Highlights
Fiscal Year 2012
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 23rd budget workshop will focus on the spending plan for Fiscal Year 2012. The tuition and fee rates for Fiscal Year 2012 were set in March 2011 by the Board. FY13 tuition and fee rates are tentatively scheduled to be presented to the Board in the fall of 2011.

BUDGET GOALS

Our budget goals at Storrs and the Regional campuses balance the economic reality of a decline in State operating support while maintaining robust academic, research and student service enterprises from which the University derives its excellent reputation. This reputation along with proper stewardship of its assets has created a value proposition that drives continued increases in applications and paid deposits from in-state, out-of-state and international students.

At the Health Center, our goal in FY12 is to breakeven. The first key to achieving this goal is 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 FY12. The positive outlook for the future of John Dempsey Hospital will enhance the Health Center’s ability to recruit clinical faculty. The FY12 budget includes funds to recruit clinical faculty. A marketing campaign will continue in FY12 to emphasize that the Health Center is providing quality health care and to emphasize that our missions will continue.

THE STATE BUDGET

Over the past several years we have prepared for the decline in state operating support which now has become a reality. Through it was a difficult process; staff believe these budgets maintain our commitment to meet the needs of our students, patients and faculty.

Recently Governor Malloy and the General Assembly acknowledged UConn’s vital role in addressing the state’s economic crisis in both the short and long term by approving additional capital support in excess of $800 million. This investment will completely rebuild and expand the University of Connecticut Health Center and will allow for development of a state of the art technology park on the Storrs campus. The University gratefully acknowledges these new and substantial financial commitments and looks forward to an even closer and more productive partnership with state government in its economic development efforts. Given the current economic recession, this partnership will ensure the continued education of our high-achieving students, provide Connecticut with a highly qualified workforce, achieve the highest quality of health care, and conduct research that serves as a catalyst for innovation, product development and job creation.

On April 21, 2011, the State budget for the next two fiscal years was passed. The state appropriation levels reflect the continuing difficult fiscal environment. While this approved State budget sets a framework, many decisions that will affect the University's ultimate allocation of state funds remain to be made. This allocation will not be finalized until we know the official outcome of the SEBAC agreement. We will continue to communicate regarding specific details as we move towards the start of the new fiscal year.

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 2012, the Storrs appropriation of $225.4 million (excludes year-end accounting accruals and CBI adjustments) is manageable, yet not without its challenges. The amount represents a $7.3 million decrease in funding as compared to Fiscal Year 2011. 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.

For FY12, 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 $123.5 million for FY12. The $123.5 is an increase over the FY11 appropriation of $4.2 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 $89.7 million for FY12. The State share of the Storrs-based operating budget, which stood at 50% in FY91 and 35.4% in FY06, is projected to be 29.0% for FY12. Fringe Benefit support from the State for the Health Center is estimated at $52.5 million for FY12. Total State support (including fringe benefits) for the Health Center is 23.2% for FY12.

SPENDING REDUCTIONS AND CONTROLS

Over the course of the last few years, the current and the previous Governor have issued a number of directives to reduce state spending as an immediate response to revised State revenue projections. The University has instituted new procedures in keeping with the Governor's directives, 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. This past winter, the University retained McKinsey and Company, an internationally renowned management consulting firm, to work with us to identify savings in non-academic areas and that engagement is moving at full speed. Though initially proposed by the Board of Trustees before the current budget challenges came into being, the McKinsey study will be of great value. Even in a more positive fiscal climate, every dollar saved in administrative costs can be redirected to our core missions of teaching, research and student service, and that is a gain for all of us. Many faculty, administrators, staff and students have already met with the McKinsey team to discuss ideas, and more meetings will be taking place in the coming months.

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 FY11 year-end closeout, our very preliminary estimates indicate that the Storrs-based program is forecasted to close the year with a net loss of $4.6 million. The forecasted net loss includes the required transfer of $15 million to the State General Fund. This forecast is an improvement over the budgeted net loss of $14.0 million. Overall, both revenues and expenditures are greater than budget. We collected more tuition, fees and auxiliary revenue than expected and we will be transferring less funding to the water reclamation project than anticipated. In addition, preventative measures were implemented in FY11 to slow down year-end purchases.

The Health Center projects a FY11 operating gain of $3.2 million due mostly to lower than expected expenses. Favorable variances in personal services were attained by not filling vacant positions, and medical supplies were under budget due to lower than budgeted surgical cases in FY11. In addition, the School's had savings related to other consulting contracts and faculty start-up expenses.

The proposed budget for UCHC for FY12 is essentially break even, a gain of $53,618. This bottom line takes into effect the increases in health insurance and retirement fringe benefits, the increase in the state appropriation and it assumes no bargaining unit increases for unionized employees based on the SEBAC agreement.

The Storrs-based program proposed spending plan for FY12 also projects a break even budget. The reduction in state support will be offset by tuition and fee revenues due to the 2.5% rate increase and reduced expenditures in almost every category. This budget assumes no wage increases for all University employees. (Percentages represent increases over the prior year.)

