



FY20 Budget

Board of Trustees
June 26, 2019

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 faculty and staff 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>				

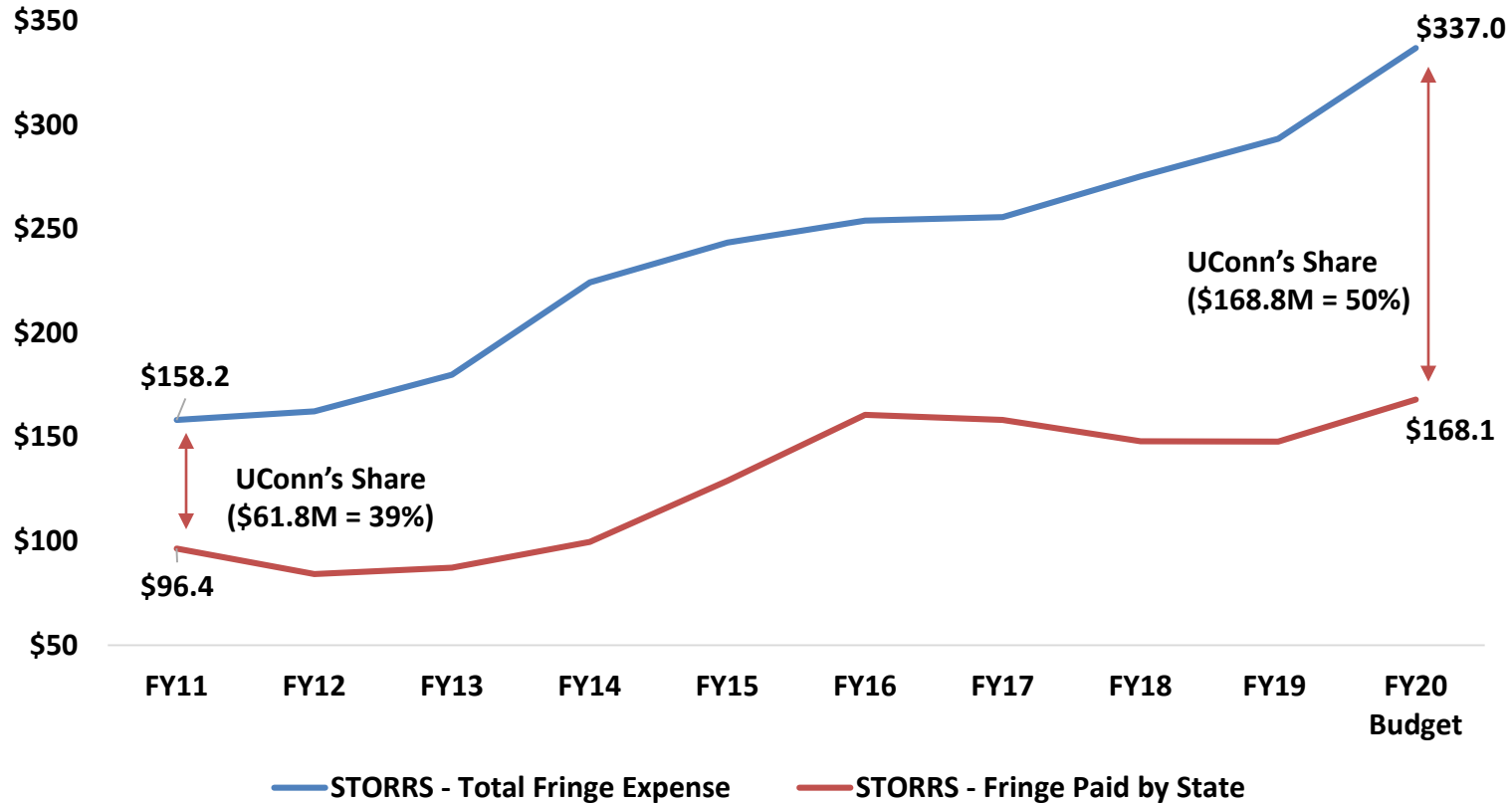
*Temporary Payroll includes graduate assistants, students, post doctoral associates and other special payroll

**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 the State covers a smaller share, UConn pays more for fringe expenses and less for student service expenses.

