) To provide access to new AHC program development at FUMC and within the Fairview system consistent with the University/AHC's public purpose and FUMC's flagship status.

8) To continuously improve the academic standing of the AHC professional schools and their faculty.

9) To conduct the affairs of the AHC in a manner consistent with the flagship relationship.

B) What has Fairview agreed to do?

1) To maintain FUMC as a flagship, world-class institution.

2) To provide resources to support education and research at FUMC.

3) To provide access and opportunity for education, research and service/outreach development at FUMC and throughout the Fairview system.

4) To provide a yearly grant to the AHC to support its mission.

5) To work with the AHC faculty to enhance their competitiveness in the market.

6) To use FUMC as its system's principal site for flagship quaternary care and as a primary site for tertiary care.

7) To acquire, the University hospital, its outpatient clinics and services, its associated and affiliated clinics and sites (with the exception of CUHCC) and parking sites.

8) To lease, UMHC land and space and AHC space required for the functioning of the FUMC and its programs.

9) To conduct its affairs in a manner consistent with the flagship relationship.

10) To provide access to new AHC program development at FUMC and throughout the Fairview system.

C) What has the AHC *not* agreed to do?

1) To alter the employment status of AHC faculty.

2) To exclusive access or contracting with Fairview in the provision of healthcare clinical services.

3) To exclusive access or contracting with Fairview for health-related education and research programs.

4) To allow unfettered use of the University/AHC name and reputation.

5) To permit access or influence into the governance and decision-making processes in education and research or the infrastructure that supports them for the AHC or its schools, other than that available for other AHC community constituencies.

6) To allow constraints on AHC authority over education and research development, operations or placement of individual new programs.

7) To provide control by Fairview, other than by mutual agreement, over the activities of the AHC practice plans and outreach activities.

8) To provide, allocate or use public resources to support the business of FUMC or the Fairview System.

D) What has Fairview *not* agreed to do?

1) To exclusive use or contracting with the AHC or its faculty in the provision of clinical services.

2) To exclusive use or contracting with the AHC or its faculty for education and research services.

3) To be the sole community or public supporter of AHC education and research.

4) To apply unlimited resources to support FUMC.

5) To limitation on its governance and authority.

6) To limit or constrain its development or continuous improvement of its health system.

III. THE AFFILIATION AGREEMENT

A) Governance

a) Mission

1) Fairview has agreed to change its mission statement to allow it to more deeply support research and education.

2) The new mission statement reads: "The mission of the Fairview/University Health System (new name to be determined) is to improve the health of Minnesota communities by providing excellence in health services, education and research, while meeting the physical, mental and emotional needs of individuals and families served, and honoring the spiritual dimension of health."

3) After the transaction is closed, Fairview will reconvene its Mission and values committee to consider adding a specific reference to the University. The Provost will be a member of the committee.

b) System

1) FUMC Board nominates seven of its members to the System Board (4 University, 3 Fairview).

2) University has 3 permanent, ex-officio, voting members of System Board; University VP for Finance, AHC Provost, and Dean of Medical School.

3) Research and Education Committee of the System Board:

a) Chaired by AHC Provost

b) Duties

1) Develops the education and research program of the system, including that associated with FUMC.

2) Develops research policy and procedure of the System.

3) Monitors the research and education bucket of FUMC (described below).

4) Performs periodic assessments of education and research program.

4) Scope of Authority

a) System Board has complete control over the operation of the System, including its divisions and subsidiaries.

b) Establishes all policies of the System, including policies relating to research and education.

5) Reserve Power of the University

a) University will have 3 *ex officio* representatives of the System Board.

b) At least 4 of the Division's appointed System Board Members must be University representatives.

c) The Provost of the AHC will be an *ex officio*
member of the Executive Committee of the Fairview Board of Directors. In addition, an additional University-based member of the Fairview Board of Directors will be appointed to the Executive Committee.

d) The University's Senior Vice President for Finance and Operations will be a member of the Operation and Finance Committee of the Fairview Board of Directors.

e) The Fairview Board of Directors will establish an education and research committee of the System to oversee, develop, and recommend to the Board of Directors System-wide policies and processes with respect to all health-related education and health- related research matters and to oversee all non-Medical School faculty research. This committee will be chaired by the Provost of the AHC.

f) A super majority vote of the Fairview Board is required to: (1) reorganize the Division (through a combination or merger, or transfer of all or substantially all of the assets of the Division) if such reorganization would materially and adversely affect the University's' rights under the contemplated agreements or materially impair the System's power to perform its obligations under such agreements; or (2) permit a change of control over the Division or a permanent change of control over the System if such change in control would materially and adversely affect the University's rights under the contemplated agreements or materially impair the System's power to perform its obligations under such agreements.

g) University approval is required with respect to: (1) any amendment to provisions of the Fairview Bylaws which specifies or affects the rights of the University; or (2) any sale, disposition, or transfer of substantially all of the assets of the Division or the System to any organization.

c) FUMC

1) Is a division Fairview.

