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A New Health System to Serve All Minnesotans: Combining the University's Clinical Enterprise, Essentia and Fairview

Vision and Mission

Our purpose is to create a new health system that combines the best capabilities of both community-based health and the University's academic health center, in order to expand access and bring a new level of integrated care to all Minnesotans. Our goals include providing more accessible, patient-centered, high-quality care at reasonable cost as part of a fully-integrated, financially sustainable system, one infused with humane, caring values.

We propose to combine in a single, unified organization the clinical enterprises of the University of Minnesota ("**UM**" or the "**University**"), including its UMPHysicians ("**UMP**"), Essentia Health ("**Essentia**"), and Fairview Health Services ("**Fairview**").

This new system ("**Newco**") will be dedicated to advancing the health and welfare of all Minnesotans; the University's land grant mission of health-related education, research, and unique care; and Essentia's and Fairview's historic missions of providing high-quality care to rural, suburban, and urban communities. Creating Newco also is needed to stabilize and assure the future success of UM's academic health center, and thus help ensure a continued source of well-trained physicians, nurses, and other health professionals to serve the residents of Minnesota and the surrounding region.

The transition plan to Newco requires us to work and plan together, and we all share a commitment to ensure the continuity of existing patient/provider relations. There will be no need for changes in those relationships. In fact, this expanded system will help facilitate greater access to care being provided close to home for our patients.

This proposal is a natural progression beyond the initial UM proposal to acquire only the University of Minnesota Medical Center ("**UMMC**") facilities, but with a strong "model of care agreement" linking UMMC with the entire Fairview system. Fairview did not accept our proposal, and so, after further thinking, we believe that the full combination we outline here will better achieve a truly integrated system providing the best care for patients.

We outline the main proposed terms below. But we want to stress that, in our view, this is not just a commercial transaction. It is an initiative in which all three non-profit organizations demonstrate their shared public duty. Newco provides a solution that is otherwise lacking for the ongoing and worsening challenges of the Fairview/UM relationship. It creates a unified health system that covers a great deal of Minnesota. It will be a unique and valuable resource to advance the health of the people of our State.

Key Terms

1. **Newco**. Newco will be a tax-exempt 501(c)(3) public charity organization. The University, Fairview, and Essentia will have various reserved powers, some of which will sunset at a defined date.

2. Board. Initially, Newco will have a Board of 22 voting Directors:

- 6 appointees of UM;
- 6 appointees of Essentia;
- 6 appointees of Fairview;
- 4 independents appointed by the Board; and
- The Newco CEO, as an *ex officio* non-voting Director.

The plan is for Newco to transition over a five-year period to a largely independent, community-based Board, with only two Director positions permanently designated by UM, to ensure permanent devotion to its land grant mission and role as the State's academic health center. Nominating committee will have equal number of UM, Essentia and Fairview appointees through the transition to the independent board. Supermajority votes of the Board will be required for certain matters.

3. Scope of Operations.

Newco will own and operate the legacy Fairview facilities and operations, the legacy Essentia facilities and operations, and the UM Clinics and Surgery Center. In addition, UMP will be controlled by UM, and its services (along with the physician and other provider services within Essentia and Fairview) will be functionally integrated with Newco so that, together, they function as a cohesive and coordinated health care delivery system, providing seamless care to patients across physician offices, clinics, outpatient facilities, and hospitals.

Newco will be the most comprehensive health care system serving Minnesota—the system with the broadest geographic coverage and reach, serving the most communities, and offering a complete range of care from basic primary care through the most complex, multispecialty care. Newco also expects to expand its capacity to serve patients, importantly including underserved, rural, and Tribal communities, and to enhance its outreach and telehealth services.

In the near future, and subject to customary financial planning, the UMMC facilities will be substantially upgraded as is needed and will serve as the primary tertiary/quaternary center for complex care for the Newco system.

