Highlights
Fiscal Year 2010
University Spending Plan

BUDGET PROCESS

For even-numbered fiscal years, the University prepares a single fiscal year spending plan; for odd-numbered years, the University also prepares a "current services" budget for the upcoming biennium for submission to the Office of Policy and Management (the Governor's budget agency), as well as to the State Department of Higher Education. ("Current services" refers to the cost of continuing current programs and services, updated for inflation. The "current services" budget forms the basis of the Governor's recommendations to the legislature.) The November 5th budget workshop will only focus on the spending plan for Fiscal Year 2010. The tuition and fee charges for Fiscal Year 2010 were set in March 2009 by the Board. FY11 tuition and fee rates are tentatively scheduled to be presented to the Board at the January 2010 meeting.

BUDGET GOALS

For the past couple of years the University has been shifting into a minimal growth mode with respect to enrollment at Storrs. Our budget goals at Storrs have changed with the changing times, from managing dramatic growth to growing quality. However, the current state of the economy is such that UConn's excellent value may be affecting the marketplace more than expected, as evidenced by increases not just in applications, but in paid deposits. It appears that the UConn equation (quality + price = value) is driving demand among talented students as never before. However, we have made the conscious decision to decrease the freshman class size for Fiscal Year 2010. Actual new freshman enrollment at all campuses was approximately 500 less students than in last year's class. This decision to offer the UConn opportunity to fewer students will have an effect on this year's budget. For Fiscal Year 2010, faculty hiring (which translates into course coverage, improved student faculty ratio and research productivity) remains the focal point in the proposed spending plan for the Storrs-based program.

At the Health Center, our goal in FY10 is to breakeven. The keys to achieving this goal are expense control at the same time the Health Center provides patient safety, quality health care and adequate resources to fulfill our teaching and research missions. The second key will be to achieve patient volumes budgeted in FY10. The uncertainty of the future of John Dempsey Hospital has had an effect in the first three months of FY10 on referrals to the Hospital and the UConn Medical Group. A marketing campaign was initiated in September to emphasize that UCHC is providing quality health care and to emphasize that our mission will continue. For the third year the Health Center has requested the State for a deficit appropriation. The deficiency appropriations in FY07, FY08 and FY09 were $22.1 million, $21.9 million and $22.2 million.

THE STATE BUDGET

On September 1, 2009, the Legislature passed the State budget for the next two fiscal years. The state appropriation reflects the continuing difficult fiscal environment. While we have been preparing for the reality of declining state support, we are also compelled to meet the needs of our students, patients and faculty. UConn is a vital state asset that plays a critical role in addressing our economic crisis in the short-term and ensuring Connecticut's economic viability in the long-term. Investing in UConn is investing in our state's future by educating our high-achieving students, providing Connecticut with a highly qualified workforce, and conducting research that serves as a catalyst for innovation, product development and job creation. As we have worked through strategies to address these dramatic cuts, to the extent possible, we are committed to protecting financial aid to ensure access to our outstanding programs for those students with the greatest need for assistance. As a general principle, protecting program quality and accessibility are foremost. Yet, we recognize that cuts of this magnitude would necessitate sacrifices by all. The support for the University is as follows.

For Fiscal Year 2010, the Storrs appropriation of $235.3 million is manageable, yet not without its challenges. The amount represents FY09 level funding post rescissions. University employees agreed to benefit and wage concessions for FY10 and FY11 in an effort to help the State and University through very challenging economic times. It has not been easy as we are doing more with less, but there has been a continued commitment to do all we can with what we have. Unfortunately, the budget bill did include the sweeping of fund balances or University reserves by the State into its General Fund in the amount of $3 million in FY10. This action sets a serious and negative precedent in order to provide one-time budget relief in the current economic climate. It is important to note that fund balances do not occur as a result of the state appropriation, but through the stewardship of resources provided via non-state revenue streams. The sweeping of these fund balances to the State General Fund is nothing more than a tax on students and will reduce resources available to support the Academic Plan and to repair and replacement of the physical plant.

Note that on September 22, we were notified by the Office of Policy and Management of an adjustment to the Storrs appropriation. This adjustment to appropriation of $2.3 million is attributed to state-wide contract services and management reductions included in the budget bill. Despite this reduction in support, we remain committed to maintaining academic quality and preserving access to the University as best we can.

