University of Connecticut (Storrs & Regional Campuses) FY 2009 Budget Review (unaudited)

The following narrative and schedule provide information on the main drivers of the University of Connecticut Storrsbased operating budget. The amounts presented here are subject to audit adjustments.

- Total Revenue For the year ended June 30, 2009, total Operating and Research Fund revenues were \$959.6 million or 2.2% more than budgeted. The Operating and Research Funds had a positive variance from budget of \$20.3 million. This was primarily due to positive variances in Tuition of \$6.1 million, \$12.0 million of Auxiliary Enterprise Revenue and \$6.9 million of Research Fund. This was offset by negative variances of \$2.1 million in Gifts, Grants & Contracts and \$1.3 million in Investment Income.
 - State Support State Support was \$327.8 million or \$1.1 million less than budgeted. While the revised budget did include the impact of a 3% rescission, the Governor reduced State Support on 12/17/09 and 3/30/09 by approximately 2%. Other adjustments included \$0.2 million more as a result of a settled maintainers contract and \$0.8 million less due to a state mandated furlough day.
 - Tuition Revenue Total net tuition revenue was \$210.3 million which was greater than budget due to higher enrollment than expected. Fall 2008 enrollment for total undergraduate degree-seeking students was up 2.7% compared to Fall 2007. The tuition revenue budgeted was based on a 5.6% rate increase and a 1.6% increase in undergraduate degree-seeking students. Undergraduate enrollment generates approximately 86.6% of actual tuition revenues.
 - Gifts, Grants & Contracts Gifts, Grants & Contracts were less than the budget of \$76.1 million by \$2.1 million. The University has received additional federal financial aid, but this category is less than expected due to slower implementation of the federally funded Teach Grant and less funds transferred from the Foundation for Athletics.
 - Investment Income Investment income was less than the FY09 budget of \$5.4 million with revenues of \$4.1 million. Interest rates have continued to fall throughout the year with the FY09 average rate at 1.47% compared to 4.0% for FY08.
 - Auxiliary Enterprise Revenue This category was \$12.0 million more than budgeted due to a greater amount of students housed and more meal plans than anticipated
 - Research Fund An additional \$2 million from the Federal American Recovery and Reinvestment Act and higher funding success from NIH and NSF agencies contributed to this category being \$6.9 million more than budgeted.
- Total Expenditures Total Operating and Research Fund expenditures/transfers were \$954.8 million and were greater than budgeted. Operating Fund expenditures were ahead of budget by \$12.0 million and Research Fund expenditures were ahead of budget by \$4.5 million.
 - Personal Services Expenditures Operating Fund Personal Services expenditures (including fringe benefits) were \$540.0 million or \$3.8 million less than budget. The University was able to identify resources to fund a net increase of 30 full-time faculty. In addition, the University has experienced a slower attrition rate than expected and hiring has been limited to only essential positions due to the reductions in State Support.
 - Other Expense Other Expenses were more than budget by \$6.4 million. This overage was largely due to two contributing factors; library acquisitions which were classified as prepaids at 6/30/08 are now included in actual expenditures, and there were additional academic and auxiliary enterprise expenses due to the higher enrollment.
 - Energy Energy costs were \$0.6 million ahead of budget due to increased non-cogeneration gas consumption.
 - Financial Aid Expenditures Financial Aid expenditures were close to budget at \$90.4 million. While the University has received additional federal aid for Pell Grants, there was a slower implementation of the federally funded Teach Grant than expected.
 - Transfers This line reflects transfers to Plant Funds for various building improvements and bond and installment loan payments, as well as payments for the capital lease for the Cogeneration plant. Transfers were over budget by \$6.1 million due to anticipated property acquisitions.
- Net Gain For the year ended June 30, 2009, there was a net gain of \$4.8 million. \$1.0 million of the gain represents a reserve repayment for the November 2001 drawdown of \$11.5 million for Towers Dining Center and the Student Union. The remainder of the gain may be attributed to greater than anticipated tuition and fee revenue as a result of higher enrollment, more auxiliary revenues because of greater housing occupancy and meal plans, and additional facilities and administrative cost recovery as a result of increased research activity.