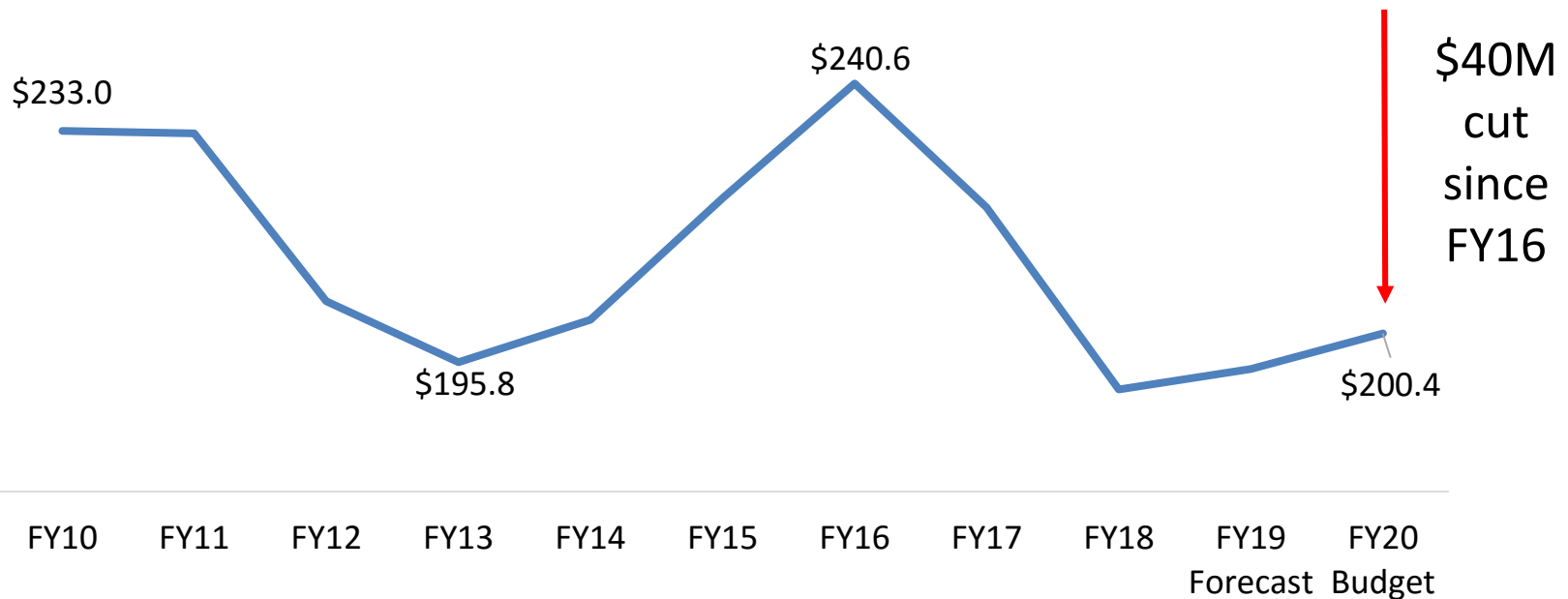


Fringe rates are determined by the State Comptroller's Office. UConn has no input or control over these rates.

State Block Grant

The State block grant is only used to pay 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 appropriated 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 determines 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%). 37% of our current employees are on the ARP.