For FY10, the Health Center's budget includes state funding for fringe benefits of $13.5 million for John Dempsey Hospital. This is in recognition of the fringe benefit differential between JDH and the average at other Connecticut hospitals. On September 1, 2009, the legislature approved an appropriation of $118.9 million. On September 22, 2009 that appropriation was adjusted by $1.2 million due to contract services and management reductions. The $117.7 is an increase over the FY09 appropriation of $11.7 million. This is recognition of the structural problems at the Health Center. These structural problems include a higher proportion of Medicaid patients and a higher proportion of non-medical surgical programs delivered at the Health Center.

Fringe benefit support from the state for Storrs is estimated to be $92.3 million for FY10. The state share of the Storrs-based operating budget, which stood at 50% in FY91 and 35.4% in FY06, is projected to be 32.8% for FY10. Fringe Benefit support from the State for the Health Center is estimated at $45.5 million for FY10. Total State support for the Health Center is 22.6% for FY10.

RETIREMENT INCENTIVE PROGRAM (RIP)

The impact of the Retirement Incentive Program cannot be overstated. At the Storrs-based programs, we saw a total of 211 people avail themselves of the RIP. Of this group, 52 were faculty, 75 were professional staff and 84 were classified personnel. The General Fund (i.e. state supported) portion of the dollar value of these retirements for Storrs is $14.1 million in salary. The total value, which also includes salaries paid for by auxiliary funds, is $17.5 million. At the Health Center, the RIP headcount was 129 employees (10 faculty, 11 professional staff, and 108 classified personnel); the General Fund portion of the retirements was $4.4 million in salary. The Non General Fund portion, which includes salaries paid by clinical, operating and research revenues was $5.1 million. The estimated savings at the Health Center is $2.4 million, which represents 25% of the total.

Correctional Managed Health Care's (CMHC) RIP headcount was 27, which totals $2.1 million in salaries. The estimated savings for CMHC is $519,000. These savings accrue to the Department of Corrections and are not recognized by the Health Center and do not affect the net income of the Health Center.

In the state budget just enacted, higher education constituent units are permitted to retain all of these General Fund "savings". From a program perspective, we are doing everything we can to address both the negative impact on programs and the opportunities presented by the RIP staffing losses. We have asked certain retirees to return (for the statutorily permissible 120 days per calendar year) in order to enable us to cover classes, staff residence halls, operate the city we call the Storrs campus, and meet clinical demands at the Health Center. At this time, we are filling only the most critical positions. We will manage our way through the current year, but these temporary measures will not carry us through on a permanent basis. Furthermore, the timetable for faculty recruitment dictates that we enter the marketplace this fall. As a result, we are now beginning the search process for those positions essential to the ongoing growth and enhancement of our academic and research mission. There will, however, be no standard University-wide "refill rate." Rather, as we look to FY11, positions will be approved and budgets will be developed based on programmatic priorities.

For FY10, our focus will be to minimize the challenges associated with the RIP, but longer term our goal is to maximize the reallocation opportunities—and potential for significant change—that the retirement program represents.

SPENDING REDUCTIONS AND CONTROLS

Over the course of the last year, Governor Rell has issued a number of directives to reduce state spending as an immediate response to revised revenue projections. The University has instituted, for both the Storrs-based program and the Health Center, new procedures in keeping with the Governor's specifications, including serious constraints on the hiring of personnel.

We continue to seek efficiencies where possible, both immediate and long-term. At Storrs, the CORE Task Force continues to seek ways to generate cost-savings, efficiencies, and revenue enhancements.

At the Health Center, approximately $2.2 million in operational efficiencies were achieved in FY09. The "value analysis" project, a systematic look at ways to reduce costs and enhance operations, continues to produce savings in such areas as product standardization and scheduling improvements. In addition, the revenue cycle enhancement program is also producing efficiencies. The program achieved revenue increases in FY09 of $11.2 million. The Health Center is benefiting from UCONN 2000 in energy conservation efforts. Two major deferred maintenance projects (cooling coil and heating coil) are converting the original electric heat system to more energy efficient steam and hot water systems. The main cooling tower replacement is complete, and we continue to replace boilers and chillers with up-to-date energy efficient equipment.

BUDGET PLAN AND PRIORITIES

By way of background, our unaudited numbers indicate that the Storrs-based program has closed FY09 with a net gain of $4.8 million primarily due 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.