4. Some Core Principles.

Newco's Board will adopt core governance and operating principles, such as, but not limited to, these:

- a. Newco will put patients first in everything we do.
- b. Newco will be operated as a single system, not an alliance of separate facilities, or as a mere holding company.
- c. Resources will be allocated where they can do the most good for patients, and advance the overall goals of the system.

- d. Newco will be operated so that the costs of care are efficiently managed and Newco can earn the margin that is needed to support excellent care, the capital needs of the system, and its overall missions, including appropriate support to the academic mission of UM's medical school.
- e. Newco will recognize the unique capacities and market conditions of its various components, while establishing certain common expectations of performance. For example, community-based providers, health system-employed providers, and UMP faculty have practices that differ in some proper respects. All of them will be valued and respected. And all will be expected to function productively and efficiently and to contribute to the quality and value of care.
- f. The Newco system will benefit from the unique role of UM teaching, training, and research; will also devote resources to continue and expand the community-based missions of Fairview and Essentia; and will maintain a competitive posture in the health care marketplace. Clinical trials and research innovations will be available across the whole system. UM medical students, residents, fellows, nurses, pharmacists, and other trainees will have an expanded platform in which to train and contribute, leading to an enhanced workforce of outstanding physicians and health professionals who will spend their careers serving Minnesota and surrounding communities.
- g. Newco will be infused with the values of evidence-based medicine and research, and rapid deployment of research innovations in care and cures.
- h. Newco expects to play an expanding role in value-based care and innovative models of enhancing health and controlling costs.

5. Capital Commitment and Finances.

- a. UM and Essentia will commit \$1 Billion or more to enhance Newco operations during approximately its first five years.
- b. This is not just a plan for UMMC. On the contrary, Newco will adopt an overall capital plan subject to rigorous fiscal discipline. Newco will allocate capital where it will best serve patients and advance Newco's goals. Particular projects will be approved based on need, public benefit, return on investment, and contribution to overall system success. Substantial capital will be deployed to legacy Essentia facilities, to legacy Fairview facilities, including UMMC, and to Newco growth.
- c. We expect that, by combining Essentia and Fairview, and functionally integrating UMP, we will be able to achieve significant cost savings that can be devoted to enhanced care.

6. Academic Affiliation and UMPhysicians.

Newco will always have a robust academic affiliation agreement with UM. Newco will provide an appropriate level of mission support needed to sustain a highly-ranked medical school.

The roles and authorities of academic chairs and other medical school leaders, the curriculum of academic programs, and other aspects of academic governance will remain solely matters under UM authority.

UMP and its services will be functionally integrated with the entire Newco care delivery system.

7. Management and Employees.

- a. Appropriate and respectful management transitions will be implemented. The Newco Board will appoint a single CEO who will manage the health system and report to the Board.
- b. The CEO will select a cadre of “C-Suite” and other top leaders, presumably drawn primarily from the existing ranks of both Essentia and Fairview, and, in each instance, the goal will be to select the most qualified professional. Leadership transitions, to the extent they occur, will be based on merit and leadership capabilities. Those who may leave the organization will be treated respectfully and fairly, as each organization already does.
- c. Fairview and Essentia managers and rank-and-file employees will be greatly valued and, in general, retained. A retention program and transition process will be implemented. All parties recognize that these talented people have institutional knowledge and skills that are in short supply in the market; they need to be retained and rewarded for their good performance. And, since we expect that Newco will be a larger and growing system, there should be opportunities for expanded responsibility and career growth, and for the hiring of added employees.

8. Catholic Relationship.

Essentia is a secular organization that operates some facilities under Catholic sponsorship and others that are not Catholic sponsored. The Catholic facilities will continue to operate consistent with the values and policies governing Catholic healthcare. The other legacy Essentia facilities will continue to abide by restrictions on abortion, euthanasia, and assisted suicide in a manner consistent with historic practice. But Catholic policies will not in any way govern activities at Fairview or University facilities or in University research, education, or other programs.

