



# Senator David Senjem of Rochester and John Murphy of the Mayo Clinic

## Expansion key to Mayo's and state's competitiveness

A Civic Caucus Focus on Competitiveness Interview

*January 24, 2014*

### Present

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### Summary

Minnesota State Senator David Senjem and Mayo Clinic's John Murphy say that it was Mayo Clinic's and Rochester's visions and future plans that convinced the 2013 Legislature to pass a law creating Destination Medical Center (DMC), the largest economic development effort in Minnesota and one of the largest in the country. In today's competitive health care environment, Senjem and Murphy say, Mayo Clinic's continued success and growth in Minnesota depends on Rochester's ability to sustain the access, development, service and public infrastructure necessary to remain competitive with other destination medical centers.

The DMC project will bring over \$5.6 billion in private investment in Rochester over the next 20 years, along with public investment of \$585 million from state and local jurisdictions. It seeks to create at least 35,000 new jobs. Senjem stresses that none of the public dollars will be used to pay for Mayo buildings or programs. Instead, it will be used for the infrastructure investment necessary to support Mayo's expansion plans and the growth of hotels, restaurants and other amenities and services in Rochester.

Murphy points out that DMC is an economic development plan and does not address the affordability of health care. However, Senjem adds, if Mayo is going to grow, it must continue to focus on the efficiency and quality of health care. He concludes that DMC is a wise investment for Minnesota that will change the face of downtown Rochester and ensure that Mayo will continue to be embedded there.

**Issues to address.** Prior to the meeting, Murphy and Senjem were asked to prepare for questions on Rochester's Destination Medical Center project, its relationship to Mayo Clinic and its contribution to Minnesota's foundational competitiveness and investment attractiveness.

## Background

John Murphy is a public affairs specialist at Mayo Clinic. He provides communications strategy development and support for a variety of groups at Mayo Clinic, including patient/visitor experience, emergency management, volunteers and a new initiative, Destination Medical Center.

Murphy has served as part of the media relations team for Mayo Clinic and as a spokesperson to the media. In 2012, he became a hospital volunteer, serving in the roving ambassador pilot. Prior to joining Mayo in 1999, Murphy was senior vice president and director of marketing and communications for Bank One Illinois. He received his B.A. in Political Science and his M.A. in Education Administration from the University of St. Thomas. He has completed post-graduate work in Communications at the University of Wisconsin.

Minnesota State Senator David Senjem (R-District 25) represents parts of Dodge and Olmsted Counties, including part of the city of Rochester. He was first elected to the Senate in 2002 and was reelected in 2006, 2010 and 2012. He served as GOP Senate minority leader from 2007 till 2011 and as majority leader from 2011 to 2013.

Senjem serves on the following legislative committees: Capital Investment, Finance (Transportation and Public Safety Division), Taxes, and Transportation and Public Safety. His previous public service includes serving on the Rochester City Council, the Rochester Park Board and the Olmsted County Environmental Commission. He also served as vice chair of the Community and Economic Development Committee of the National League of Cities. He worked at Mayo Clinic

from 1964 until his retirement in 2008, serving in numerous roles and retiring as Environmental Affairs Officer. He has a B.A. degree from Luther College in Decorah, Iowa.

## Discussion

**Prior to the 2013 legislative session, legislators were briefed about a new vision for Mayo Clinic and the city of Rochester.** Minnesota State Senator David Senjem said legislators learned that after several years of study and analysis, Mayo developed a vision of a track toward expansion and growth, based its historical experience. "Mayo's tradition has been to be one of the finest health-care institutions on earth," he said. "The track toward continued growth reflects Mayo's need to grow to accommodate the medical marketplace and demands, prompted by anticipated changes in laws and medicine. Legislators were informed previous to the 2013 legislative session about making Mayo and Rochester a destination medical center for the world," he said.

**Based on Mayo's and Rochester's vision and plan, the 2013 Legislature passed a law creating Destination Medical Center (DMC).** The DMC website describes the project as "an innovative economic development initiative to secure Minnesota as a global medical destination now and in the future." In today's competitive health care environment, the DMC says, "Mayo Clinic's continued

success in Minnesota depends on Rochester's ability to sustain quality access, development, service and public infrastructure necessary to remain competitive with other destination medical centers in the U.S. and abroad."

The website calls the DMC initiative the largest economic development effort in Minnesota and one of the largest in the country. "It will result in significant economic benefits for the state and local jurisdictions and will create significant job growth and new business opportunities," DMC says.

Mayo Clinic employs 40,600 Minnesotans, 33,400 in Rochester. It claims a \$9.8 billion economic impact in the state, four percent of Minnesota's Gross Domestic Product. It provides \$1.5 billion in tax revenue to Minnesota state and local governments.