The Health Center closed FY09 with an operating loss of $766,000 after the $22.2 million deficit appropriation. The proposed budget for UCHC for FY10 is essentially break even $15,000.

This proposed spending plan for FY10 projects a $1.0 million gain for the Storrs-based program. This gain is for the reserve repayment from the November 2001 drawdown of $11.5 million for the Towers Dining Center and the Student Union. In addition, the FY10 State Budget requires a $3.0 million transfer from University operating reserves to the State General Fund. The result is a net loss of $2.0 million. (Percentages represent increases over the prior year.)

	FY09	FY10
Storrs based	$954.8 million (5.8%)	$991.3 million (3.8%)
Health Center	$753.2 million (4.6%)	$780.7 million (3.1%)
Total	$1,708.0 million	$1,772.0 million

(Please note: detailed charts for the current funds budgets, and their revenue/expenditure components, are found in Tab 5 and 6 of the budget materials.)

This budget reflects the following:

- The state appropriation and estimates of state fringe benefit support.
- Efficiencies, cost-reductions and reallocations rolled out permanently into the base budget.
- Revenue enhancement/implementation of charges previously approved by the Board.
- Expenditures for quality: faculty hiring plan, course coverage and an enriched educational experience.
- Expenditures for equity and increased financial aid.

STORRS & REGIONAL CAMPUSES

Our strategic budgetary focus remains the faculty hiring plan, which is the key to realizing the Academic Plan's three interrelated objectives: improving undergraduate instruction, growing research productivity and enhancing the University's reputation as a center for scholarly endeavor. The University's plan to increase full-time faculty is designed to: enhance the quality of the student experience, further the state's economic growth through research and workforce development, solidify the University's growing national reputation, and maximize the investment of parents and all taxpayers by ensuring that students can graduate in four years.

In FY06, we began the academic year with 51 net new faculty members. In FY07, we added 13 faculty to that number. Starting in FY08, the effort to recruit more faculty was organized into a comprehensive five-year plan. The plan provided for hires in areas that respond to student demand, offer greatest research opportunity and tie to the state's economic development. Many of the initial positions are in the fields of the state's workforce needs, namely science, technology and financial services. The faculty hiring plan had as its five year goal the addition of 175 net new faculty active in both instruction and research by FY12. Although we had sought state support for the effort in past years, until FY08 our additional hiring was funded through reallocation of resources.

In FY08, $2 million in reallocated funds were significantly enhanced with an important infusion of $1 million in new, targeted state aid for the hiring of additional faculty. (The biennial budget included $1 million— not additive— for

FY09 as well.) The funding of the FY08 component of the plan resulted in a net increase of 30 faculty members. The FY09 phase of the plan, all funded through reallocation, supported yet another addition of 30 faculty.

Due to the 52 faculty who took advantage of the RIP, we are behind the curve once again on the faculty hiring plan. This fall we will see a dramatic drop in the total faculty count. During the next few years of rebuilding our base, we will refocus and realign our faculty hiring plan with the Academic Plan.

Revenue

The University relies heavily on its non-state revenue streams for fiscal stability, particularly in times when the state budget is under stress. These sources include tuition/room/board/fees at Storrs and the regional campuses, as well as private support and research funding.

The proposed budget incorporates the implementation of increases approved in March 2009 for tuition, room, board and fees. Detailed breakouts are in Tab 6 of these materials. Please note that for an in-state student, tuition covers only about one-third of the cost of academic services; all charges combined (tuition, room, board and fees) cover only one-half of total costs.

For FY10 the total in-state undergraduate charge will be $19,788, an annualized increase of 6.17% over FY09. Out-of-state undergraduate charges would rise at approximately the same percentages, for a total charge of $35,388 in FY10. As described below, additional financial aid is budgeted to offset the impact of increased charges on financially needy students and families. UConn remains a tremendous value in comparison to our competitors—but it is a value only if the high quality of education remains high.

Tuition revenue growth—the combined effect of enrollment and tuition charges—is projected at 7.2% for FY10 over FY09. (Please see Tab 6 Current Funds chart.) Changes in room and board (in Auxiliary Enterprises) and fees drive an increase of 5.8% for FY10 over FY09 revenue. Please note that growth in these revenue streams is a function of rate changes and occupancy. Another major source of revenue for FY10 is state support of $325.3 million (a -0.8% decrease over FY09).