9. Newco Name and Branding.

Newco will operate under a newly-created name, but it has not yet been selected. Certain uses of the legacy Fairview or Essentia names might be retained for some uses at some facilities, and we welcome discussion of that.

10. Why Should the Fairview Board Support the Newco Plan?

This proposal can be seen as a natural evolution of Fairview as part of an even larger system serving a broader scope of Minnesota communities. We believe the Fairview Board should feel that their fiduciary duty—advancing Fairview’s own mission “to heal, discover and educate

for longer, healthier lives”—can best be fulfilled by committing to the Newco transformation. This is for several reasons, stated here only briefly:

- a. As is widely known, the Fairview/UM/UMP relationship has been fraught with challenges for many, many years. There is no solution in sight. Indeed, the current agreements have been formally terminated, effective less than two years hence. Any process of winding down will result in very substantial disruption to parent care, and that is an outcome that we all have a duty to avoid.
- b. Disengagement with UM also will result in significant harm to Fairview’s competitive position and standing as a health system. Fairview would also incur major stranded overhead costs and likely cause its system to shrink its employed workforce, which the University too would like to avoid.
- c. We do not believe that public officials will allow a “meltdown” of the medical school and a fractionation of UMP. If Fairview were to proceed with plans having that result, we do not believe officials charged with protecting the interests of the public will allow that. Instead, it is prudent for the Boards of all the involved parties to support a Newco solution.
- d. The average age of plant of UMMC is 15.5 years (old for a high-quality medical center), while the rest of Fairview has been “refreshed” with capital so the system’s average age is just 12 years. This is no longer sustainable, and it is not consistent with the pattern at academic medical centers nationwide.
- e. As we understand it, Fairview has no planned solution to the aging of UMMC. But Newco does—we would be infusing \$1 Billion, which Fairview cannot itself fund, and a significant part of that would be devoted to upgrading UMMC, so that it can provide high quality care for complex conditions and patient needs, and do so for years to come.
- f. Fairview was willing to cede control to an out-of-state system, Sanford, for just \$500 million. Here, we offer a solution that retains control within Minnesota, and commits twice or more than that amount of funds.
- g. Essentia brings a track record of dedication to Minnesota, successful building of a new state-of-the-art hospital in Duluth, effective service to rural communities, and fiscal discipline and effective operations. When melded with Fairview’s existing competencies, and those of UM and UMP, this should be a strong combination.
- h. The Fairview Board can be assured that the best management teams and best management systems drawn from both legacy Fairview and legacy Essentia will be deployed. Creating Newco will avoid the massive disruption in patient care attendant to a Fairview/UM breakup.

11. Transaction Process.

First, to be very clear on this point: We want a respectful, collegial transaction process that always keeps patients and the public interest in our focus. We welcome the Fairview leadership team's input and help in crafting solutions. We should all work so that Fairview, Essentia, and UM all are seen publicly as having done the right thing, and as having contributed to advancing health in Minnesota.

UM has touched base with many key public officials who have expressed their support for this process. Fairview will doubtless engage with them as well.

UM's team is led by President Rebecca Cunningham, M.D., a physician who spent her career in a leading academic health system, and by EVP/CFO Gregg Goldman, who had responsibility for the finances of two major academic health systems. They are supported by a team of UM advisors who have negotiated many health system combinations, and implemented integration efforts.

Essentia is led by CEO David Herman, M.D., and EVP/COO Jodi Mansfield, MBA. They both have experience in academic health systems, and in operating community facilities as well. Essentia has a strong culture and has demonstrated strong performance and quality. Essentia also has an experienced transaction team.

Importantly, Essentia and UM will speak with one voice in negotiating with Fairview. We are prepared to move forward on a relatively rapid timeline.

We look forward to engaging with Fairview to design a practical transaction process, including obtaining all the necessary regulatory reviews/approvals, with the goal of closing on the transaction by the end of 2025.