University of Connecticut (Storrs & Regionals) Statement of Current Funds Budget Operations¹ and Variance Analysis FY09 (unaudited)

(Dollars in Millions)

	Budget	Actual	Variance	% Change
Current Funds Revenues:				
Operating Fund				
State Support	\$328.9	\$327.8	(\$1.1)	
Tuition	204.2	210.3	6.1	
Fees	82.6	82.9	0.3	
Gifts, Grants & Contracts	76.1	74.0	(2.1)	
Investment Income	5.4	4.1	(1.3)	
Sales & Service Education	16.9	17.1	0.2	
Auxiliary Enterprise Revenue	140.4	152.4	12.0	
Other Revenue	<u>11.1</u>	<u>10.4</u>	<u>(0.7)</u>	
Total Operating Fund	865.6	879.0	13.4	1.5%
Research Fund	<u>73.7</u>	<u>80.6</u>	<u>6.9</u>	9.3%
Total Current Funds Revenues	\$939.3	\$959.6	\$20.3	2.2%
Current Funds Expenditures / Transfers:				
Operating Fund				
Personal Services	\$403.5	\$403.3	(\$0.2)	
Fringe Benefits	140.3	136.7	(3.6)	
Other Expenses	145.1	151.5	6.4	
Energy	33.0	33.6	0.6	
Equipment	12.0	14.8	2.8	
Student Financial Aid	90.5	90.4	(0.1)	
Transfers	<u>40.2</u>	<u>46.3</u>	<u>6.1</u>	
Total Operating Fund	864.6	876.6	12.0	1.4%
Research Fund	<u>73.7</u>	<u>78.2</u>	<u>4.5</u>	6.1%
Total Current Funds Expenditures / Transfers	\$938.3	\$954.8	\$16.5	1.8%
Net Gain ²	<u>\$1.0</u>	<u>\$4.8</u>	<u>\$3.8</u>	
Unrestricted Restricted Tota	l <u>0.2</u>	\$2.0 <u>0.3</u>	\$4.3 <u>0.5</u>	

1 The University prepares and presents its Operating Budget requests and annual Spending Plan in a current funds format. The current funds format shows gross student tuition and fees and does not net out scholarship allowances, as required in the financial statements which are prepared in the GASB Nos. 34/35 format. Scholarship allowances are shown as an expense item. In addition, the University's current funds format includes equipment purchases as an expense, does not include depreciation and does not include the State debt service commitment for interest.

2 The University had a net gain of \$4.8 million for the fiscal year ended June 30, 2009, which was comprised of a \$4.3 million unrestricted net gain and a \$0.5 million restricted net gain. The unrestricted net gain included the \$1.0 million reserve repayment for the November 2001 drawdown of \$11.5 million for the Towers Dining Center and Student Union, greater than anticipated tuition and fee revenue as a result of higher enrollment, more auxiliary revenues because of greater housing occupancy and meal plans, and additional facilities and administrative cost recovery as a result of increased research activity.