DMC and the city of Rochester say key elements of the DMC strategy are the following:

- Over \$5.6 billion in private investment in Rochester, Olmsted County and Minnesota, approximately \$10 in private investment to every \$1 in public investment.
- Public investment of \$585 million from state and local jurisdictions.
- The investment is not an upfront payment, but is structured over a 20-year period.
- None of the public dollars will be used to pay for Mayo buildings or programs.
- Seeks to create at least 35,000 new jobs in Minnesota and bring tax revenue in excess of \$7 billion to the state.
- By relying upon the draw and attraction of one of the world's leading medical institutions and by expanding the availability of lodging establishments, restaurant offerings, arts venues and attractions and entertainment options, the goal is to attract more employees and patients who want to come to Rochester for their health care.

See <http://www.rochestermn.gov/departments/administration/dmc/index.asp> and <http://dmc.mn/dmc-overview.php> for more information on DMC.

**Mayo investments and other private investments over the 20-year period of the DMC project would be equal to the cost of three Disney Worlds in downtown Rochester.** Senjem said Mayo's planned investment of \$3.5 billion and \$1.5 billion in other private investments aligning with theirs would bring a substantial new tax base to Minnesota. As a way to explain the significance of DMC to legislative colleagues, he pointed out that "when Disney World came to Orlando they spent \$311 million to build the complex. That's worth \$1.7 billion in today's economy. Mayo's plan is equal to three Disney Worlds in downtown Rochester. That's a pretty dramatic investment within our community. This is going to change the face of downtown Rochester. "

**Building permit values will determine the size of the state's and the city's contributions to a city infrastructure fund for DMC projects.** Senjem said Rochester's property taxes, even though Mayo pays \$8 million a year, covers city police, fire and part of public works, but not the infrastructure needs for the anticipated new growth. "The thought was," he said, "if we're going to grow the state's tax base substantially, is it possible to capture a portion of that new tax base and put it back into the

infrastructure investment it's going to take for Mayo to make all this happen within the city of Rochester?"

After considering several options for doing this, it was determined that the state and the city will index their contributions to the DMC project off new building permit values. The state and city contributions to the DMC infrastructure pool will be equal to 2.75 percent each of the building permit values of any new buildings or expansions, Mayo and non-Mayo, in the yet-to-be-defined "medical district" of the city. Senjem referred to this method of financing as "building permit-increment financing." He was contrasting it to tax-increment financing (TIF), in which a city captures the total property taxes on the increased property values in a certain area to finance costs of development and redevelopment projects. TIF may be used on selected DMC projects.

Senjem said that no state money flows to Rochester until Mayo's and other private investment has reached \$200 million, as determined by building permit value. At that point, the state authorizes 2.75 percent of \$200 million, or \$5.5 million, to go into the infrastructure pool for DMC, up to a total state cap of \$327 million over the life of DMC. The city of Rochester will put the same amount of money into the pool, up to a total city cap of \$128 million. The DMC legislation authorizes the city to raise these funds from local taxes, such as sales taxes, lodging taxes and food and beverage taxes.

The DMC economic development agency will propose the boundaries of the medical district, with final approval given by the DMCC board, working in concert with the Rochester city council. Senjem said the district would likely encompass the city's downtown area, probably somewhere between Mayo and St. Mary's Hospital campus and where the future University of Minnesota campus is planned.

Responding to a question, Senjem clarified that the city, not Mayo Clinic, gets the state and city money dedicated for infrastructure needs, whether for new Mayo buildings or for new hotels, restaurants or other amenities.

**About 30 percent of patients' time when they come to Rochester is spent at Mayo Clinic and about 70 percent is spent in the outside community.** Mayo Clinic Public Affairs Specialist John Murphy said that in 2009, then-Mayo CEO Dr. Glenn Forbes recognized that while almost everybody has a positive Mayo Clinic story, people are not necessarily happy with their experiences in the larger Rochester community. Forbes, whom Murphy described as a visionary, wondered how the community could better embrace Mayo's patients. He asked what Mayo's vision and strategy were and started exploring how Mayo and the city of Rochester could become a medical destination. "The competition is great," Murphy said. "Other medical centers in the U.S. are doing this, such as the Cleveland Clinic and Johns Hopkins. They have strategies for creating medical destinations."

"That's how it was born," Murphy said. "It evolved into the idea of how Rochester can support Mayo's continued growth and expansion."

**The DMC strategy is not just about keeping Mayo competitive, but also about keeping Minnesota the world's center of medicine.** Mayo's strategy, Murphy said, needed to look at how the clinic stays competitive and what the effect of the Affordable Care Act (ACA) will be. "It's Mayo looking at our market, looking at the competition and changes in health care and saying 'How can we best meet the needs of people seeking care?'"

