



UConn Budget and Key Issues

Board of Trustees
Financial Affairs Committee

DRAFT

Key Issues – UConn & UCH

Over the past decade (since FY10), UConn and UConn Health have faced **\$166M** in State cuts, fund sweeps and rescissions and have paid **\$1.9B** in fringe costs from non-state funds*.

- High fringe benefit costs, due primarily to the State's unfunded liabilities, are impacting UConn's and UConn Health's competitiveness.
 - **Research competitiveness** – UConn and UCH research fringe rates are about 20% points higher than our peers. This results in less research grants, research dollars, innovation and commercializing technologies.
 - **Clinical competitiveness** – Current state fringe rates for UConn Health's John Dempsey Hospital are 45% higher than other Connecticut hospitals. This results in tens of millions of dollars in more costs for UConn Health to provide clinical care compared to other hospitals in the state.
- With the additional \$33.2M of State support to cover the unfunded liabilities, the original UCH projected FY20 cash shortfall of \$40.3M, now drops to \$7.1M.

*Non-state funds include tuition, fees, patient revenue, grants and contracts, and revenue from sales and services.

State Support

The State is a strong partner to UConn, supporting most of debt service and about half of regular salary and fringe costs.

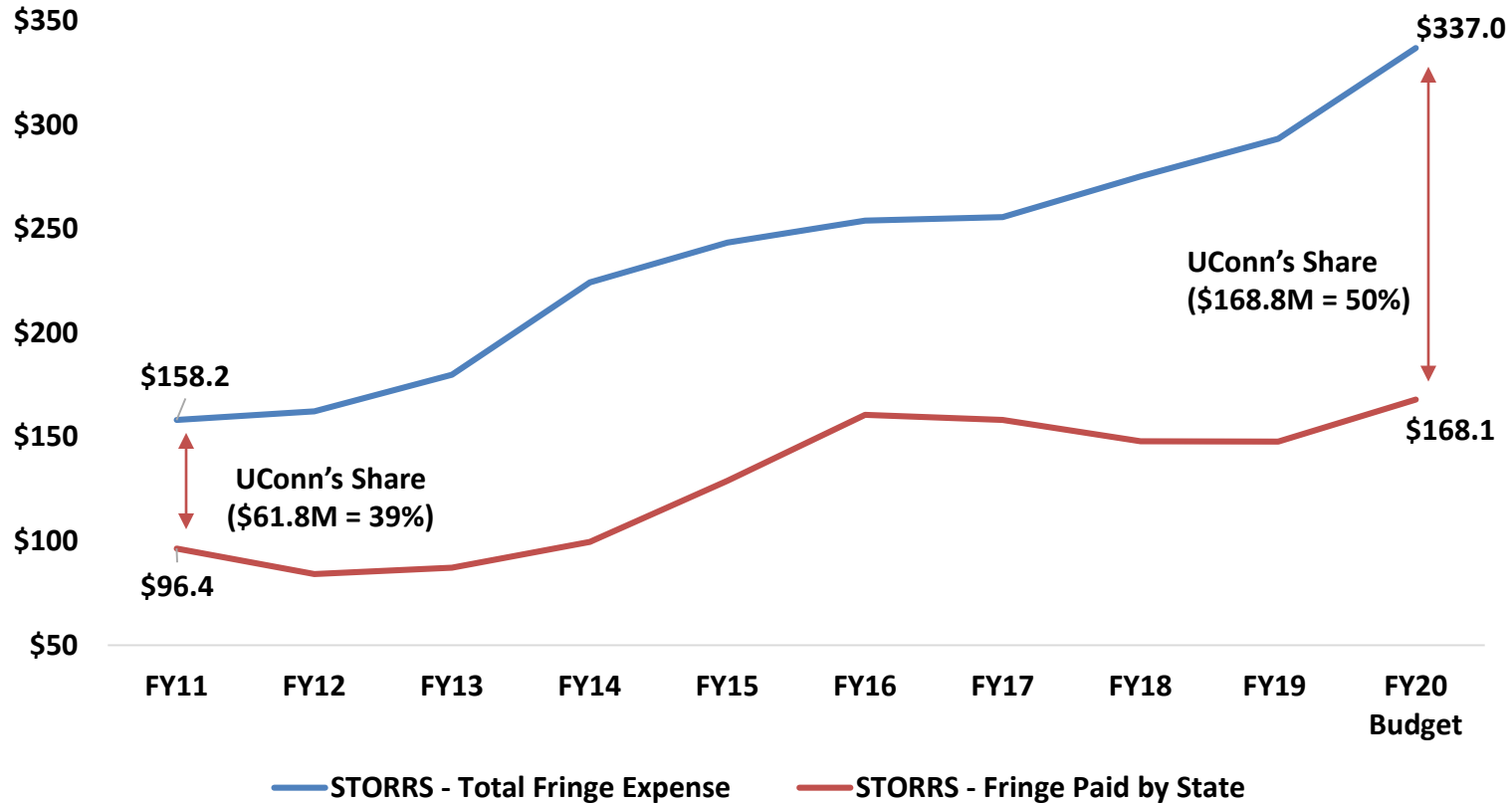
FY20 Funding Split (\$M)	State		UConn - Storrs		Total
Salaries – Faculty & Staff	\$198.1	47%	\$227.9	53%	\$426.0
Salaries – Temporary Payroll	\$0	0%	153.3	100%	\$153.3
Fringe Benefits	\$168.1	50%	\$168.8	50%	\$336.9
Financial Aid	\$9.0	5%	\$185.7	95%	\$194.7
Other Expenses	\$21.6	7%	\$304.1	93%	\$325.7
Debt Service*	\$212.1	89%	\$27.0	11%	\$239.1
<u>Total State Support</u>	<u>\$608.9</u>				

*State debt service attributable to both UConn and UCH

UConn funds come from tuition, fees, federal & private grants, sales & services revenue and foundation reimbursements.

UConn Pays Increasing Share of Fringe Costs

As fringe costs rise, and State covers smaller share, UConn pays more for fringe expenses and less for student service expenses.

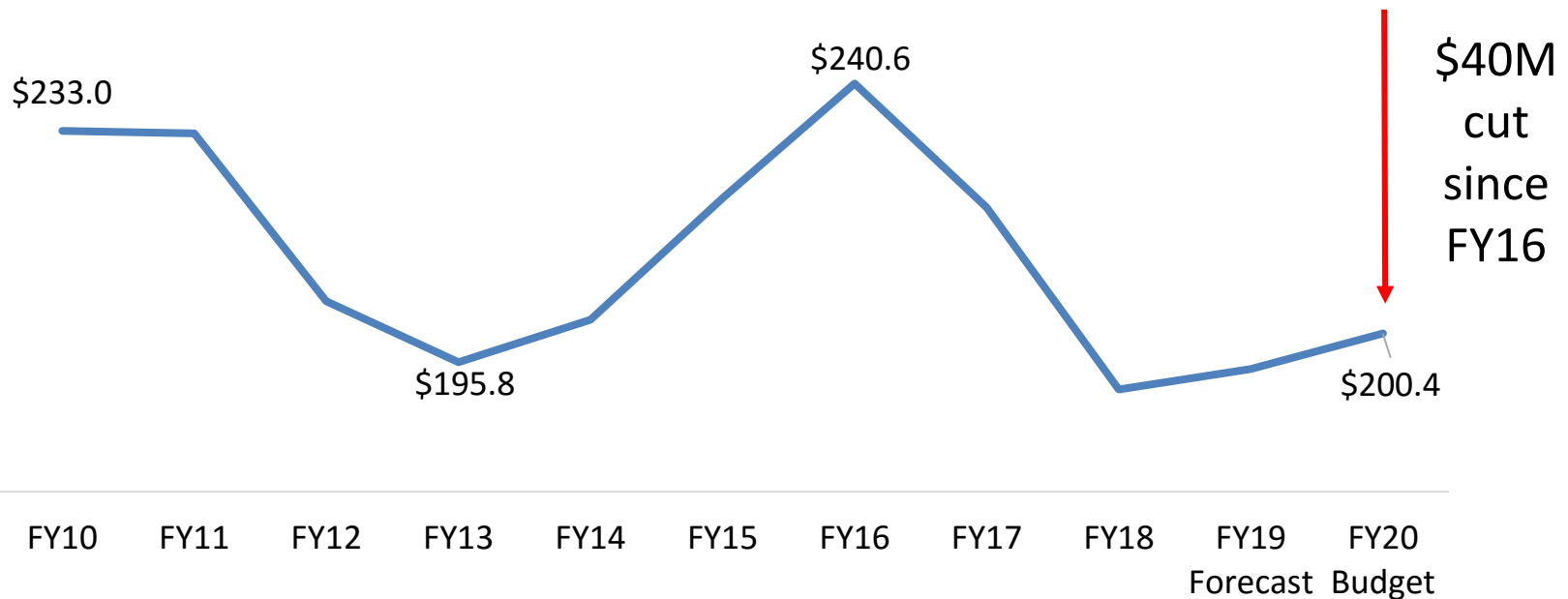


Fringe rates are dictated by the State Comptroller's Office. UConn has no input or control over these rates.

