Highlights
Fiscal Year 2011
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 June 10th budget workshop will focus on the spending plan for Fiscal Year 2011, but the Board will also be asked to act on the biennial "current services" request for Fiscal Years 2012 and 2013. The tuition and fee rates for Fiscal Year 2011 were set in February 2010 by the Board. FY12 tuition and fee rates are tentatively scheduled to be presented to the Board in the fall of 2010.

BUDGET GOALS

Our budget goals at Storrs have changed with the changing times, from managing dramatic growth to growing quality. Even though UConn's excellent value is evidenced by increases not just in applications, but in paid deposits, we have made the conscious decision to maintain flat freshman enrollment for Fiscal Year 2011. 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 FY11 is to breakeven. The first key to achieving this goal are expense control while providing 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 FY11. The uncertainty of the future of John Dempsey Hospital has had an effect on referrals in FY10 and also on the Health Center's ability to recruit clinical faculty. The FY11 budget includes funds to recruit clinical faculty. A marketing campaign will continue in FY11 to emphasize that the Health Center is providing quality health care and to emphasize that our missions will continue.

THE STATE BUDGET

While we have been preparing for the reality of declining state support, we remain 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, ensuring high quality health care, and conducting research that serves as a catalyst for innovation, product development and job creation.

On September 8, 2009, the State budget for the next two fiscal years was passed. The state appropriation reflected the continuing difficult fiscal environment. On April 14, 2010, a deficit mitigation plan was passed by the Governor and the General Assembly. This plan required the Storrs-based program to transfer an additional $5 million of University reserves to the State's General Fund for FY10 for a total of $8.0 million. In addition, another $10 million is required to be transferred in FY11 for a total of $15.0 million. Over the two year period, a total of $23 million will be transferred from the University to the State's General Fund. On May 7, 2010, a bill passed which makes adjustments to the FY11 State budget and reduces the University appropriations.

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 will necessitate sacrifices by all. The support for the University is as follows.

For Fiscal Year 2011, the Storrs appropriation of $233.0 million is manageable, yet not without its challenges. The amount represents flat funding. 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. Therefore, the University must fund wage increases in FY11. It will not be 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 State will be once again sweeping University reserves to the State's General Fund in the amount of $15 million in FY11. 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 will reduce resources available to support the Academic Plan, to repair the physical plant and bridge the period between additional reductions in State support and additional reductions in expenses or increases in revenues.

For FY11, the Health Center's budget includes state funding for fringe benefits of $13.5 million for John Dempsey Hospital (JDH). This is in recognition of the fringe benefit differential between JDH and the average at other Connecticut hospitals. The legislature approved an appropriation of $119.3 million for FY11. The $119.3 is an increase over the FY10 appropriation of $1.6 million. This is continued recognition of the structural challenges at the Health Center. These structural challenges include a higher proportion of Medicaid patients and a higher proportion of non-medical surgical programs delivered by the Health Center.

Fringe benefit support from the State for Storrs is estimated to be $96.5 million for FY11. The State share of the Storrs-based operating budget, which stood at 50% in FY91 and 35.4% in FY06, is projected to be 32.1% for FY11. Fringe Benefit support from the State for the Health Center is estimated at $47.5 million for FY11. Total State support (including fringe benefits) for the Health Center is 22.9% for FY11.

SPENDING REDUCTIONS AND CONTROLS

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

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. For example, certain operating expense categories, such as advertising, printing, postage, travel, and consulting fees, have decreased by more than $7 million since FY08.

Pursuant to the direction of the Board of Trustees, a Request for Information (RFI) to independent consulting firms to perform strategic educational redesign and transformation services to the University, was issued on April 23, 2010 with a deadline of May 7, 2010 (extended to May 14, 2010). The University received sixteen responses to the RFI. Two of the responders indicated that they did not perform the services as required by the RFI and one firm stated that they could not respond to the RFI given its commitments to other clients but might respond to a formal Request for Proposals (RFP). The informal RFI process allows the Administration to engage in conversations with firms in regards to the crafting of the scope of the Request for Proposals without violating State procurement requirements. During the week of May 24, 2010, staff interviewed twelve of the thirteen responders and they plan to interview the one remaining responder during the week of May 31, 2010. The goal is to issue the RFP in the next few weeks, receive responses by the end of August 2010 and hire the firm during September 2010.

At the Health Center, 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 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

Although we have not yet completed the FY10 year-end closeout, our very preliminary estimates indicate that the Storrs-based program is forecasted to close the year with a net gain of $2.9 million. While approximately $1.0 million of the gain represents a reserve repayment for the Towers Dining Center and the Student Union, additional revenues expected in Tuition & Fees, Auxiliary Enterprises and Research as well as savings in Personal Services, Other Expenses and Energy will offset the required transfer of $8 million from University reserves to the State General Fund.