				(S	corrs &	Regiona	(Storrs & Regional Campuses)	ses)								
<u>Full-Time Staff Headcount*</u> Executive/Administrative/Managerial Executive/Administrative/Managerial-% of Total	Fall <u>1995</u> 100 2.6%	Fall <u>1996</u> 91 2.5%	Fall <u>1997</u> 83 2.3%	Fall <u>1998</u> 84 2.2%	Fall <u>1999</u> 89 2.3%	Fall <u>2000</u> 93 2.4%	Fall <u>2001</u> 92 2.3%	Fall <u>2002</u> 92 2.3%	Fall <u>2003</u> 91 2.4%	Fall <u>2004</u> 98 2.4%	Fall <u>2005</u> 100 2.4%	Fall <u>2006</u> 99 2.3%	Fall <u>2007</u> 101 2.4%	Fall <u>2008</u> 106 2.4%	Fall 95-08 <u>Growth</u> 6.0%	Fall 2009
Faculty Faculty-% of Total	1,148 30.1%	1,106 30.0%	1,040 29.3%	1,096 29.2%	1,122 28.9%	1,121 28.5%	1,130 28.3%	1,165 28.7%	1,107 29.3%	1,200 29.9%	1,251 30.3%	1,264 29.9%	1,294 30.2%	1,324 30.3%	15.3%	
Professional & Classified Support Professional & Classified Support-% of Total	2,562 <u>67.3%</u>	2,490 <u>67.5%</u>	2,429 <u>68.4%</u>	2,576 <u>68.6%</u>	2,678 <u>68.9%</u>	2,720 <u>69.2%</u>	2,776 <u>69.4%</u>	2,797 <u>69.0%</u>	2,584 <u>68.3%</u>	2,717 <u>67.7%</u>	2,779 <u>67.3%</u>	2,859 <u>67.7%</u>	2,893 <u>67.5%</u>	2,943 <u>67.3%</u>	14.9%	
Total *Based on IPEDS reporting standards.	3,810	3,687	3,552	3,756	3,889	3,934	3,998	4,054	3,782	4,015	4,130	4,222	4,288	4,373	14.8%	
<u>Student Headcount (Census)</u> Undergraduate Graduate/Professional Total	14,667 <u>7,804</u> 22,471	14,454 <u>7,351</u> 21,805	14,382 <u>6,867</u> 21,249	14,855 <u>6,543</u> 21,398	15,741 <u>6,500</u> 22,241	16,681 <u>6,254</u> 22,935	17,630 <u>5,950</u> 23,580	18,662 <u>6,711</u> 25,373	19,287 <u>6,869</u> 26,156	20,151 <u>6,943</u> 27,094	20,525 <u>7,073</u> 27,598	20,784 <u>7,210</u> 27,994	20,846 <u>7,344</u> 28,190	21,372 <u>7,508</u> 28,880	45.7% -3.8% 28.5%	21,496 <u>7,505</u> 29,001
Students Housed On-Campus	6,957	7,089	6,898	7,626	8,248	8,674	8,856	10,284	11,053	11,139	11,524	11,647	11,205	11,890	70.9%	12,315
Degrees Awarded Bachelor's Total	2,941 4,708	2,839 4,645	2,757 4,623	2,638 4,454	2,852 4,461	2,802 4,478	2,837 4,572	2,888 4,573	3,477 5,304	3,673 5,386	3,816 5,966	4,231 6,403	4,354 6,542	<u>S</u> 4,591 6,756	<u>Spring 95-08</u> 56.1% 43.5%	
<u>State Funding</u> Total State Support	<u>FY 1996</u> \$183.1	FY 1997 \$188.3	<u>FY 1998</u> \$204.2	<u>FY 1999</u> <u>F</u> \$213.2	<u>FY 2000</u> <u>F</u> \$234.9	<u>FY 2001</u> <u>F</u> \$238.4	<u>FY 2002</u> <u>F</u> \$259.4	<u>FY 2003</u> <u>F</u> \$260.9	<u>FY 2004</u> <u>F</u> \$256.5	<u>FY 2005</u> <u>F</u> \$273.1	<u>FY 2006</u> <u>F</u> \$285.7	<u>FY 2007</u> <u>F</u> \$305.9	<u>FY 2008</u> <u>F</u> \$328.2	<u>FY 2009</u> \$327.8	79.1%	<u>FY 2010</u> \$325.3
State Support as % of Revenues	43.1%	43.9%	44.8%	44.1%	43.4%	41.1%	41.0%	39.0%	36.6%	35.8%	35.4%	35.5%	35.9%	34.2%		32.8%
<u>Student Costs</u> Tuition (In-State) Mandatory Fees Tuition & Mandatory Fees	\$3,900 <u>910</u> \$4,810	\$4,036 <u>938</u> \$4,974	\$4,158 <u>1.084</u> \$5,242	\$4,158 <u>1,172</u> \$5,330	\$4,158 <u>1.246</u> \$5,404	\$4,282 <u>1.314</u> \$5,596	\$4,448 <u>1.376</u> \$5,824	\$4,730 <u>1,424</u> \$6,154	\$5,260 <u>1.552</u> \$6,812	\$5,772 <u>1,718</u> \$7,490	\$6,096 <u>1,816</u> \$7,912	\$6,456 <u>1.906</u> \$8,362	\$6,816 <u>2.036</u> \$8,852	\$7,200 <u>2,138</u> \$9,338	94.1% Componinged	\$7,632 <u>2,254</u> \$9,886
Tuition & Mandatory Fee Increases	2.08%	3.41%	5.39%	1.68%	1.39%	3.55%	4.07%	5.67%	10.69%	9.95%	5.63%	5.69%	5.86%	5.49%	5.24%	5.87%
National Average Tuition & Mandatory Fees New England Average Tuition & Mandatory Fees	\$2,811 \$4,237	\$2,975 \$4,315	\$3,111 \$4,526	\$3,247 \$4,635	\$3,362 \$4,677	\$3,508 \$4,748	\$3,766 \$4,890	\$4,098 \$5,353	\$4,645 \$6,239	\$5,126 \$6,876	\$5,492 \$7,255	\$5,804 \$7,658	\$6,191 \$8,116	\$6,585 \$8,602	134.3% 103.0%	
Room & Board Rates National Average Room & Board Rates	\$5,124 \$3,932	\$5,302 \$4,167	\$5,462 \$4,358	\$5,544 \$4,522	\$5,660 \$4,718	\$6,062 \$4,931	\$6,298 \$5,266	\$6,542 \$5,574	\$6,888 \$5,885	\$7,404 \$6,250	\$7,704 \$6,623	\$8,266 \$7,033	\$8,850 \$7,367	\$9,504 \$7,748	85.5% 97.0%	\$10,120
Total Student Costs	\$9,934	\$10,276	\$10,704	\$10,874 \$	\$11,064 \$	\$11,658 \$	\$12,122 \$	\$12,696 \$	\$13,700 \$	\$14,894 \$	\$15,616 \$	\$16,628 \$	\$17,702 \$	\$18,842	89.7%	\$20,006
Total Cost Increases	1.53%	3.44%	4.17%	1.59%	1.75%	5.37%	3.98%	4.74%	7.91%	8.72%	4.85%	6.48%	6.46%	6.44%	5.05%	6.18%
National Average Total Student Costs	\$6,743	\$7,142	\$7,469	\$7,769	\$8,080	\$8,439	\$9,032	\$9,672 \$	\$10,530 \$	\$11,376 \$	\$12,115 \$	\$12,837 \$	\$13,558 \$	\$14,333	112.6%	