2) Board of Trustees

a) 14 elected members (7 University, 7 Fairview), Dean of the Medical School, Chief of Staff/Chief of Staff-elect (one University/one Fairview)

3) Scope of Authority and Duties

a) Scope and Authority by Division

1) Responsibilities of the Board of Trustees. The Board of Trustees will have the power and duty to oversee the day-to-day management of the Division and to ensure that the Division is operated in a manner consistent with the terms of the contemplated agreements and any applicable Fairview System-wide policy or procedure and Division Policy and procedure. Such power is subject to the ultimate authority of prerogatives and responsibilities of the System as set forth at Tab A.

b) University Reserved Power Over the Division

1) A majority of the Division's Board of Trustees will be appointed by the University.

2) All committees of the Division will reflect the relative Division Board make-up as between University- based Trustees and Fairview-based Trustees.

3) The Board of Trustees of the Division will have the right to remove the administrator of the Division.

4) The administrator of the Division will be appointed by the Board of Trustees of the division upon recommendation of the Chief Executive Officer of Fairview ("CEO") after consultation with the Provost of the AHC.

5) The Provost of the AHC will participate in the administrator's annual performance review.

6) The University will have three (3) ex officio representatives on the Fairview Board of Directors. In addition, the Division will appoint at least four (4) additional University-based Trustees to the Fairview Board of Directors.

d) Responsibilities of Division and System

Division

Elect members to the System's board of directors

Monitor accreditation of Division and academic programs operated within the Division

Review and approve recommendations of the Medical Staff of the Division regarding the appointment of medical staff officers, hospital medical staff membership, and clinical privileges within the Division, subject to System-wide medical staff and privilege parameters.

Oversee quality assessment and improvement programs for services for the Division.

Monitor operational and budget performance and productivity within the Division on an ongoing basis.

Review and recommend to the System's Board of Directors the annual operating and capital budgets for the Division, including the staffing plans and budget for house staff and the medical education and research aspects of the Division.

Review and recommend to the System's Board of Directors long-range plans for the Division, consistent with the strategic plans of the System, including Division plans for medical staff coordination and development of the Division plan for medical education and research.

Appoint the Administrator of the Division upon the recommendation of the CEO of the System (in close consultation with the Provost of the AHC) and participate in the annual evaluation of the administrator.

Remove the Administrator

System

Approval of annual and capital operating budget and capital expenditures as set forth in System's capital expenditure policy.

Strategic planning

Approval of Division's annual operating plans, medical education and research plans and operating budgets.

When the System implements a System-wide credentialing process, the establishment of System-wide medical staff processes.

Approval of issuance of debt

Human resources and employee benefit matters, including p[physician employment matters in connection with physicians employed by the System.

Approval of System health plan contracting.

Establishment of System risk management policies and activities, including professional review policy and procedures.

Resolution of matters, activities or events with respect to which independent decisions of the Division are likely to have a material adverse impact on the System or its affiliated corporations or with respect to which a System-wide decision is likely to result in additional material efficiencies, quality

enhancements, or mission enhancement. **B) Mutual Commitments of Fairview and AHC**

1) Support and encourage health-related education, research and patient care at FUMC and throughout the System.

2) Support and encourage efforts to allow FUMC, the System and UMCA and Fairview affiliated physicians to compete effectively in the market.

3) Position FUMC in the market as a world-class, regional referral center.

4) Develop cost-effective care models that respond to the marketplace.

5) Provide a quality-enhancing and cooperative environment that permits the interaction of community-based and academic-based health care providers.

6) Exercise prudent stewardship of resources so that FUMC is an effective, cutting-edge provider within the Fairview System and the AHC continues to be a highly reputable health-related teaching and research institution.

7) Support health-related research, education and clinical care at the AHC.

8) Commit to continuous quality improvement.

9) Regularly consult and communicate with each other.

C) Programs

a) Baseline Programs: Those clinical programs that are operating at UMHC at the time of the agreement. These programs may also have education and research components.

1) Clinical component - may not be moved without the mutual consent of AHC and Fairview.

2) Academic component - may be moved by the Provost if it is compromised or may be compromised after consultation with CEO of Fairview.

3) Discontinuance: Provost may discontinue a program after consultation with CEO of Fairview. Fairview may elect to continue the clinical component, but not as part of the education and research bucket.

4) Downsizing: The Provost may downsize a program in scope or size. In general, downsizing will be into FUMC unless there is a compelling academic reason.

b) New Programs: These are programs that are not operational at UMHC at the time of the agreement. Each program may have academic and/or clinical components.