	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	

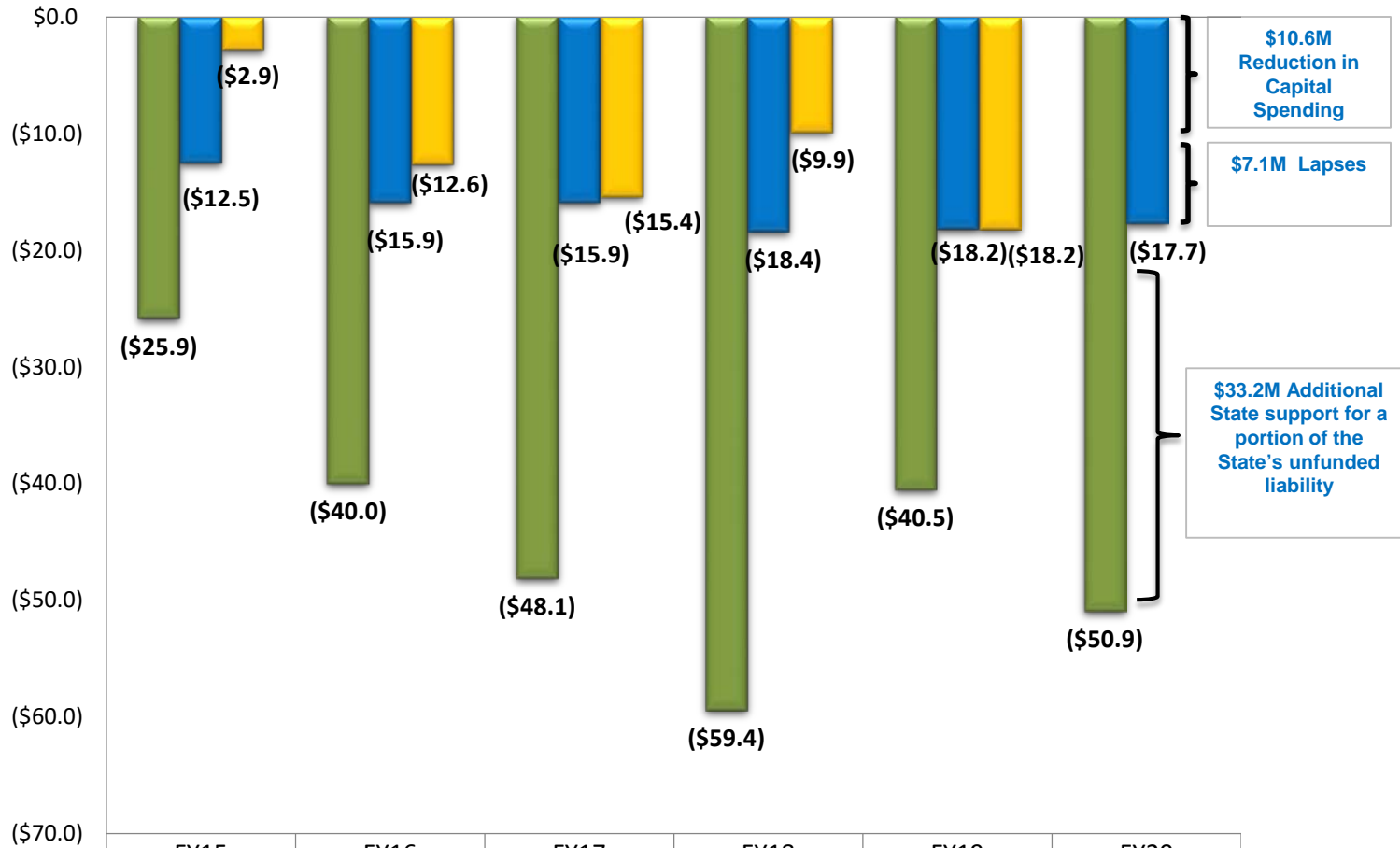
FY20 Combined Budget

The deficits would be non-existent without the State's 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 (portion of the unfunded liabilities)		\$ 33.2	\$ 33.2
Net SERS Unfunded Pension and Retiree Health Costs	\$ 31.0	\$ 21.5	\$ 52.5
Non-Operating Gain/(Loss)		10.6	10.6
Excess/(Deficiency)	\$ (19.6)	\$ (7.1)	\$ (26.7)
Lapses	19.6	7.1	26.7
Projected Net Gain/Loss	\$ 0.0	\$ 0.0	\$ 0.0

UConn HEALTH

Financial Overview



	FY15	FY16	FY17	FY18	FY19	FY20
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