"Minnesota is the epicenter of so many new medical devices, so many new things," Murphy said. "We have the University of Minnesota and Mayo Clinic. How do we keep Minnesota as that center? That's what Destination Medical Center does. It says, 'This is our investment.'"

**Mayo provides the "pinnacle of care."** Responding to a question about how clinics from smaller towns might feed into Mayo, Murphy referred to the concept of a "pinnacle of care." "At the top of the triangle are the really hard, complicated, tough cases that Mayo Clinic in Rochester has become famous for," Murphy said. "At the bottom of the pyramid is care closer to home, things like calling a nurse line, moving up to urgent care or convenience care or the emergency room of your local hospital. They all feed those hard, complicated cases up to the pinnacle of care."

**Mayo decided that the top of the pyramid will be at Mayo Clinic in Rochester.** When asked why Mayo made that decision, Murphy said mostly it was the history of Minnesota, Mayo's tradition here, its love for the state and the work ethic here. "Minnesota is home to the Mayo Clinic," he said.

"We never had an inkling of a suggestion that Mayo would move out of Minnesota," Senjem added. "For me, however, as a legislator, as I often told people, 'We've got one swing of the bat on this one. We'd better hit the ball.' If not, I honestly feared there would be other decisions and other directions that Mayo might take."

"Why would you stay in Rochester?" he asked. "Except there's a medical culture and exceptional people there in terms of the workforce. You can move the equipment. You can move the buildings. But you can't move those Minnesota values and that culture of caring we have in Rochester."

Attracting the needed workforce to Rochester ties right into the DMC concept, Murphy said. DMC is designed to get the patients Mayo needs and also to attract and retain the very best medical talent in Rochester. "Are we creating the environment there where world-class scientists will want to be?" he said.

**Telemedicine is part of the strategy of providing the most appropriate care at the right place at the right time.** According to Murphy, the ACA is focusing people more on their health care and their health care dollars. I think telemedicine is going to be part of that. People are going to say, "What's the most efficient, best-value way to do it?"

Senjem noted that the Mayo Health System has 50 or 60 clinics across southern Minnesota and northern Iowa that are all wired into Mayo Clinic through telemedicine.

**Minnesota's Department of Employment and Economic Development (DEED) was not deeply involved in the DMC proposal.** "The Department of Revenue and the Department of Management and Budget worked with us," Senjem said. "The governor's office certainly was supportive in urging agencies to work with us. DEED doesn't have a lot of money to work with. The Minnesota Investment Fund is not heavily funded compared to other states. They're somewhat limited in their ability to provide financial assistance. They might be able to carve through permit issues. They're pretty limited in terms of building businesses in Minnesota. DMC was a piece of legislation and we had to sell it to our legislators, as opposed to selling it to agencies."

An interviewer asked what the one toughest question from other legislators was. Senjem answered, "Why should a city with its streets paved in gold be given this much extra attention?' That's the way legislators think. We had to overcome that perception."

**Hospitals are partially subject to the property tax.** Senjem said that the parts of a hospital involved in medical care are taxed, while the parts involved in research and education are exempt.

**Other business incentive legislation would likely have passed, even if the Mayo package had not.** An interviewer asked whether state incentives or state authorization for local incentives for 3M in Woodbury, Shutterfly in Shakopee, Baxter International in Brooklyn Park, and the Mall of America in Bloomington would have passed the Legislature if the Mayo package had not passed. Senjem said he thought the other proposals would have passed anyway, because they were reasonable. "I think whatever we can do reasonably to entice investment we ought to do," he said.

**Two nonprofit boards, established by the DMC legislation, will manage and control DMC and create the plan for the initiative.** Murphy said that the legislation establishes two boards. The nonprofit, public Destination Medical Center Corporation (DMCC), established by the legislation, manages and controls the initiative. The private, nonprofit Economic Development Agency (EDA) was established by the legislation to assist in preparing a plan guiding all public and private development projects intended to attract people to Rochester.

Murphy said DMC is entering a community input phase. Eight key areas have been identified as part of the visitor/employee experience component of DMC. In each area, groups are being formed to gather community input and ask residents what their vision is for what Rochester should be. That information, he said, will be used to help devise the master plan and the land-use plan, in conjunction with the city of Rochester. This phase is also when Mayo's vision of what it needs comes into the planning.

"We're in the embryonic stages of this," Senjem added.

**DMC is not aimed at improving the affordability of health care.** In response to a question about what in this vision is going to make health care more affordable, Murphy clarified that DMC is an economic development plan for the state to keep Minnesota globally competitive. He said it doesn't address the affordability of health care.