State Block Grant

The State block grant is only used for salaries of University employees, but it only covers 47% of all employees.

- Since FY10, the State block grant has averaged ~\$214M per year - the FY20 budgeted block grant is ~\$14M less than this 10 year average.
- The remaining 53% of employees are funded by non-State revenue sources including tuition and fees, auxiliary enterprises, research, grants and contracts, Foundation, and sales and services.



Fringe Benefit Rate Components - SERS

The State Comptroller develops the fringe benefit rates and the University is charged those rates for each employee.

Below is an example showing the components of the fringe rate for an employee who is a member of the State Employees Retirement System (SERS)** with an annual salary of \$100K.

FY19 State Fringe Benefit Rate Components

State Retirement (SERS) **	64.30%
FICA SS	6.20%
FICA Medicare	1.45%
Unemployment Compensation	0.23%
Group Life Insurance*	~0.20%
Health Insurance*	~24.02%
	96.40%
*Rates vary according to coverage selected	

Unfunded Pension Liability	33.61%
Retiree Health	20.94%
Normal/Current Retire. Costs	5.30%
Other Post Employ. Benefit Costs (OPEB)	2.86%
Administrative Costs	0.37%
Roll-forward/Adjustments	1.22%
	64.30%

**Other retirement options are available for non-classified employees (Alternate Retirement Plan (ARP) Rate at 14.50%), however 63% of our current employees are on the SERS State plan.

	UConn Storrs & Regionals		UConn Health	
Retirement Plan	Headcount	%	Headcount	%
SERS	3,030	62.9%	2,731	62.7%
ARP	1,778	36.9%	1,607	36.9%
Teachers	13	0.3%	17	0.4%
	4,821		4,355	

FY20 Combined Budget

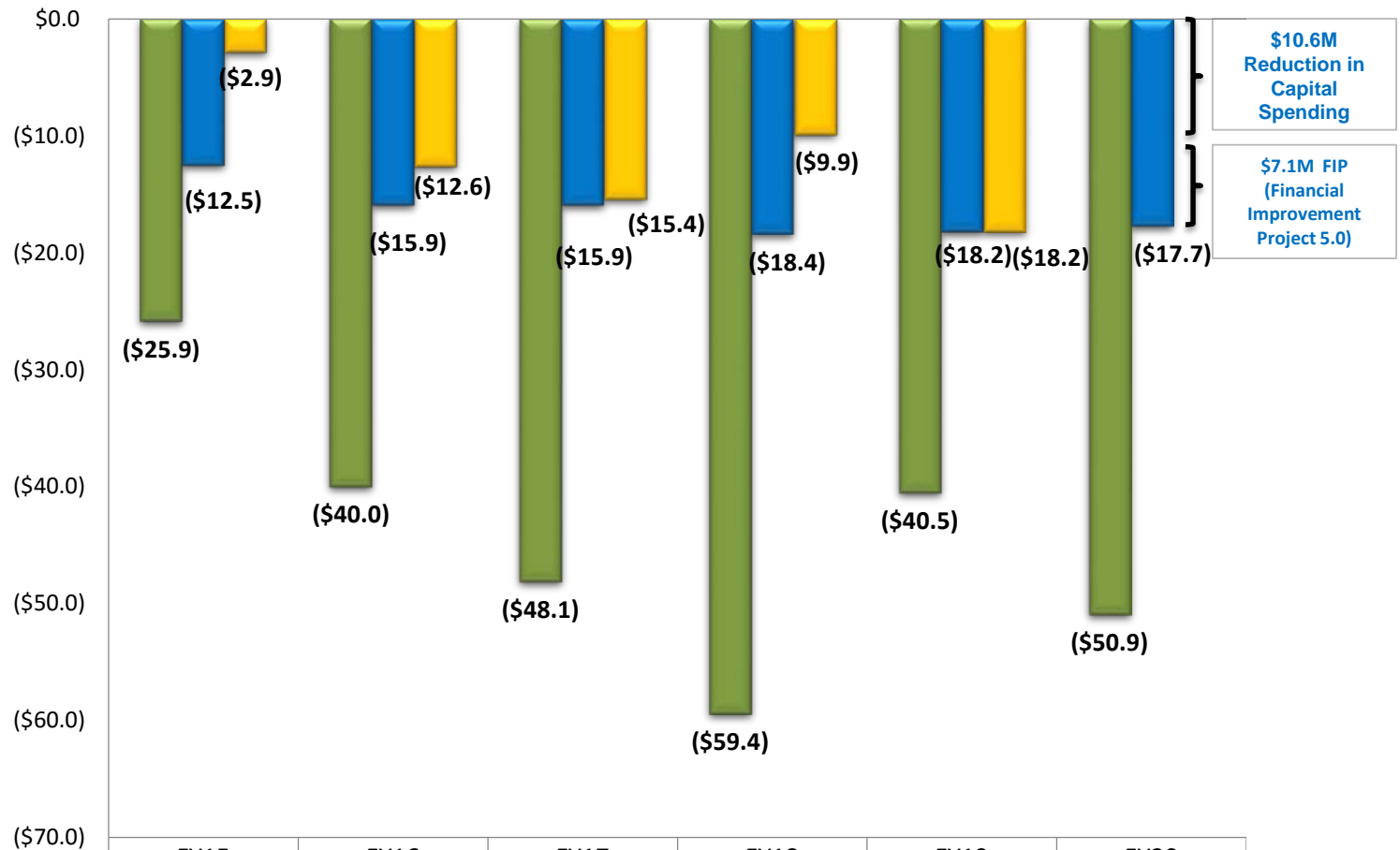
The deficits are manageable but would be non-existent without the unfunded SERS Liabilities.

FY20 Budget (\$M)	UConn-Storrs & Regionals	UConn Health	Combined Total
State Block Grant	200.4	128.2	328.6
Fringe Benefits & Adjustments	66.8	63.4	130.2
Total State Support	\$ 267.2	\$ 191.6	\$ 458.8
All Other Revenues	\$ 1,072.5	\$ 938.4	\$ 2,010.9
Total Revenues	\$ 1,339.7	\$ 1,130.0	\$ 2,469.7
Total Expenditures	\$ 1,328.3	\$ 1,126.2	\$ 2,454.5
Operating Gain/(Loss)	\$ 11.4	\$ 3.8	\$ 15.2
Unfunded SERS Pension and Retiree Health Costs	\$ 135.4	\$ 125.3	\$ 260.7
Less amount funded by the State	\$ 104.4	\$ 70.6	\$ 175.0
Additional State Support for FY20		\$ 33.2	\$ 33.2
Net SERS Unfunded Pension and Retiree Health Costs	\$ 31.0	\$ 21.5	\$ 52.5
Non-Operating Gain/(Loss)		10.6	
Excess/(Deficiency)	\$ (19.6)	\$ (7.1)	\$ (26.7)

UConn HEALTH

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Financial Overview



Original Projection w/o Intervention	(\$25.9)	(\$40.0)	(\$48.1)	(\$59.4)	(\$40.5)	(\$50.9)
Final Budget and Proposed FY20	(\$12.5)	(\$15.9)	(\$15.9)	(\$18.4)	(\$18.2)	(\$17.7)
Actuals/Forecast FY19	(\$2.9)	(\$12.6)	(\$15.4)	(\$9.9)	(\$18.2)	