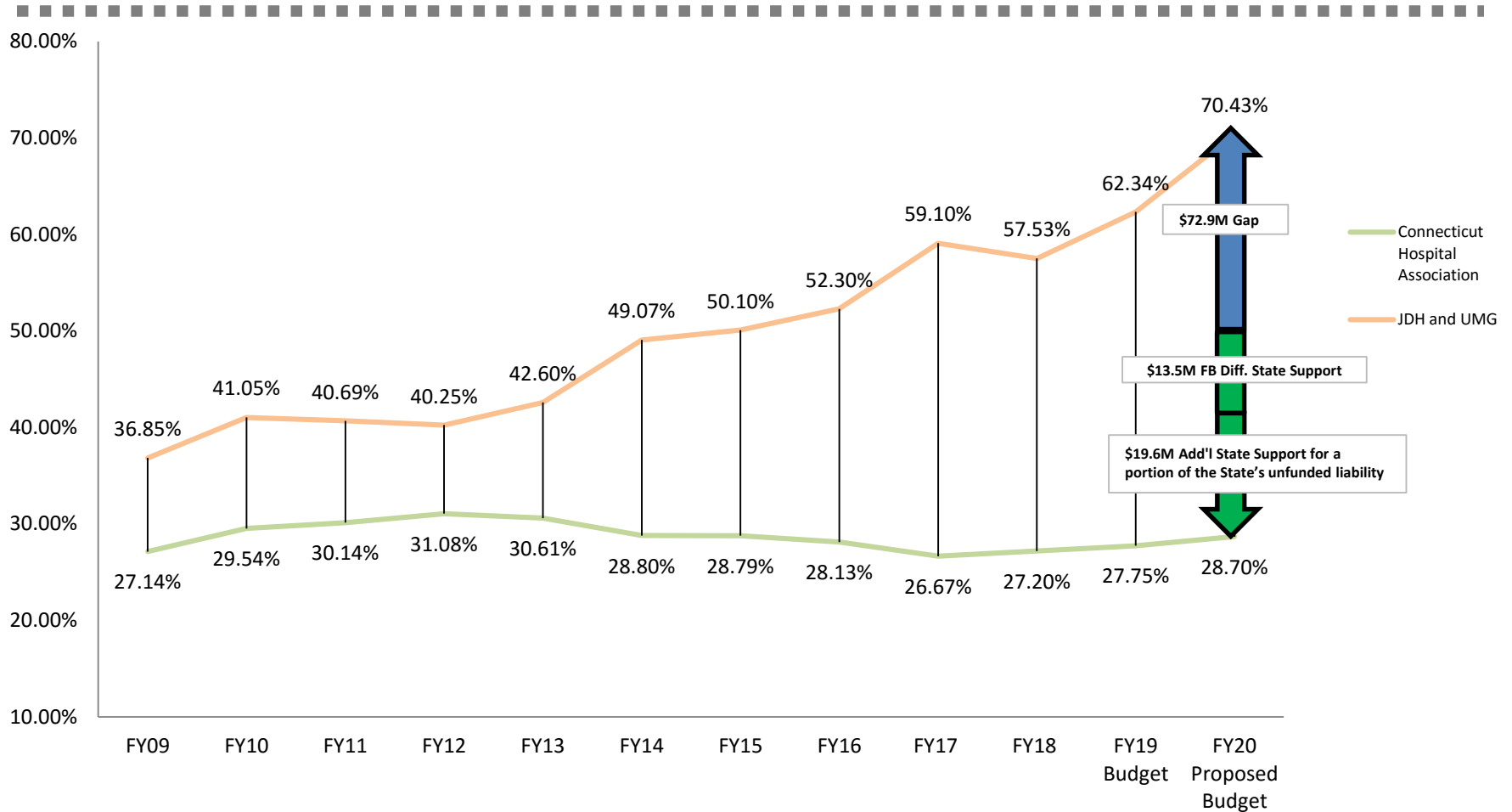
REVENUE:

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

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.

After accounting for the \$13.5M that the state provides UConn Health annually to help with this fringe cost differential, and the one time FY20 appropriation of \$33.2M for a portion of the state's unfunded liabilities, UConn Health will still pay \$72.9M more in fringe costs than other area hospitals to provide clinical care.