1) The Provost and Deans have complete discretion in the location of education and research programs.

2) Location of a clinical program requires consultation with the CEO of Fairview. The Provost and Deans have complete discretion as to whether or not to place the program at FUMC, so long as Fairview's status as a world-class academic medical center is not adversely affected.

3) If a new program is placed at FUMC or elsewhere within the System, a new agreement between the AHC and Fairview is required.

4) If Fairview initiates a new program, the CEO of Fairview shall consult with the Provost if the program is to be located other than at FUMC.

D) The Education and Research Bucket

1) This is a segregated accounting system for both revenue and expenses in the baseline programs at FUMC. Over time, by mutual agreement, new programs may be added and the scope may expand to the System.

2) The accounting system will capture all revenue and expenses related to education and research at FUMC.

a) A joint task force will determine the allowable revenues and expenses. The committee will use a consultant with experience in academic medicine to assist in developing the accounting system. Where disputes arise, an independent accounting firm with experience in academic medicine will arbitrate the dispute.

b) The joint task force will also develop:

1) An annual process for developing the education and research budget.

2) A cost accounting and reporting system.

c) Capital expenditures are not part of the bucket. Depreciation/amortization costs related to the education/research component of a capital expense by Fairview are part of the bucket.

3) Fairview's regularly retained independent accountants shall verify on a yearly basis, the actual revenues and expenses to the bucket. The University may audit this.

4) The AHC and Fairview shall split 50:50 any deficits in the bucket. Any surplus in the bucket shall go to the AHC.

5) The University shall provide 1 million dollars per month to the bucket for the first 32 months of the relationship.

6) For the first 3 years, the total expenses that may be allocated is capped at $39 million per year. A change in this amount requires mutual agreement.

7) Fairview shall make an annual grant for education and research to the AHC.

8) One goal of the relationship is to manage and reduce the costs of education and research at FUMC by $12 million over the first three years of the agreement.

9) The System's Research and Education Committee will monitor the bucket on an ongoing basis.

10) After 32 months of operation, the System Education and Research Committee shall prepare a report on the function of the bucket.

E) Fairview's Support for Education

a) General

1) Commitment applies to FUMC and may be broadened to the System.

2) Commitment applies to all students, residents, fellows, and trainees of all health professional schools assigned to FUMC.

3) Commitment is determined yearly and will be consistent with staffing patterns at similar world-class academic flagship hospitals.

4) The commitment is for a number of slots, and for the duration of training for that slot.

5) Process

a) On a yearly basis, Provost prepares a next year and a three- year plan that includes: number of trainees, and their type and budget.

b) Provost presents the plan to Division Board of Trustees.

c) Provost presents the plan to the System Research and Education Committee.

d) System Board reviews and approves/modifies the recommendations to System Research and Education Committee.

6) AHC Faculty Appointments:

a) AHC faculty appointments are made by the AHC in accord with its policies and processes.

b) FUMC privileges and appointments are determined by the FUMC Medical/Professional staff Bylaws.

c) Academic affairs are governed by AHC policies and procedures.

d) Participation in educational programs requires an AHC school appointment.

e) Community-based practitioners at FUMC are not required to have an AHC school appointment. Those without AHC school appointments are not required to follow AHC educational policies and procedures.

f) Academic chairs or heads in AHC schools are appointed via AHC policies and procedures. These appointments are separate and distinct from FUMC/System medical staff positions.

7) There will be collaboration between Fairview and AHC for continuing education for health care professionals.

8) There will be liaisons between Fairview and each AHC school dean.

9) The AHC is responsible for the quality, content and oversight of the educational programs and experience at FUMC/System.

10) Fairview is responsible for its patient care services and receives the revenue resulting from them.

11) Health professionals are responsible for the patient care services they provide and receive the revenue resulting from them.

a) AHC health professionals who provide and bill for services must do so via an approved AHC practice plan established for such services.

b) Other contract-based arrangements for health professional services are also possible and require the approval of the respective dean, and the Provost.

12) Fairview will maintain all appropriate licenses and accreditations and will assist the AHC in maintaining appropriate accreditation of its education and research programs.

13) Professional liability insurance for students, residents and fellows will be maintained as appropriate.

b) AHC School Specific

1) Medical School

a) Current programs and student, resident and fellow commitments are maintained.

2) School of Dentistry

a) Current programs and student, resident and fellow commitments are maintained.

b) Current hospital dental clinic is maintained.

3) School of Nursing

a) Current educational commitments are maintained.

b) A procedure will be established to provide recognized status for faculty pursue research and education activities at FUMC/System. Provision of patient care services by faculty will require credentialing in accord with medical/professional bylaws.