FY20 Budget Key Drivers of Deficit

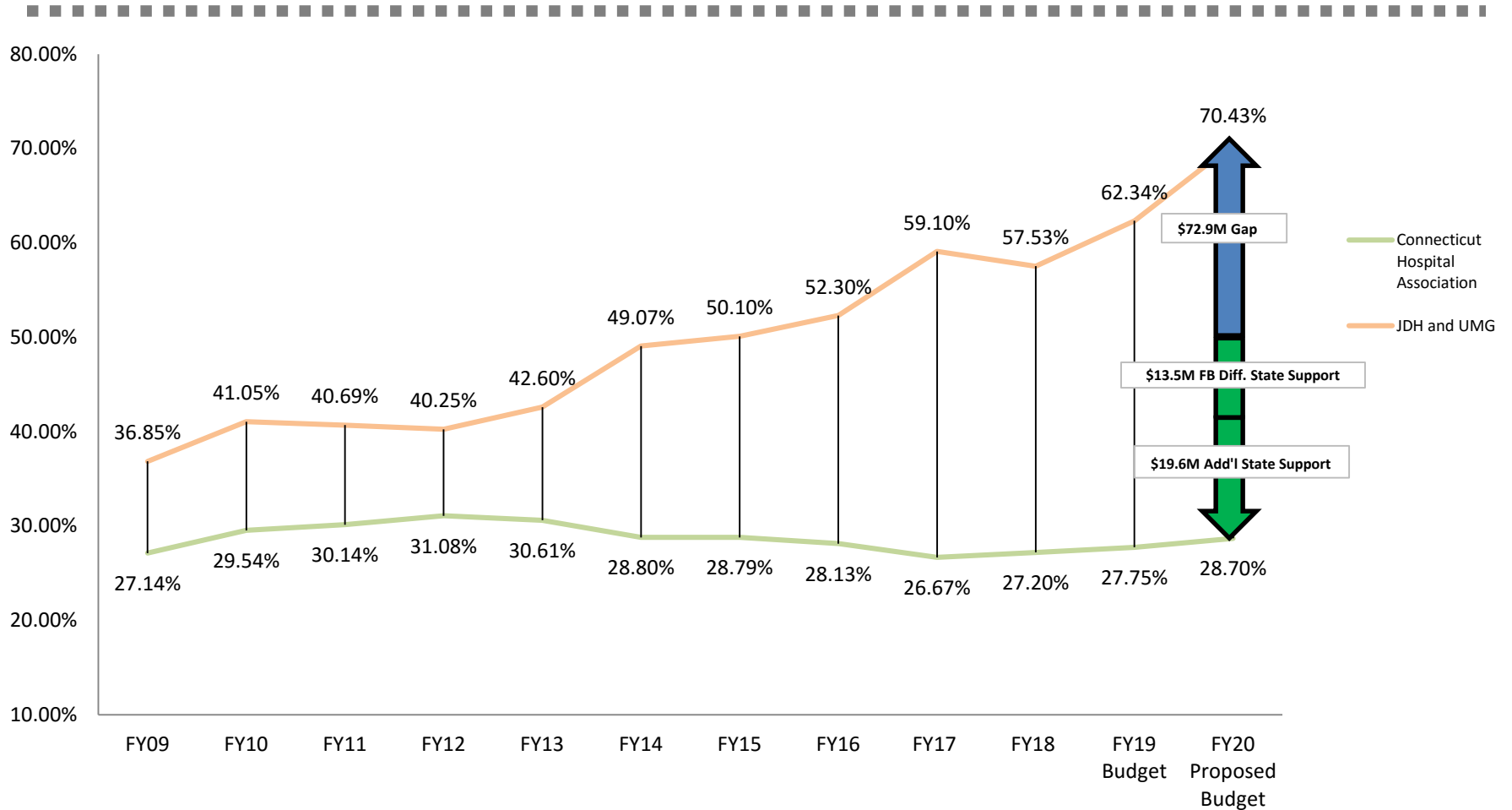
REVENUE:

- Dermatology Department Updates
 - Mohs move from Hospital Based to Office Based Clinic
 - Provider Ramp-up
 - Pharmacy Utilization Decrease
 - DOC Pharmacy Contract
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EXPENDITURES:

- Salary – SEBAC 5.5% CBI Increases
- Fringe Benefits –
 - Salary CBI increases
 - Full Impact of the SAG Award
 - 9% Health/Dental/Pharmacy Insurance Increase and estimated Retirement rate increase

Clinical Enterprise – UMG and JDH Fringe Benefit Differential



For FY20, the difference in rates is expected to result in over \$106M of additional costs to run the Clinical Operations compared to other area hospitals.

UConn Health receives some Fringe Benefit differential support from the state in the amount of \$13.5M and an additional state support of \$19.6M (clinical portion of the \$33.2M), resulting in a gap of nearly \$72.9M.

FY19 Actuals vs. FY20 Proposed Budget

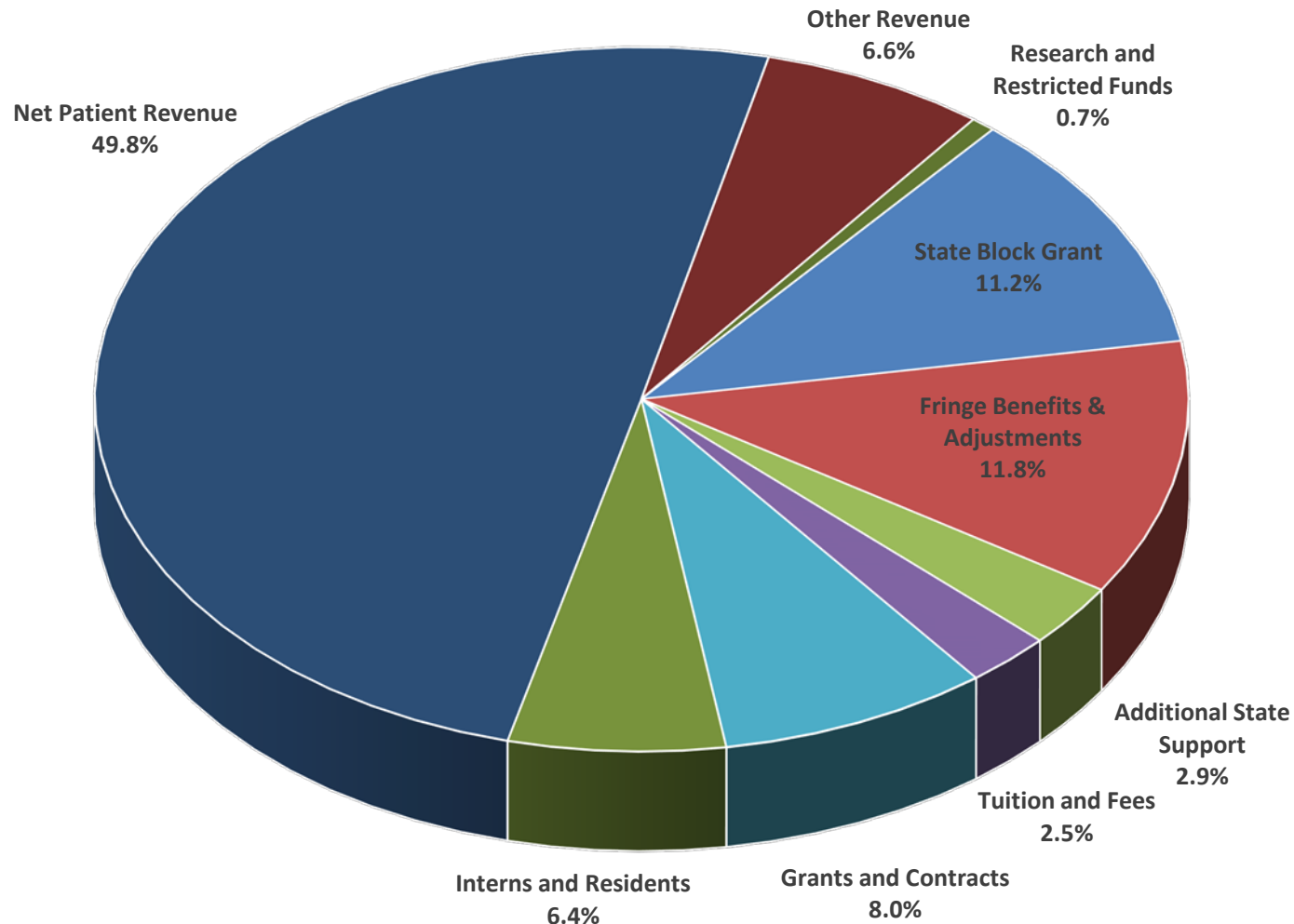
	FY2019	FY2020			
	Forecast	Proposed Budget	Variance	% Variance	
Operating Revenue and Expense (\$M)					
State Support Salary	\$ 122.8	\$ 128.2	\$ 5.5	4.5%	↑ Increase in State Funding for CBI's
State Support Fringe	63.1	63.4	0.3	0.4%	↑ Increased fringe reimbursement (includes SAG impact)
Tuition and Fees	27.4	28.6	1.2	4.4%	↑ Tuition rate increase per BOT approval
Grants & Contracts	84.8	91.1	6.4	7.5%	↑ Increase in Grant spending
Interns/Residents	69.4	73.1	3.7	5.3%	↑ Increase offset by program expenses noted below
Net Patient Revenue	542.8	568.1	25.2	4.7%	↑ 1% rate increase and increase in DSS Enhanced Payments
Other Revenue	195.4	169.2	(26.2)	-13.4%	↓ DOC Pharmacy Contract
Total Operating Revenue	\$ 1,105.7	\$ 1,121.7	\$ 16.1		
Research and Restricted Funds	23.72	8.3	(15.46)	-65.2%	↓ EPIC project funds in FY19
Total Current Funds Revenues	\$ 1,129.41	\$ 1,130.0	\$ 0.61		
Personal Services	\$ 419.0	\$ 443.4	\$ 24.4	5.8%	↑ CBI Increase
Fringe Benefits	159.0	180.8	21.7	13.7%	↑ Fringe rate increase; SAG award impact; CBI increases
Drugs/Medical Supplies	126.0	112.8	(13.2)	-10.5%	↓ DOC Pharmacy Contract
Other Expenses	350.4	352.9	2.4	0.7%	↔
Depreciation	30.4	28.1	(2.2)	-7.4%	↓ Higher debt service payments; less available for projects
Total Operating Expenses	\$ 1,084.8	\$ 1,117.9	\$ 33.1		
Research and Restricted Funds	23.72	8.3	(15.46)	-65.2%	↓ EPIC project funds in FY19
Total Current funds Expenditures	\$ 1,108.54	\$ 1,126.2	\$ 17.66		
Operating Margin	\$ 20.9	\$ 3.8	\$ (17.0)		
Unfunded SERS Pension & Retiree Health Payments & Revenues					
Unfunded SERS Pension and Retiree Health Costs	\$ (101.0)	\$ (125.3)	\$ (24.3)		
Less amount of Unfunded SERS Pension and Retiree Health Costs funded by the State	62.0	70.6	8.7		
Additional State Support for FY2020	-	33.2	33.2	100.0%	↑ Additional State support for Unfunded Liabilities
Net UCH non-state fund payments for Unfunded Pension and Retiree Health Costs	\$ (39.1)	\$ (21.5)	\$ 17.6		
Excess/(Deficiency)	\$ (18.2)	\$ (17.7)	\$ 0.5		
Cash Flow					
Transfer for Capital/Debt Service	\$ 30.4	\$ 28.1	\$ (2.2)		
Principal Payment on Debt	(7.0)	(8.5)	(1.5)		
Capital Equipment/Projects	(5.1)	(9.0)	(3.9)		
Non-Operating Gain/(Loss)	\$ 18.2	\$ 10.6	\$ (7.6)		
Total UCH Cash Excess/Shortfall	\$ 0.0	\$ (7.1)	\$ (7.1)		