FY19 Actuals vs. FY20 Proposed Budget

Operating Revenue and Expense (\$M)	FY2019	FY2020	Variance	%	
	Forecast	Proposed Budget			
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)		← UCH would be fiscally healthy...
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		← ...but for unfunded liability costs
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)
Lapses	7.1
Net Gain/(Loss)	0.0

UConn Storrs & Regionals Operating Budget

UConn Proposed Budget

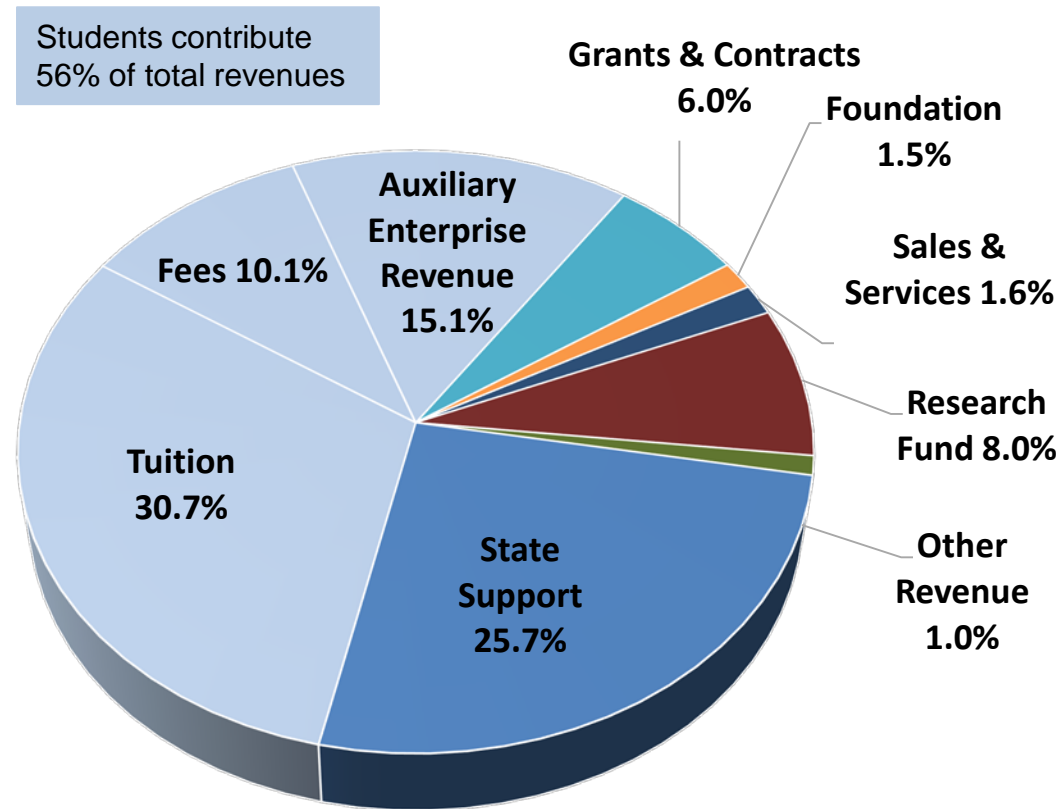
In FY20, UConn's bottom line would be fine without the unfunded liabilities.

<u>Revenues (\$M)</u>	<u>FY19 Forecast</u>	<u>FY20 Budget</u>	
State Block Grant	194.7	200.4	↑ 2.9% - Increase in State Funding for CBI's; FY19 incl one-time SEBAC funding
Fringe Benefits & Adjustments	75.3	66.8	↓ -11.3% - Incr in CBI; Decr due to more SERS fringe moved below the line
Total State Support	\$ 270.0	\$ 267.1	
Tuition/Fees	561.8	589.8	↑ 5.0% - Tuition rate increase per plan, Add'l REC Ctr fee
Grants & Contracts/Foundation	103.2	107.8	↑ 4.5% - Increased Financial aid and grant awards
Auxiliary Enterprise Revenue	214.3	218.3	↑ 1.9% - Room/Board rate increase and decrease in Athletics
All Other Revenue	38.0	38.6	↑ 1.6% - Increase in 4.5% volume and 1.0% rate increase
Total Operating Fund	\$ 1187.3	\$ 1221.6	
Research Fund	113.2	118.0	↑ 4.3% - Small increase in federal and state awards
Total Revenues	\$ 1300.5	\$ 1339.6	
<u>Expenditures (\$M)</u>			
Salaries & Wages	498.9	521.7	↑ 4.6% - CBI increases and limited faculty hiring
Fringe Benefits	175.6	183.4	↑ 4.5% - Fringe rate increase; CBI increases
Other Expenses (incl energy and equipment)	273.3	280.3	↑ 2.6% - Increases in O&M costs, contractual inflation, academic equipment
Student Financial Aid	188.4	194.7	↑ 3.4% - Increases in tuition and federal programs
Debt Service/Capital Projects	24.2	31.1	↑ 5.9% - Increased by REC Center Debt payment
Total Operating Fund	\$ 1160.2	\$ 1211.2	
Research Fund	112.1	117.1	↑ 4.4% - CBI and fringe increases
Total Expenditures	\$ 1272.3	\$ 1328.3	
Operating Gain/(Loss)	\$ 28.1	\$ 11.4	← UConn would be fiscally healthy...
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	← ...but for unfunded liability costs
Excess/(Deficiency)	\$ 6.0	\$ (19.6)	
Lapses	0.0	19.6	
Projected Net Gain/Loss	\$ 6.0	\$ 0.0	