Expenditure Highlights

- Current Services Needs
  This budget respects the constraints of the current economic environment. A portion of the increase in the budget is to support inflationary growth in ongoing activity: fringe benefit costs, utility demands, and service and commodities contracts. The two areas of expansion that serve as the primary exceptions to this general rule are undergraduate education and financial aid, described below.

- Undergraduate Education Enrichment
  If we are to continue expanding the ranks of highly talented students, we must enrich the educational experience. In FY10, the budget devotes an additional $400,000 to the expansion of the Honors Program, $300,000 to enhance Living & Learning communities, and $500,000 for Regional Campus growth. In addition, we are working to expand opportunities for service learning and research experiences with faculty.

- Undergraduate Course Offerings
  One measure of the enrollment surge is the increase in undergraduate credit hours, which jumped from 360,191 hours in FY 96 (Fall 1995 & Spring 1996) to 580,358 in FY09 (Fall 2008 & Spring 2009). This is a 61% increase over that period at all campuses and 59% at the Storrs campus alone. We have tried to respond to demand with a flexible mix of instructional capacity, including full-time faculty, in-residence faculty (3 year appointments) and adjunct faculty. As workforce and economic development needs emerge, the University does its best to respond with appropriate academic programming. For example, UConn now offers accelerated Nursing Master's programs at its Storrs, Stamford and Waterbury campuses. Our School of Business is now offering undergraduate and graduate concentrations in Entrepreneurship in an effort to train Connecticut's next generation of entrepreneurs. In response to the business community in Stamford, the University has started a Finance degree program at our campus there. The School of Engineering and College of Liberal Arts and Sciences now offer interdisciplinary curricula in nanotechnology – a discipline that will be essential to the high-technology industries of the future.

- Financial Aid
  Financial aid represents an expenditure that, while to some extent discretionary, is inextricably intertwined with the mission of the University and is therefore treated as a "must do" in our budgets. When we develop our budget, each increase in student costs is matched by increased financial aid to ensure that no student's UConn education is denied or hampered based on financial need. For FY10, the University will earmark $327.8 million for all forms of financial aid, and $109.1 million (including tuition waivers) of that amount will be funded with tuition revenue. In other words, a remarkable 39.9% of this University's tuition revenue is dedicated to financial aid; 17.7% is dedicated to need-based aid. In fact, 77% of UConn's students received some form of assistance last year. This budget represents an increase of $29.8 million over FY09 total financial aid expenditures.

- Equipment and Plant Renewal Program
  As you know, UCONN 2000 includes project lines entitled "Equipment, Library Collections and Telecommunications," and "Deferred Maintenance/Code/ADA Renovation Lump Sum". In the past several years, we successfully shifted all library collections purchases onto operating dollars in order to help free up

Equipment funds to address other capital needs. We have, however, discussed for the last few years the importance of gradually shifting equipment and some deferred maintenance onto operating dollars to ensure a stable funding stream for these activities. A steady phase-in would free up UCONN 2000 dollars for reallocation to other capital expenses. The FY10 budget moves $3.0 million for equipment to the operating budget. The equipment phase-in will continue each fiscal year with the total coming from operating dollars by FY16. For FY10, we have set-aside $2.0 million for a plant renewal program which will assist us with our deferred maintenance needs. Once again, we would hope to increase this amount each year in order to relieve the pressure on the other UCONN 2000 named projects.

HEALTH CENTER

The Health Center in fiscal years 07, 08 and 09 incurred losses before deficit appropriations of $26.3 million, $23.4 million and $23.0 million. The FY09 results were impacted negatively by lower than expected revenue volume and School of Medicine revenues, higher malpractice expense and consulting expenses. On the positive side, expense savings for salaries, utilities and contracts was achieved. By far, the most positive impact was achieved through revenue enhancement and increased third party reimbursement.

The Health Center's cash position improved by almost $6 million to $55.4 million. The increase is attributable to a reduction of days in accounts receivable from 55 to 48.

The proposed budget for FY10 is a breakeven budget. The following is a summary of significant revenue and expense changes.

Revenue

The state appropriation for FY10 for the Health Center is $117.7 million. The Health Center expects state fringe benefit support of $45.5 million, along with $13.5 million for the John Dempsey Hospital fringe benefit differential. Of the Health Center's $604 million in revenue for FY10, sources other than the state appropriation account for an increase of $21.0 million. Clinical revenue is projected at $331.2 million, a 2.8% increase over FY09. Clinical revenues for JDH are primarily at FY09 levels and the revenue increase is due to increased reimbursement. For UMG, the overall increase to revenue is 5.8% of which 2.0% is volume and the remainder is rate.