FY20 Proposed Spending Plan

	FY2020
(\$M)	Proposed Budget
State Support Salary	\$ 128.2
State Support Fringe	134.0
Additional State Support	33.2
Total State Support	\$ 295.46
Tuition and Fees	28.6
Grants and Contracts	91.1
Interns and Residents	73.1
Net Patient Revenue	568.1
Other Revenue	169.2
Total Operating Fund	\$ 1,225.6
Research and Restricted Funds	8.3
Total Current Funds Revenues	\$ 1,233.9
Salary and Wages	443.4
Fringe Benefits	306.1
Drugs and Medical Supplies	112.8
Other Expenses	352.9
Debt Service and Projects	17.5
Total Operating Fund	\$ 1,232.6
Research and Restricted Funds	8.3
Total Current Funds Expenditures	\$ 1,240.9
Current Funds Loss	(7.1)
Financial Improvement Project FY20	7.1
Net Gain/(Loss)	0.0

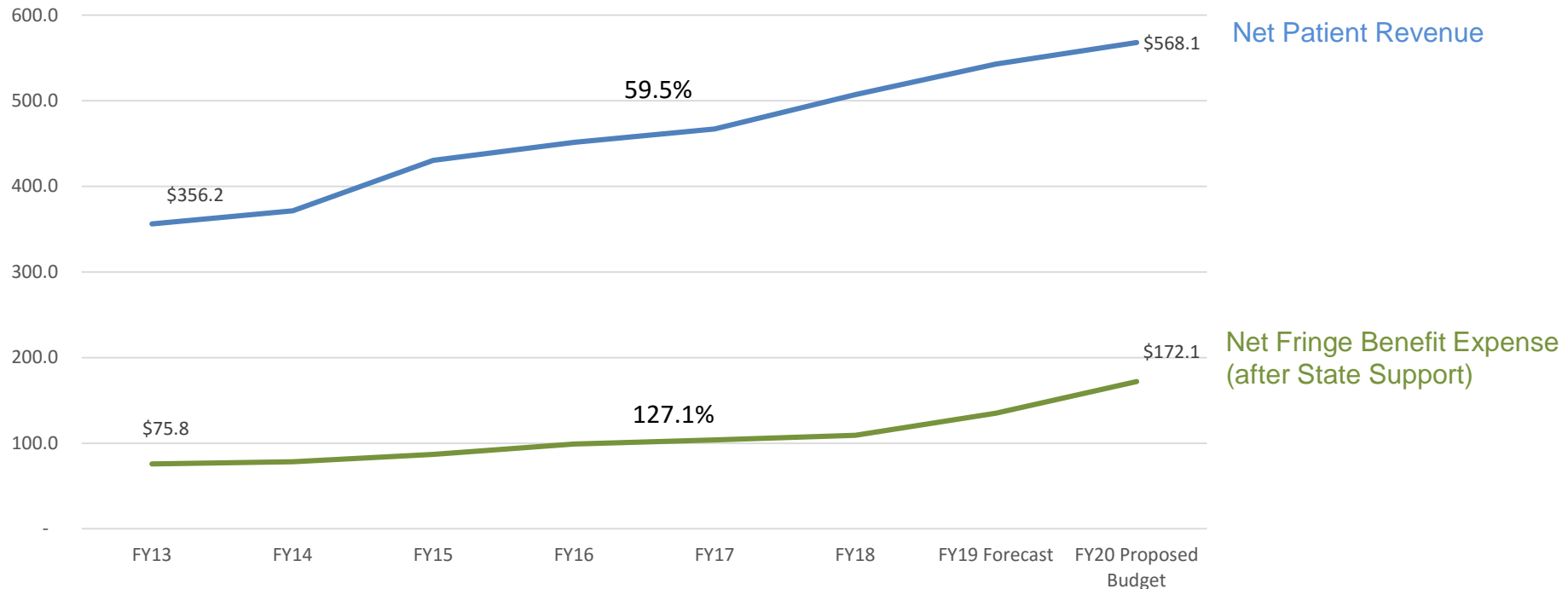
FY20 Revenue by Category (with eliminations)

Net Patient Revenue represents 50% of Total Revenue



Net Patient Revenue

Net patient revenue is projected to increase \$25.2M in FY20.



Net Patient Revenue

FY20 Includes:

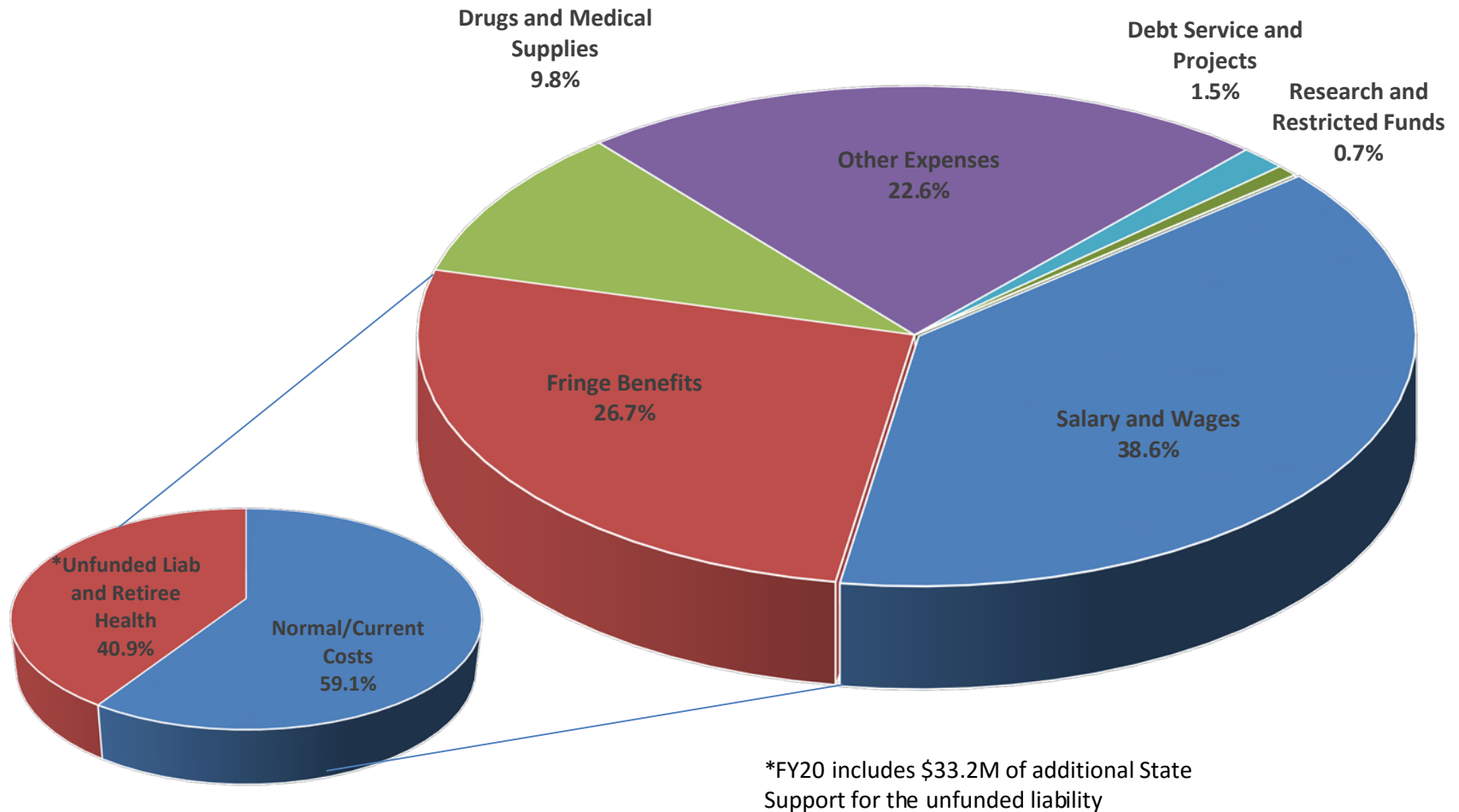
\$439.5M John Dempsey Hospital

\$118.4M UConn Medical Group

\$ 10.2M Dental Clinics

\$568.1M

FY20 Expenditures by Category (with eliminations)



UConn Storrs & Regionals Operating Budget

UConn Proposed Budget

In FY20, UConn's bottom line would be fine without the unfunded liabilities.

Revenues (\$M)

	<u>FY19 Forecast</u>	<u>FY20 Budget</u>
State Block Grant	194.7	200.4
Fringe Benefits & Adjustments	75.3	66.8
Total State Support	\$ 270.0	\$ 267.1
Tuition/Fees	561.8	589.8
Grants & Contracts/Foundation	103.2	107.8
Auxiliary Enterprise Revenue	214.3	218.3
All Other Revenue	38.0	38.6
Total Operating Fund	\$ 1187.3	\$ 1221.6
Research Fund	113.2	118.0
Total Revenues	\$ 1300.5	\$ 1339.6

Expenditures (\$M)

Salaries & Wages	498.9	521.7
Fringe Benefits	175.6	183.4
Other Expenses (incl energy and equipment)	273.3	280.3
Student Financial Aid	188.4	194.7
Debt Service/Capital Projects	24.2	31.1
Total Operating Fund	\$ 1160.2	\$ 1211.2
Research Fund	112.1	117.1
Total Expenditures	\$ 1272.3	\$ 1328.3
Operating Gain/(Loss)	\$ 28.1	\$ 11.4

Expense for SERS Unfunded Pension and Retiree Health	108.8	135.4
Less amount funded by the State	86.7	104.4
Net SERS Unfunded Pension and Retiree Health Costs	\$ 22.2	\$ 31.0
Excess/(Deficiency)	\$ 6.0	\$ (19.6)
Fiscal Improvement	0.0	19.6
Final Net Gain/Loss	\$ 6.0	\$ 0.0

↑ 2.9% - Increase in State Funding for CBI's; FY19 incl one-time SEBAC fun

↓ -11.3% - Incr in CBI; Decr due to more SERS fringe moved below the line

↑ 5.0% - Tuition rate increase per plan, Add'l REC Ctr fee

↑ 4.5% - Increased Financial aid and grant awards

↑ 1.9% - Room/Board rate increase and decrease in Athletics

↑ 1.6% - Increase in 4.5% volume and 1.0% rate increase

↑ 4.3% - Small increase in federal and state awards

↑ 4.6% - CBI increases and limited faculty hiring

↑ 4.5% - Fringe rate increase; CBI increases

↑ 2.6% - Increases in O&M costs, contractual inflation, academic equipment

↑ 3.4% - Increases in tuition and federal programs

↑ 5.9% - Increased by REC Center Debt payment

↑ 4.4% - CBI and fringe increases

← **UConn would be fiscally healthy...**

← **...but for unfunded liability costs**

How We Balanced the Budget

UConn has resolved past budget gaps through the following:

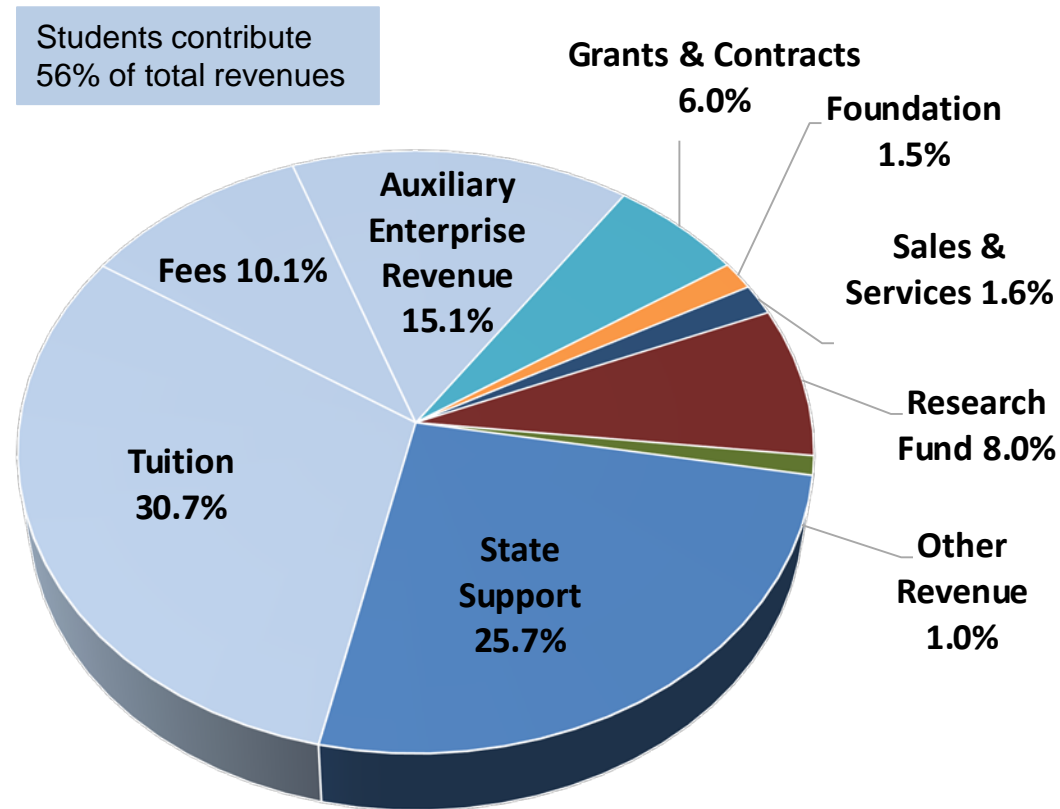
Deficit Mitigation (in millions)				
Strategy	FY17	FY18	FY19	FY20
Original Deficit	\$ (33.4)	\$ (39.1)	\$ (33.5)	\$ (42.6)
Approved tuition increase (4-yr plan); net of financial aid	\$ 12.8	\$ 14.2	\$ 16.7	\$ 17.2
Additional State fringe reimbursement	7.1			
State reimbursement of SEBAC payments			8.4	
Additional revenues	2.5	2.0		
Budget cuts allocated to departments (Includes attrition, efficiency gains, operational reductions)	18.0	25.3	14.4	5.8
Fiscal Improvement				19.6
Budget Gap resolutions	\$ 40.4	\$ 41.5	\$ 39.5	\$ 42.6
Net Gain / (Loss)	\$ 7.0	\$ 2.4	\$ 6.0	\$ -

- **Department rescissions are cutting deeply into core operations, affecting productivity. Over the last 4 years, academic and administrative areas have been cut just over \$83M.**

FY20 Revenue by Category

The University relies more on tuition than any other revenue source at nearly **31%**, greater than state support at **26%**.