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

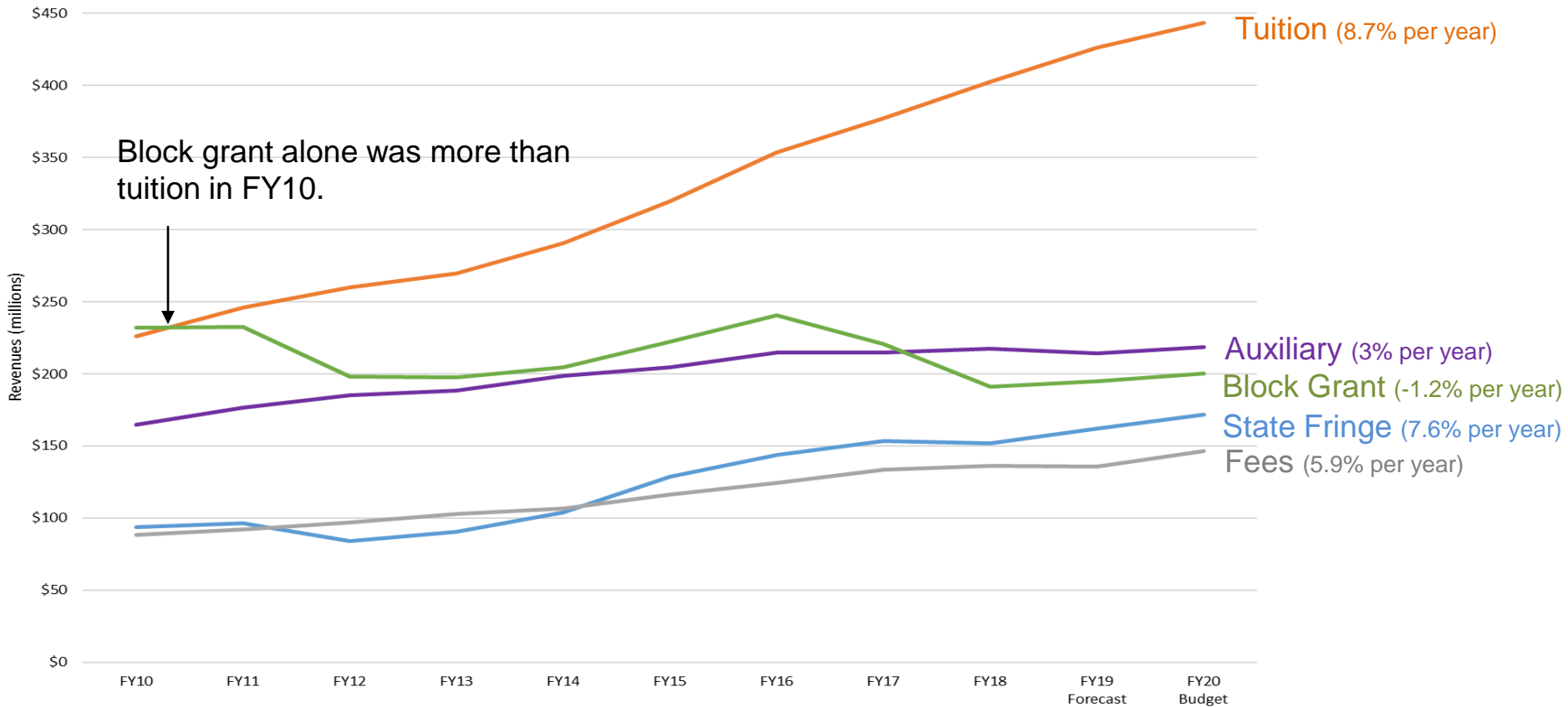


Note: Use of decimals may result in rounding differences.