The Health Center projects a FY10 operating gain of $1.9 million. The proposed budget for UCHC for FY11 is essentially break even, a gain of $42,293.

The proposed spending plan for FY11 projects a $14.0 million net loss for the Storrs-based program consisting of the $15.0 million transfer of University reserves to the State General Fund and the $1.0 million reserve repayment from the November 2001 drawdown of $11.5 million for the Towers Dining Center and the Student Union. (Percentages represent increases over the prior year.)

	FY10 Forecast	FY11 Budget
Storrs based*	$993.1 million	$1,047.5 million (5.5%)
Health Center	$751.1 million	$787.3 million (4.8%)
Total	$1,744.2 million	$1,834.8 million (5.2%)

*Note that these expenditure figures include the transfer of funds to the State General Fund.

(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 145 net new faculty active in both instruction and research by FY14. 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 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 Retirement Incentive Plan (RIP), we are behind planned faculty hiring goals once again. During FY10, the total faculty count dropped by 38. Rebuilding our base over the next several years in order to ensure that the faculty hiring plan aligns with the Academic Plan will require a continued investment during a time of scarce resources.

<u>Revenue</u>

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 February 2010 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; <u>all</u> charges combined (tuition, room, board and fees) cover only one-half of total costs.

For FY11, the total in-state undergraduate charge will be $20,968, an annualized increase of 5.96% over FY10. Out-of-state undergraduate charges would rise at approximately the same percentages, for a total charge of $37,432 in FY11. 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 <u>and</u> tuition charges, is projected at 6.0% for FY11 over FY10. (Please see Tab 6 Current Funds chart.) Changes in room and board (in Auxiliary Enterprises) and fees drive an increase of 4.2% for FY11 over FY10 revenue. Please note that growth in these revenue streams is a function of rate changes and occupancy. Another major source of revenue for FY11 is state support of $332.1 million (a 1.6% increase over FY10 is due to changes in the fringe benefit rate).

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 one area of expansion that serves as the primary exception to this general rule is financial aid, described below.

- 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 mandatory line item 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 FY11, the University will earmark $358.4 million for all forms of financial aid, and $112.8 million (including tuition waivers) of that amount will be funded with tuition revenue. In other words, over 39% 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 $17.5 million over FY10 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. Additionally, in the past years, we have discussed 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 FY11 budget includes $3.5 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 FY11, we have set-aside $2.5 million for a plant renewal program which will assist us with our deferred maintenance needs. We hope to increase this amount each year in order to relieve the pressure on other UCONN 2000 named projects.

HEALTH CENTER

In Fiscal Years 07, 08 and 09, the Health Center incurred losses before deficit appropriations of $26.3 million, $23.4 million and $23.0 million respectively. The FY10 forecast is a gain of $1.9 million. The proposed budget for FY11 is a breakeven budget. The following is a summary of significant revenue and expense changes.

Revenue

The state appropriation for FY11 for the Health Center is $119.3 million. The Health Center expects State fringe benefit support of $47.5 million, along with $13.5 million for the John Dempsey Hospital fringe benefit differential. Of the Health Center's $607.1 million in revenue for FY11, sources other than the state appropriation account for an increase of $29.4 million. Clinical revenue is projected at $335.1 million, a 4.3% increase over FY10. Clinical revenues for JDH are forecast to increase 3.9% over FY10 and the revenue increase is due primarily to increased reimbursement. For UConn Medical Group (UMG), the overall increase to revenue is 4.4% of which 2.3% is based on volume and the remainder is due to rate increases.

In FY11, we expect research award activity to increase. Research revenue is budgeted at $88.2 million, a 3.0% increase over the prior year. Income related to the placement of interns and residents is $47.8 million, an increase of 9.7% which includes a full year of the 15% rate for the cost recovery of operating the graduate medical education program. Tuition and fee revenue is $18.4 million, which reflects the rate increases approved by the Board. $98.6 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 $18.9 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 FY10 year-end unrestricted current funds balance is projected to be $71.9 million. The unrestricted fund balance represents 8.0% of the FY11 unrestricted expenditure budget ($895.1 million) or, alternatively stated, 29 days' worth of operations.

The $71.9 million projected current funds balance represents 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 new researchers. 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 and prepaid expenses.

The unrestricted 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.

Throughout the year, 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 totaled $15.1 million. These projects are moving forward expeditiously with completion anticipated near the end FY11.

For Storrs, then, our FY10 year-end unrestricted net assets forecast of $177.2 million is made up of the $71.9 million current funds balance, $69.0 million in unexpended plant funds and a third component: $36.3 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 1.76 times our annual debt payments. We believe that this policy has served us well when we are evaluated by the various credit rating agencies.

Finally, at the Health Center, the forecasted FY10 year-end unrestricted operating fund balance of $78 million represents 10% of the FY10 budgeted expenditures ($780 million) or, alternatively stated, 36.5 days' worth of operations.