University of Connecticut

(Storrs & Regional Campuses)

3

University of Connecticut Health Center

FY 2009 Budget Review (unaudited)

The following narrative and chart provide information on the main drivers of the University of Connecticut Health Center financial results for Fiscal 2009. The amounts presented here are subject to audit adjustments.

Executive Summary - The FY09 results were impacted negatively by lower than expected patient revenue volume, lower than expected revenue for GME support, higher malpractice expense and consulting expenses. On the positive side, expense savings for salaries, utilities and outside contracts was achieved. By far the most positive impact was achieved through revenue enhancement and increased third party reimbursement.

The overall deficiency for Fiscal Year 2009 was \$766,000, which included a deficiency appropriation of \$22.2 million by the state. The following explanations exclude any impact of Correctional Managed Health Care. Any savings achieved by CMHC flow to the Department of Corrections and have no impact on UCHC.

Total Revenue – For the year ended June 30, 2009, Total Revenues including total "State Support" was \$752.5 million. Total revenue was below budget projections by about \$9.7 million or 1.6%. Negative results in Interns and Residents Revenues and Research Revenues were the primary drivers for the overall difference.

- <u>Research</u> Research revenues for the year ended June 30, 2009, were unfavorable to budget by \$1.2 million or 1.2%, a similar decrease from the prior fiscal year. The unfavorable variance to budget was caused by lower Federal grants which impact the amount of Facilities and Administration Recovery. Research revenue for FY 2009 was \$1.1 million higher than FY 2008.
- <u>Net Patient Revenue</u> For the year ended June 30, 2009, Net Patient Revenue was very close to budget. The variances by unit are:
 - JDH \$7.8 million above budget. Revenue cycle improvements and third party reimbursements were \$11.2 million offset by a volume decrease of \$3.4 million.
 - UMG \$5.8 million below budget. \$1.5 million was attributable to a decrease in volume from budget of 2%. The remainder is the result of a higher proportion of Medicare and Medicaid (mix change) to total visits.
 - o Dental Implant Center \$1.9 million below budget due to volume.
- <u>School of Medicine</u> Revenue from the Consortium Hospitals to the School of Medicine was \$4.6 million lower than expected. Payment for indirect expenses for the operation of the GME program was delayed.
- <u>Investment Income</u> The unfavorable variance of almost \$1.0 million was reflective of the economic environment. The budgeted revenue was \$2.0 million.
- <u>Total State Support</u> The State appropriation for FY09 totaled \$169.5 million including the deficit appropriation of \$22.2 million. The State appropriation represents 22.5% of UCHC revenues.