In FY10, we expect research award activity to increase. Research revenue is $88.7 million, a 1.5% increase over the prior year. Income related to the placement of interns and residents is $43.7 million, an increase of 24.5% which includes an additional 15% starting October 1, 2009 for indirect expense of operating the graduate medical education program. Tuition and fee revenue is $17.6 million, which reflects the rate increases approved by the Board. $100.1 million (on both the revenue and the expense side) reflects the contract with the

Department of Correction for inmate health services. All other sources of revenue (including auxiliary) come to $22.7 million.

Expenditures

The Health Center's "Signature Programs" in cancer, cardiology and musculoskeletal medicine are the nexus for the programmatic confluence of distinguished basic science research, clinical services growth and educational excellence. Through translational research, the Health Center's investment in the integration of research, clinical care and education via the Signature Programs is a key component of the Health Center's plan for long-term fiscal sustainability.

Detail for the Health Center spending plan is in Tab 5.

FUND BALANCE

For the Storrs-based program, the FY09 unaudited unrestricted fund balance was $69.0 million. The unrestricted fund balance represented 8.4% of the FY09 unrestricted expenditure budget ($823.7 million) or, alternatively stated, 30.6 days' worth of operations.

The $69.0 million fund balance represented the funds and inventory remaining in these accounts: the research fund (designated for research); the auxiliary operations (residential, dining, health, student activities and recreational services); and departmental generated (self-supporting fee-based instructional programs such as Continuing Studies and MBA).

It is important to remember that the fund balances, while not all technically encumbered, are committed in a more generic sense. First of all, funds may be held in a departmental account in anticipation of expenditure such as start-up costs for a new researcher. Second, under the provisions of UCONN 2000, the University is required to maintain a renewal and replacement fund to keep projects in sound operating condition; the fund balance serves this purpose under the Master Indenture. Third, these amounts include inventory.

The fund balance is our operating capital and reserve for programs and activities that generate revenue and is not supported by the state appropriation. We borrow from the fund balance to pay our bills when necessary. For example, in Fiscal Year 2004, the University did not receive $13.4 million in state fringe benefit support until June—the very end of the fiscal year. In Fiscal Year 2005, the first quarter allotment of our entire appropriation did not arrive until September 28th—two days before the close of the fiscal quarter. Another example: the state generally informs us of changes in fringe benefit rates after the fiscal year has started, and frequently the increases have a significant fiscal impact. The fund balance allows us to manage these dislocations without disrupting the University's operations.

At year end, when funds are available, we also set aside dollars in accounts for planned one-time expenditures, mostly capital. These accounts comprise our plant funds resources for projects for Auxiliary Enterprise operations such as Residential Life, Dining Services, Student Health Services, Student Union and Athletics. The University has a policy that a departmentally funded construction project does not begin unless the funding has been identified and transferred to plant funds. For Residential Life, the window of opportunity to actually complete many repairs and renovations is limited as some projects cannot be done while students are occupying the buildings, so the actual spending of the cash is a timing issue.

Also, the plant funds balance includes funds set-aside for on-going code related corrective action such as the Office of the State Fire Marshal Legacy Code Remediation project, which will correct discrepancies in 56 buildings, and various fire alarm audibility upgrade projects. The additional funding for these projects totals $14.6 million and was approved by the Board of Trustees on June 23, 2009. These projects are moving forward expeditiously with completion anticipated near the end of the next fiscal year.

For Storrs, then, our FY09 unaudited unrestricted net assets of $147.2 million are made up of the $69.0 million current fund balance, an estimated $42.0 million in unexpended plant funds and a third component: $36.2 million in funds that are internally restricted for the retirement of indebtedness. We have traditionally been very conservative with regard to savings for debt obligations, maintaining funds at a level of approximately 1.75 times our annual debt payments. We believe that this policy has served us well.

Finally, at the Health Center, the FY09 year-end Unrestricted Fund Balance of $56 million represents 7.5% of the FY09 budgeted expenditures ($751 million) or, alternatively stated, 20 days' worth of operations. Again, these FY09 numbers are unaudited. The fund balance includes capital budgets from other funds, and other current liabilities, including malpractice claims.