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

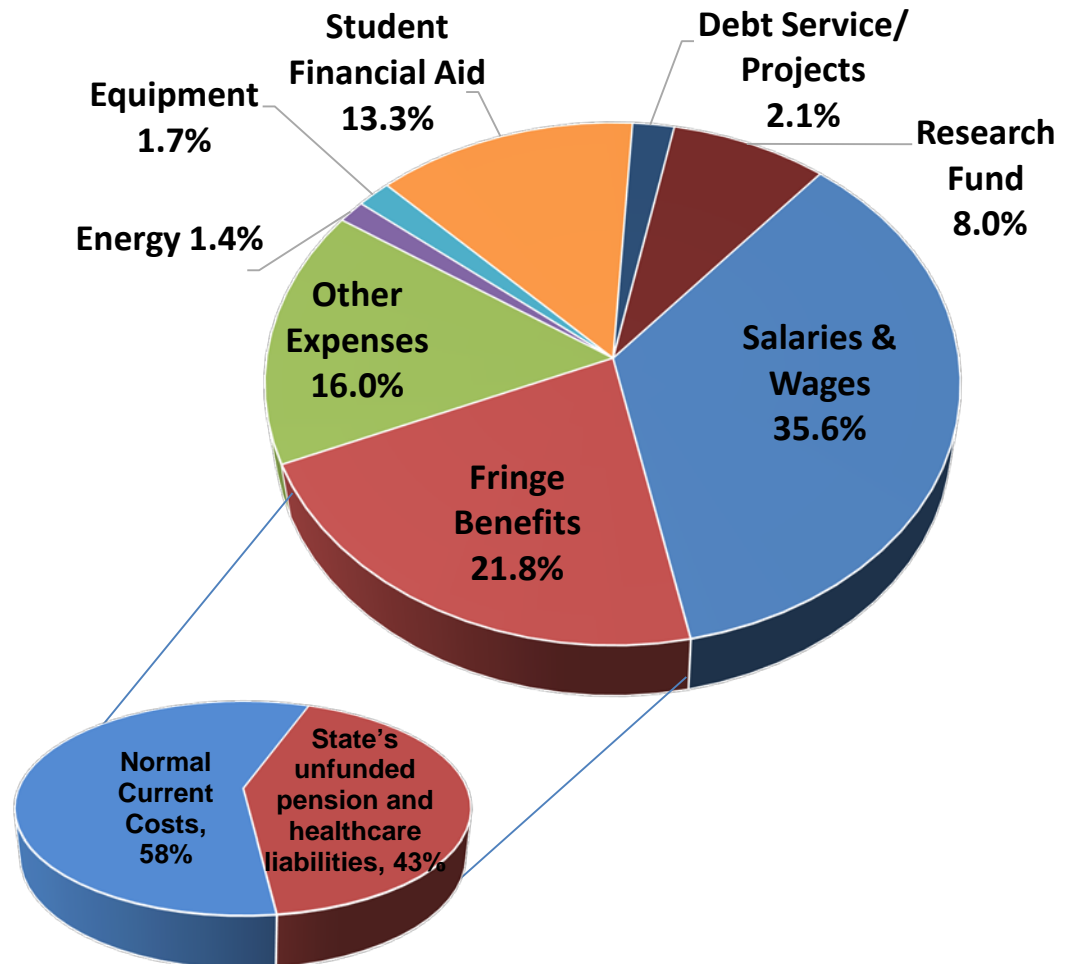


FY20 Expense by Category

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

Expenditures (\$M)