4) College of Pharmacy

a) Current educational commitments are maintained.

b) A procedure will be established to provide recognized status for faculty who pursue education and research activities at FUMC/System.

5) Allied Health Programs

a) Current commitments are maintained.

b) A procedure will be established to provide recognized status for faculty pursue research and education activities at FUMC/system. Provision of patient care services by faculty will require credentialing in accord with existing bylaws.

F) Research

1) The AHC and Fairview agree to maximize collaboration for research.

2) Policies and procedures

a) University policies and procedures apply to all academic faculty and staff.

b) For FUMC/System, the System Education and Research Committee shall develop policies and procedures for the proper conduct of research. These policies will be consistent with those of the University, e.g., Human Subjects, Conflict of Interest. Fairview will contract with the University for IRB functions by December 31, 1998.

3) Sponsoring Institution

a) Basic research: The University is the sponsor for all basic research. An academic appointment is required to be PI or conduct basic research.

b) Clinical research: This includes pharmaceutical, therapeutics and technology assessments involving patient testing. Either the University or Fairview may sponsor this research. The PI may be from the University or Fairview.

c) Outcomes/health systems research: Either the University or Fairview may sponsor this research. The PI may be from the University or Fairview. If Fairview initiates a study in this area, there must be consultation with the Provost and the appropriate AHC professional school.

4) Investment:

a) Fairview has no claim to an investment return on research, except

b) Fairview will have a claim to an investment return on that research it has specifically invested in. Such return will be determined on an individual research project basis and specified in a contract to which both parties agree prior to the initiation of the research.

5) Accounting for research:

a) Clinical research performed at FUMC by AHC faculty will be individually accounted via the bucket for education and research on an individual project basis.

b) Prior to initiation of a clinical research project, a FUMC committee will review the protocol and budget to assure necessary approvals have been obtained and that research expenses are appropriately represented in the project budget.

c) Indirect cost recovery (ICR) for each clinical research project will also be accounted for in the bucket. This applies only to that portion of ICR that pertains to FUMC.

d) Appropriate financial reporting will be provided to the project PI and appropriate parties.

e) For projects, performed in the System (not at FUMC), accounting will occur as specified in the contract between the parties for that project.

6) Clinical Research Center (CRC): FUMC will support the CRC. A separate agreement will be developed for this purpose.

7) Information access:

a) Access to information for research and education will be provided for, e.g., medical records, ancillary services, demographics, financial.

b) Compatibility of information systems between the AHC and Fairview is a desired goal of the relationship.

G) Patient Care Commitments

1) Attending physician: The attending/primary physician shall have the full authority to direct the course of his/her patient's care.

2) Patients:

a) Each shall have the right to refuse to participate in education/research activities.

b) Indigent care shall be provided to residents of the state.

c) FUMC will be open to all citizens of the state, subject only to restrictions placed by the person's payer.

3) CUHCC: CUHCC shall remain part of the AHC. Fairview's support of CUHCC will be set forth in an agreement between CUHCC and Fairview.

4) Medical Staff

a) Those healthcare professionals with appointments at UMHC or FRMC will have the same (or similar) appointment at FUMC, consistent with the Medical Staff Bylaws. Future appointments will be in accord with the Medical Staff Bylaws.

b) Performance management for patient care will be as provided in the Medical Staff Bylaws.

c) Teaching and non-teaching services will be maintained at FUMC. Participating in a teaching service will require a Medical School appointment.

d) Generally, hospital based physicians on both campuses shall have access to facilities, patients, and revenues will e proportionate to what existed at FUMC on the Effective Date.

e) The FUMC Bylaws for the medical staff will govern Medical Staff activities within FUMC.

5) UMCA/FPO: Fairview will enter into an affiliation agreement with UMCA/FPO.

H) Term and Termination

1) Term:

a) Initial: January 1, 1997, to December 31, 2026.

b) Renewal: Six additional terms of 10 years each.

2) Termination: As provided in the Dispute Resolution Agreement

3) Reviews:

a) Carried out by the System Research and Education Committee

b) First formal review is in 1999, and then every 5 years thereafter.

c) The review will focus on whether the relationship is achieving the parties goals and other such areas as the Fairview CEO and AHC Provost may wish to consider.

d) An external review group will be used, one member chosen by AHC, one by Fairview and one the AHC and Fairview agree to. Their report is to the System Research and Education Committee.

e) A final report with recommendations is issued by the System Research and Education Committee. The Provost and CEO will then develop an action plan based on the report.

I) Audits

1) Fairview shall perform a yearly audit of FUMC and System via an independent CPA. A copy of the audit with a letter of verification from the CPA will be provided to the VP for Finance of the University.

2) The University Department of Audits or its outside independent public accountant may perform a yearly audit of the FUMC Education and Research bucket and calculation of the annual grant to the AHC.