Revenues (\$M)	
State Block Grant	200.4
Fringe Benefits & Adjustments	171.1
Total State Support	\$ 371.5
Tuition	443.3
Fees	146.5
Grants & Contracts	86.1
Foundation/Endowment	21.7
Sales & Services	23.7
Auxiliary Enterprise Revenue	218.3
Other Revenue	14.9
Total Operating Fund	\$ 1326.0
Research Fund	118.0
Total Revenues	\$ 1444.0

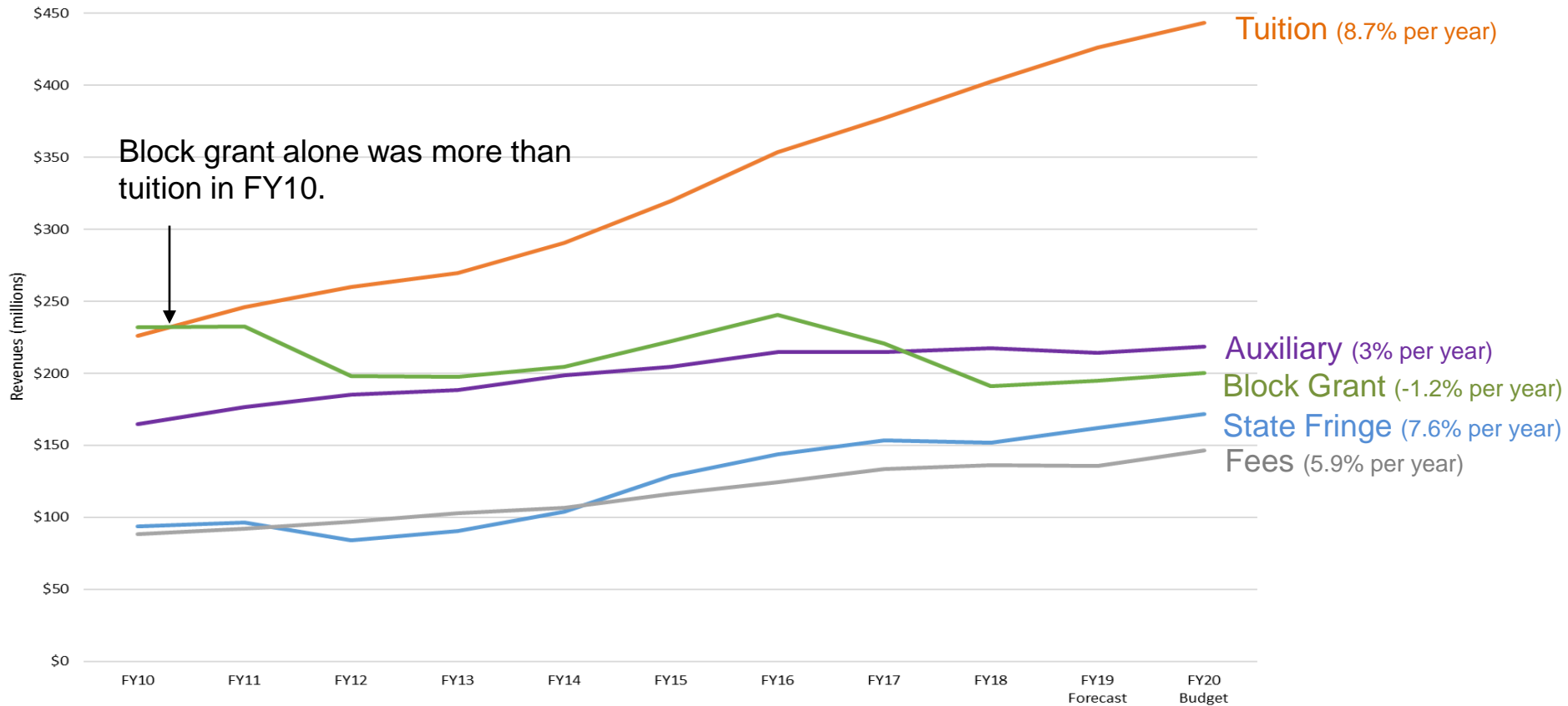


Note: Use of decimals may result in rounding differences.

State Block Grant represents FY20 Governor's budget

Historical Revenue Trend

Every \$10M reduction in State block grant led to \$3M in tuition revenue increases — a 30% pass-through rate to students



Budget Outlook FY20-FY24

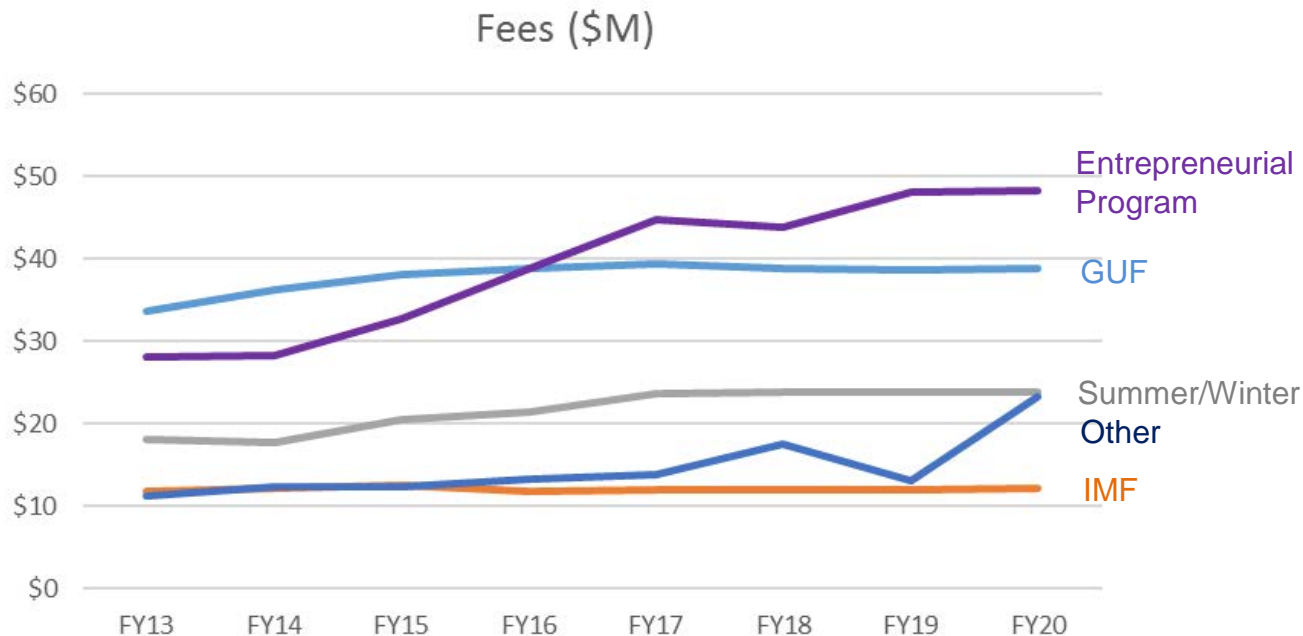
Without a tuition increase plan through FY24, the revenues can't keep pace with the rising expenditures, assuming the State only covers their portion of CBI's.

	FY20 Budget	FY21 Budget	FY22 Budget	FY23 Budget	FY24 Budget
Revenues:					
State Block Grant	200.4	211.3	211.3	211.3	211.3
Adjustments			10.0	20.0	30.0
Fringe Benefits	171.1	181.5	182.9	185.0	187.1
Total State Support	\$ 371.5	\$ 392.7	\$ 404.1	\$ 416.2	\$ 428.3
Tuition	443.3	443.3	443.3	443.3	443.3
Other Revenues	511.2	519.6	522.9	526.1	531.3
Research Fund	118.0	119.2	119.7	120.9	123.3
Total Revenues	\$ 1,444.0	\$ 1,474.8	\$ 1,490.0	\$ 1,506.5	\$ 1,526.3
Expenditures:					
Salaries & Wages	521.7	535.2	548.1	561.4	575.5
Fringe Benefits	318.7	330.3	347.4	363.7	381.4
Student Financial Aid	194.7	200.5	206.5	212.7	221.2
Other Expenses	311.5	319.6	330.3	339.1	348.3
Research Fund	117.1	118.1	118.6	119.8	122.2
Total Expenditures	\$ 1,463.6	\$ 1,503.7	\$ 1,551.0	\$ 1,596.7	\$ 1,648.5
Net Gain/Loss	\$ (19.6)	\$ (28.8)	\$ (61.0)	\$ (90.3)	\$ (122.3)
Fiscal Improvement	19.6				
Final Net Gain/Loss	\$ 0.0	\$ (28.8)	\$ (61.0)	\$ (90.3)	\$ (122.3)

- Major Assumptions (FY22-24):
- Flat Block Grant plus CBI's
 - No tuition increases
 - 3% CBI for faculty and staff
 - 1.5% fringe rate increase each year

Fee Revenue

Fee revenue is projected to increase \$10.8M in FY20 due to the addition of the Student Recreation Center fee.



Entrepreneurial Program Fees \$48.3

School of Business has seen growth in the past several years, including popular masters programs in Financial Risk Management, Business Analytics and Accounting.