Total Expenditures – For the year ended June 30, 2009, Total Expenditures exceeded budgeted amounts by \$6.1 million or 1.0%. The following are variances for categories of expense:

- <u>Personal Services</u> For the year ended June 30, 2009, Personal Services expenditures were below budget by \$700,000, or 0.2%. Control of personnel expenses was achieved.
- <u>Fringe Benefits</u> For the year ended June 30, 2009, Fringe Benefit expenditures were above budget by \$1.7 million, or 1.6%. The actual rate charged by the State was higher than the budgeted estimate. UCHC does not receive the actual fringe rate until the end of June.
- <u>Drugs and Medical</u> For the year ended June 30, 2009, drugs were above budget by \$2.7 million, or 8%. The major driver for this was drug expenses at John Dempsey Hospital. A few patients required the use of high cost drugs; however, this was offset by payments from insurers due to carve out provisions in the managed care contracts. Medical supplies were over budget by \$800,000 or 2.0%. The majority of this occurred at JDH. The reason for the variance was a greater than budgeted surgical volume. Supply expense for surgical discharges is higher than medical discharges.
- <u>Utilities</u> For the year ended June 30, 2009, energy expenditures were below budget by about \$1.4 million, or 8.1%.
- **Insurance** Medical malpractice insurance was over budget by \$5.4 million. Actual vs. budget was \$11.4 million vs. \$6.0 million. The actuarial report reflected an anticipated larger claim. This was a one-time charge included in FY 2009.
- <u>Outside Services</u> For the year ended June 30, 2009, outside and other purchases were under budget by \$300,000 or 0.1%. Consulting expenses for the year were over budget by \$3.4 million attributable to the partnership, quality improvements and operational improvements. On the positive side, savings on outside IT contracts, other contracts and faculty start-up expenses were favorable by \$3.7 million.

Net Gain (Loss) – For the year ended June 30, 2009, the Health Center had a deficiency of \$23.0 million, which was addressed by a state deficiency appropriation of \$22.2 million.

University of Connecticut Health Center Statement of Current Funds Budget Operations and Variance Analysis FY09 Actual (Unaudited)

(Dollars in Millions)

Current Funds Revenues:	Budget	Forecast	Variance	% Change
State Support	\$145.9	\$173.1	\$27.2	
Tuition	10.2	10.1	(0.1)	
Fees	5.6	5.6	0.0	
Gifts, Grants & Contracts	88.7	87.5	(1.2)	
Investment Income	2.0	1.1	(0.9)	
Interns & Residents	42.0	35.1	(6.9)	
Net Patient Care	322.3	322.2	(0.1)	
Correctional Managed Health Care	104.2	99.4	(4.8)	
Auxiliary Enterprise Education	13.5	13.2	(0.3)	
Other Revenue	<u>8.9</u>	<u>8.8</u>	<u>(0.1)</u>	
Total Current Funds Revenues	\$743.3	\$756.1	\$12.8	1.7%
Current Funds Expenditures / Transfers:				
Personal Services	\$374.3	\$370.2	(\$4.1)	
Fringe Benefits	105.3	107.1	\$1.8	
Drugs/Medical Supplies	79.1	81.4	\$2.3	
Medical Contractual Support	15.4	15.6	\$0.2	
Medical/Dental House Staff	37.2	36.5	(\$0.7)	
Outside Agency Per Diem	1.9	1.6	(\$0.3)	
Utilities	17.3	15.9	(\$1.4)	
Outside & Other Purchases	55.0	55.8	\$0.8	
Insurance	6.0	11.4	\$5.4	
Repairs & Maintenance	10.8	10.7	(\$0.1)	
Other Expenses	22.2	22.0	(\$0.2)	
Depreciation	<u>30.3</u>	<u>28.7</u>	<u>(\$1.6)</u>	
Total Current Funds Expenditures / Transfers	\$754.8	\$756.9	\$2.1	0.3%
Net Gain (Loss)	<u>(\$11.5)</u>	<u>(\$0.8)</u>	<u>(\$12.3)</u>	