Senjem said if Mayo is going to grow, efficiency and quality of health care have to continue to be part of the Mayo theme: a quality result in an efficient way at an affordable price. Mayo will continue to address cost reductions. An interviewer commented that the image of Mayo is that you're spending more to get what you need. He asked if Mayo is going to be a place that serves the poor. Murphy said 80 percent of Mayo's patients come from within 120 miles of Rochester, 18 percent are national patients and two percent are international.

An interviewer asked what in the \$3.5 billion investment Mayo is making would have a positive effect on cost structure. Senjem said he didn't think anything in the investment would, but said most of the

\$3.5 billion will come from grateful patients and benefactors, rather than from patient payments. Mayo has departments on health care efficiency and how you can get the most out of the medical dollar. "It's a central core value there," he said.

**Don't lose sight of Mayo's leadership in state-of-the-art technology and capability.** An interviewer commented that with all the discussion of cost, we don't want to lose sight of the leadership and state-of-the-art medical technology and capability that Mayo provides by being out front in type of care, procedures, research and treatment. That has to be part of the dialogue, he said. Senjem noted that Mayo's team approach to medicine can make a real difference in outcomes.

**Rochester will need remote parking ramps and a way to get people into downtown.** Responding to a question about Mayo's view of what the city and county should be doing to advance DMC, Senjem said, "If we're going to add 35,000 new employees, our downtown will change. We can't just keep building new parking ramps. We need remote parking with ways to get people into downtown, whether by rail or express bus. We must have a way to move people." He said Mayo employees don't directly pay for parking, but patients do pay.

**The state and Olmsted County will provide transit aid for DMC.** An interviewer asked whether Rochester's airport will have to grow and what the implications are of high-speed rail. Murphy said there is a transportation input group. Senjem pointed out that Rochester's airport has an 11,000-foot runway. He said the state will provide the city with \$116 million over 20 years for transit aid specific to DMC, along with a contribution of \$33 million from Olmsted County. The DMC money must stay within the medical district in the city.

**Part of EDA's role is to recruit businesses to Rochester.** An interviewer asked who is reaching out to companies and startups to let them know that Rochester is a place they could locate their businesses. Senjem said that is part of the role of the EDA. "Not only do they create the plan and the vision, they also go out and recruit the companies," he said. "It might be a hotel; it might be a biotech company." Murphy said the needs of biotech companies are changing and they prefer an urban environment. "Young people want to work downtown, live downtown," he said. "I think attracting that group is going to be a major emphasis."

**Mayo has enough property for its own expansion.** An interviewer asked about land assembly issues for DMC. Senjem pointed out that Mayo owns a lot of land to the south and towards St. Mary's. "It will be awhile before they run into that kind of issue with respect to the expansion," he said. Murphy said Mayo has the property it needs to do its own expansion.

**DMC estimates there will be 35,000 new jobs in Rochester over the next 20 years related to the DMC project.** Mayo has 33,400 employees in Rochester right now. Senjem said some of the new jobs will be at Mayo and some will be in hotels, restaurants, and other businesses complementing Mayo's expansion.

"Finding people for the jobs going forward is probably one of biggest challenges in the future," he commented. He said there is an early interest in modeling the German apprenticeship program in Rochester for higher technical education.

**Mayo has a large economic impact on Rochester.** Responding to a question about the economic impact of Mayo, Murphy noted that Mayo employees live in 60-some of Minnesota's 87 counties. Senjem added that 56,000 employees come into the Rochester area every day, not all to Mayo, but largely because of the influence of Mayo on the city's economy.

An interviewer pointed out that many of the people in surrounding small towns work at Mayo. They have good jobs, and they can live in a small town and their kids can go to small high schools.

**The University of Minnesota Medical School and Mayo Medical School have two different cultures.** An interviewer asked whether there is something the University of Minnesota Medical School and Mayo Medical School could do together so that the expansion of medical education would be in Rochester. Murphy said there are a lot of partnership programs between Mayo Clinic and the University of Minnesota, Rochester, which now has approximately 500 students.

Senjem added that in the early years of Mayo Medical School, which has 43 students per class, there would regularly be criticism at the time of reaccreditation that there wasn't enough classroom time. But, he said, Mayo Medical School's model is that students work and learn alongside a physician. "Mayo students learn by seeing and doing and listening, as opposed to being in the classroom," he said. "So you have two cultures that would need to come together. "

## Conclusion

In conclusion, Senjem said, "As far as I know, DMC is one of the largest economic development programs by any state in the history of this country, in terms of money. It's a magnanimous sort of undertaking. I think it's a wise investment for Minnesota. Mayo will now and forevermore be embedded in Rochester. All of us are going to have access to the finest medical care in the world."

"The future looks bright," Murphy added.