General University Fee (GUF) \$38.9M

GUF funds student activities including Health Services, Athletics & Recreational Services, One Card, Jorgensen, Student Union.

Summer/Winter Sessions \$23.9M

Overall Summer/Winter Sessions revenues are steady. UConn continues to explore expanding this as a potential increased revenue source.

Infrastructure Maintenance Fee (IMF) \$12.1M

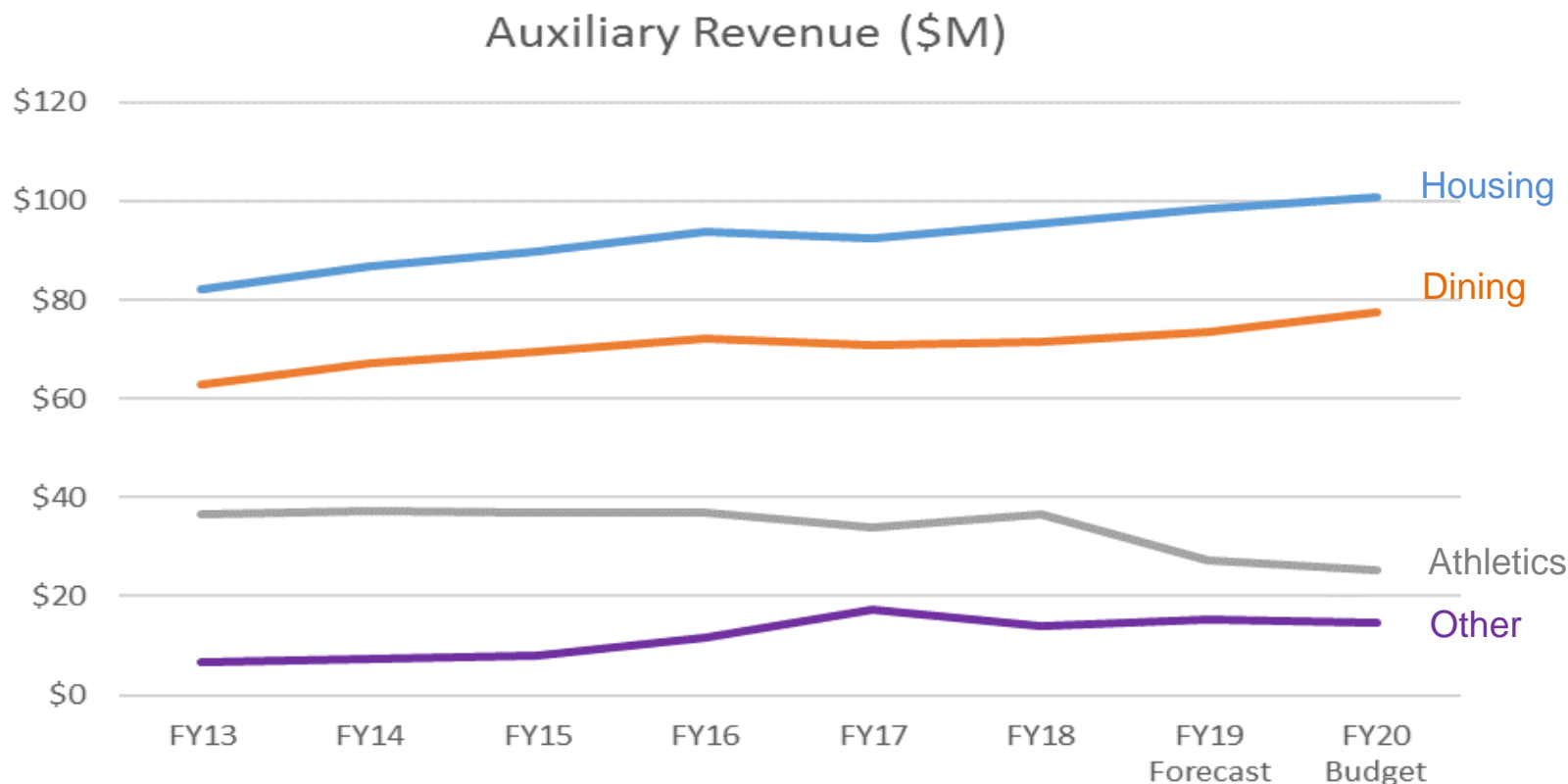
IMF supports campus-wide preventative and deferred maintenance.

Other \$23.3M

This includes fees such as Application, Parking, Technology and the Student Rec Center

Auxiliary Enterprise Revenue

Housing and dining rates, which make up the largest component of auxiliary revenues are in the 3rd year of a 3-year rate plan. Athletics revenue is declining due to drop in conference revenue and ticket sales.

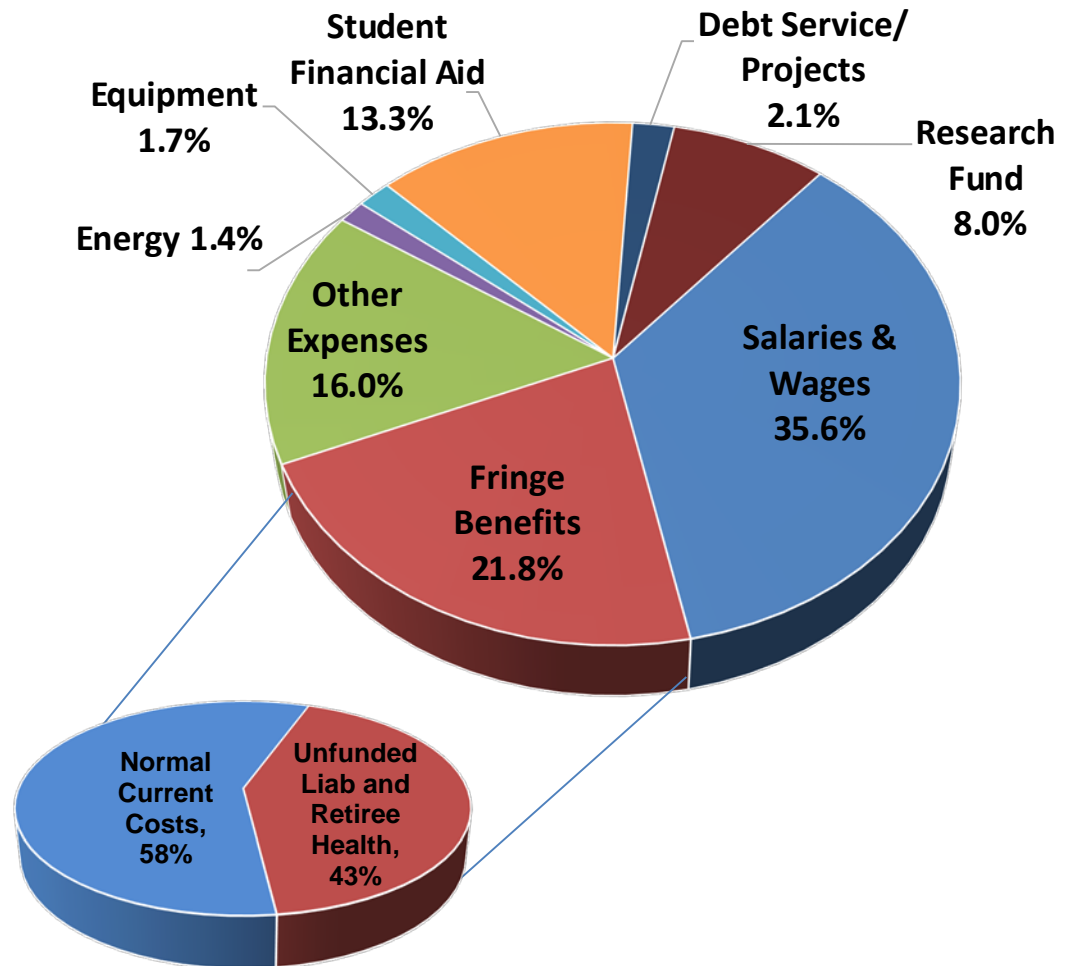


FY20 Expense by Category

Salary and fringe benefit costs are growing at a significant pace and account for over 57% of the University's operating budget.