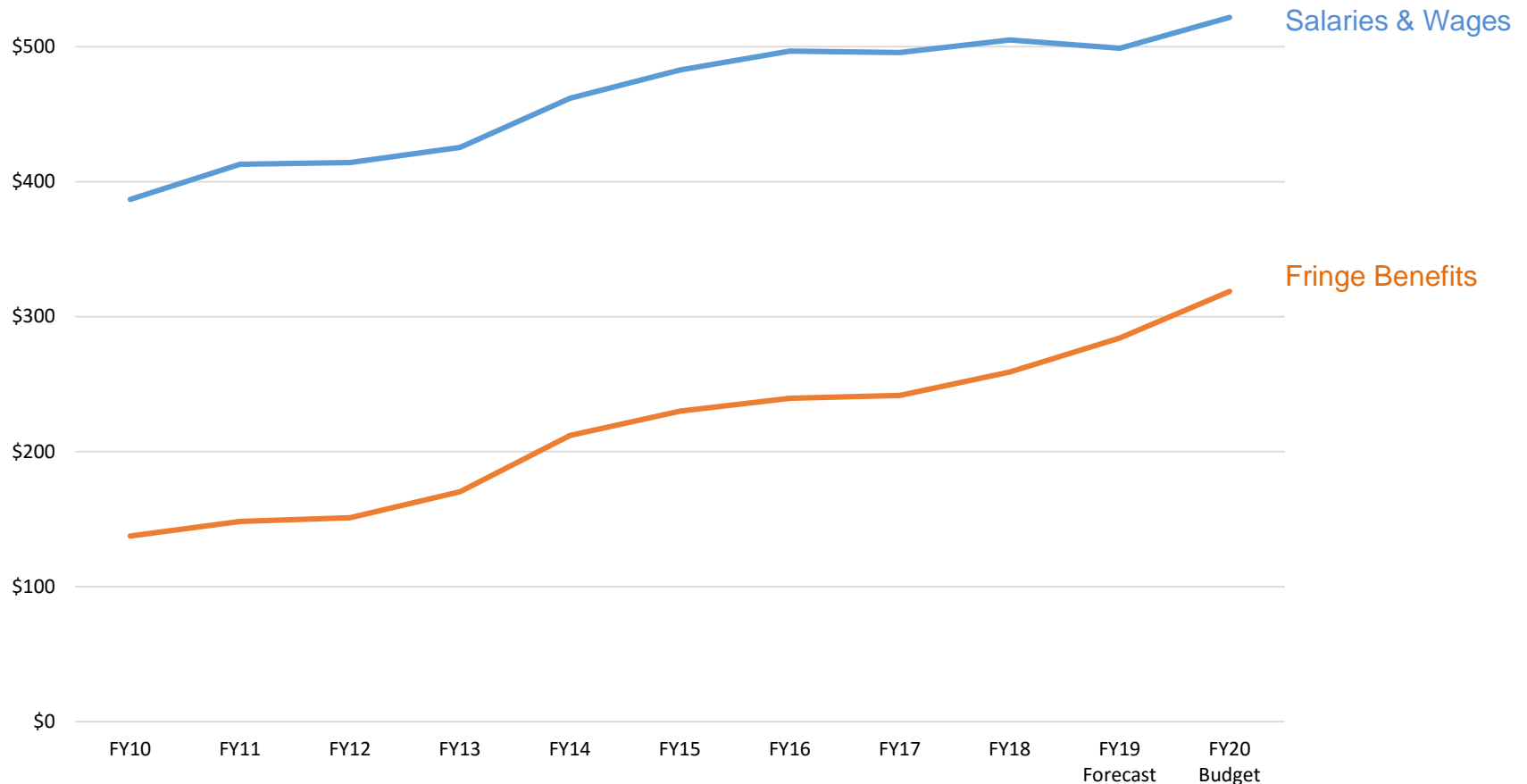
Salaries & Wages	521.7
Fringe Benefits	318.7
Other Expenses	234.2
Energy	20.7
Equipment	25.5
Student Financial Aid	194.7
Debt Service	27.0
Capital Projects	4.2
Total Operating Fund	\$ 1346.5
Research Fund	117.1
Total Expenditures	\$ 1463.6



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%.



Budget Outlook FY20-FY24

Without an increase in block grant or tuition, deepening deficits ahead.

	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

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 (\$M)	\$197.2	
University Funds	52.8	Facilities & Infrastructure Repairs, Departmental Renovations, Athletics
Total Capital Budget (\$M)	\$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!