Expenditures (\$M)

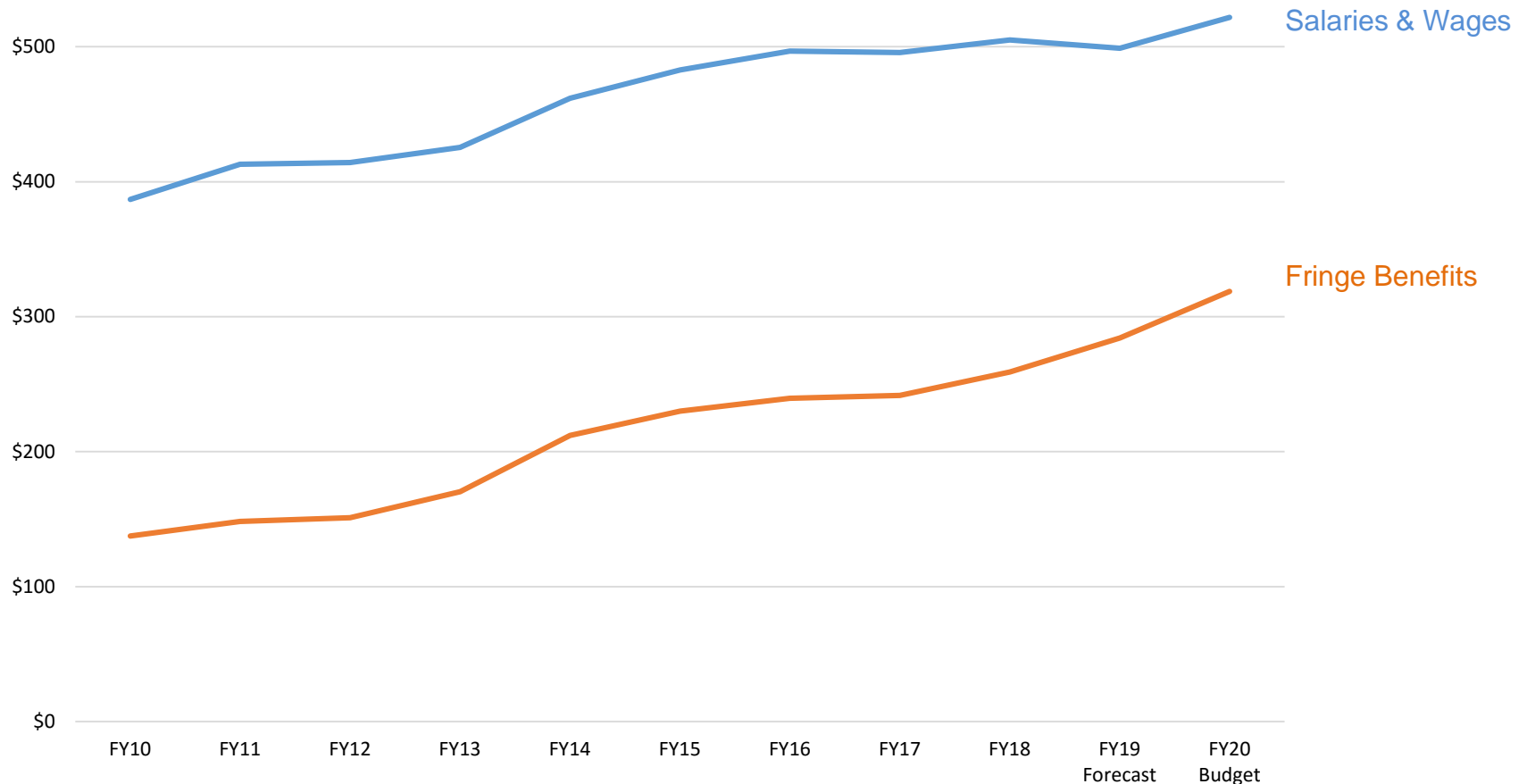
Salaries & Wages	521.7
Fringe Benefits	318.7
Other Expenses	234.2
Energy	20.7
Equipment	25.5
Student Financial Aid	194.7
Debt Service	27.0
Capital Projects	4.2
Total Operating Fund	\$ 1346.5
Research Fund	117.1
Total Expenditures	\$ 1463.6



Note: Use of decimals may result in rounding differences.

Historical Expense Trend – Salary & Fringe

Expenditure growth is dominated by growth in fringe costs at 12% per year, despite salary/wage costs growing by only 3.2%.



Financial Aid

UConn is doing its part to help students absorb higher fringe costs by increasing financial aid support.

- University Supported aid has increased 24% over the last 3 years.
- 76% of all undergraduates are receiving some form of financial aid

Undergraduate & Graduate Aid (\$M)	FY17	FY18	FY19 Forecast	FY20 Budget	FY17-FY20 Change
University Supported*	\$112.4	\$119.1	\$132.2	\$139.1	\$26.7
State <small>(includes R. Willis Scholarship)</small>	9.0	8.9	9.0	9.0	0.0
Federal (Pell/SEOG)	28.2	31.2	33.9	34.8	6.6
Other**	11.2	11.0	12.7	11.7	0.5
Total Aid in Budget	\$160.8	\$170.3	\$183.8	\$194.7	\$33.8

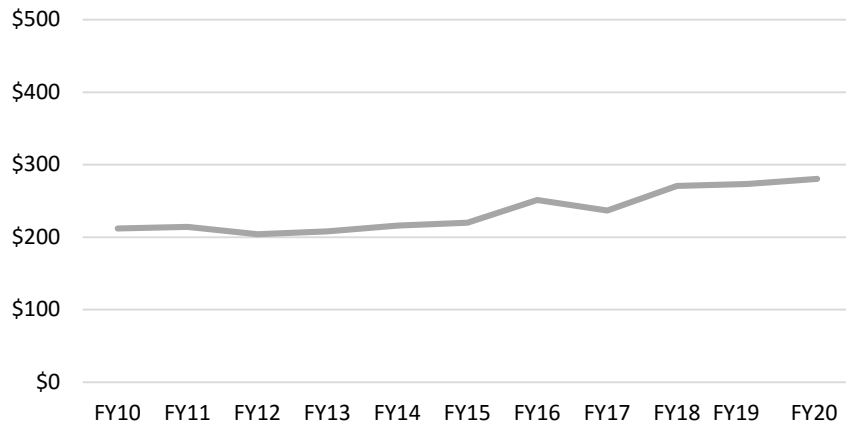
*University Supported includes undergraduate and graduate aid funded by tuition, departmental revenue, and work study.

**Other funding comes from the private sources such as the Foundation and Endowments.

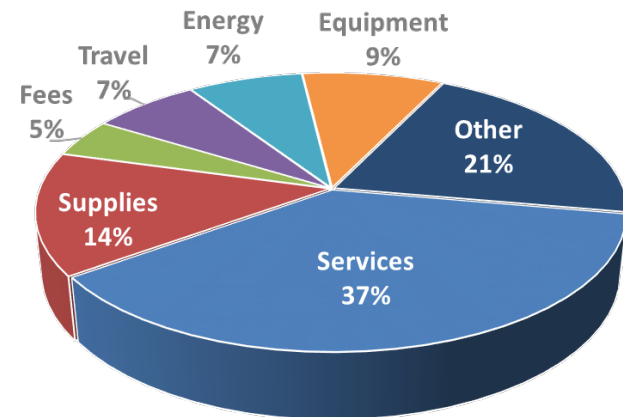
Historical Trend – Other Expenses

The activity that falls into the Other Expenses category has stayed relatively flat over the last 11 years, with minimal growth at 2.9%.

Other Expenses (including energy and equipment)



FY20 (\$280.4M)



Largest components:

Services \$104.4M

Includes food service labor, janitorial services, landscaping, facilities contracts, etc.

Supplies \$40.1M

Largest components are dining services food and lab supplies

Other \$57.7M

Includes university and individual dues & memberships, rentals, leases, transportation charges, subscriptions, animal care, etc.

FY20 Capital Budget

93% of the \$250M capital budget will provide funding for active construction projects, with remaining 7% dedicated to planning and design.

Academic & Research Facilities	\$80.0	Gant Science Building Renovation, STEM Science 1
Infrastructure DM	87.5	Science Program Utilities, ESCO, Utility Plant, Southwest Campus
Other DM	11.8	Programmatic Renovations, Code
Equipment	8.5	Faculty start-up, vehicles, IT network
Fine Arts	5.9	Production Facility
Residential Life	3.5	Repairs & Renovations
UCONN 2000 State Bonds	\$197.2	
University Funds	52.8	Facilities & Infrastructure Repairs, Departmental Renovations, Athletics
Total Capital Budget	\$250.0	All capital projects costing \$500K or more are submitted for Board action on a project by project basis

UConn & UCH Summary

- UConn and UCH are projecting FY20 deficits of \$19.6M and \$7.1M, respectively.
 - The allocation of \$33.2 million for unfunded liability relief significantly reduced UCH's projected FY20 deficit.
- UConn and UCH are fiscally healthy institutions, except for the unfunded liability costs that lead to annual deficits.
 - Unlike other State agencies, UConn and UCH bear these costs using State and non-State revenues.
- These costs impact our competitiveness for students, faculty, patients, and research grants. In other words, they impact everything we do!