	FY11 Forecast	FY12 Budget
Storrs based	$1,050.1 million*	$1,039.0 million (-1.1%)
Health Center	$777.4 million	$817.2 million (5.1%)
Total	$1,827.5 million	$1,856.2 million (1.6%)

*Note that this expenditure figure includes the transfer of $15 million to the State General Fund.

(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 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 the 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 sought state support for the effort in past years, until FY08 our additional hiring was funded through reallocation of internal 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 an additional 30 faculty.

Due to the 52 faculty who took advantage of the Retirement Incentive Plan (RIP) in 2009, we are behind planned faculty hiring goals once again. During FY10, the total faculty count dropped by 38. In FY11, we hired an additional 18 faculty. So far we have hired 53 net new faculty since FY06. 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.

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 as well as private support and research funding at Storrs and the regional campuses.

The proposed FY12 budget incorporates the implementation of rate increases approved in March 2011 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; and charges combined (tuition, room, board and fees) cover approximately one-half of total costs.

For FY12, the total in-state undergraduate student cost will be $21,486, an increase of 2.47% over FY11. For an out-of-state undergraduate, the cost will rise at approximately the same percentage, for a total student cost of $38,382 in FY12. As described below, financial aid is budgeted to offset the impact of student costs on financially needy students and families. UConn remains a tremendous value in comparison to our competitors—but it is a value only if the quality of education remains high.

Tuition revenue growth, the combined effect of enrollment and tuition rate increases, is projected at 3.8% for FY12 over FY11. (Please see Tab 6 Current Funds chart.) Changes in room and board (in Auxiliary Enterprises) and fees drive an increase of 4.0% for FY12 over FY11 revenue. Please note that growth in these revenue streams is a function of rate changes and occupancy. Another major source of revenue for FY12 is state support of $301.2 million (the 9.4% decrease from FY11 is due to changes in the fringe benefit rate, year-end accounting accruals and CBI adjustments).

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 unavoidable inflationary increases in ongoing activities. 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 is 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, the goal is to provide an appropriate amount of financial aid to ensure that no student's UConn education is denied or hampered because of financial need. For FY12, the

University will earmark $379.9 million for all forms of financial aid, and $118.0 million (including tuition waivers) of that amount will be funded with tuition revenue. In other words, 39% of this University's tuition revenue is dedicated to financial aid; 17.5% is dedicated to need-based aid. This funding is critical to the 15,000 students who received financial aid packages last year. This budget represents an increase of $9.7 million over FY11 total financial aid expenditures.

- Enhancements / Reductions
  The Storrs-based program has strategically enhanced revenues where possible and reduced expenditures within the FY12 budget. Over the past months, the Provost, Vice President & Chief Financial Officer and the Vice President & Chief Operating Officer have worked diligently to address this budget situation.
  - We recently imposed an even more stringent approval process for all hires and rehires.
  - We imposed budget reductions for non-personnel expenditures throughout the University. Many contracts are under review for possible savings opportunities.
  - We continue to explore alternative sources of revenue such as an expanded summer session and utilization of more private/grant funds.
  - We are reviewing existing funding structures in order to move certain programs towards self-sufficiency.
  - We cut plant renewal and equipment funding for FY12.
  - We removed inflationary increases from certain areas such as library purchases.
  - We have set a foundation that will enable us to get through FY12 that will protect the academic enterprise as much as possible.

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. In FY10, there was a gain of $3.9 million. The forecast for FY11 is a $3.2 million gain. The proposed budget for FY12 is a breakeven budget. The following is a summary of significant revenue and expense changes.

Revenue

The state appropriation for FY12 for the Health Center is $123.5 million. The Health Center expects State fringe benefit support of $52.5 million, along with $13.5 million for the John Dempsey Hospital fringe benefit differential. Of the Health Center's $627.7 million in revenue for FY12, sources other than the state appropriation account for an increase of $30.8 million. Clinical revenue is projected at $351.8 million, a 4.8% increase over FY11. Clinical revenues for JDH are forecast to increase 5.3% over FY11 and the revenue increase is due to a slight volume increase of 2.0% and 2.2% in rate. For UConn Medical Group (UMG), the overall increase to net patient revenue is 4.4% of which 2.9% is based on volume and the remainder is due to rate increases.

In FY12, we expect research revenue activity to increase. Research revenue is budgeted at $86.6 million, a 1.4% increase over the prior year. Income related to the placement of interns and residents is $51.9 million, an increase of 9.1% 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 $18.5 million, which reflects the rate increases approved by the Board. $99.5 million (on both the revenue and the expense side) reflects the contract with the Department of Correction for inmate health services.

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 FY11 year-end unrestricted current funds balance is projected to be $66.9 million. The unrestricted fund balance represents 7.5% of the FY12 unrestricted expenditure budget ($897.6 million) or, alternatively stated, 27 days' worth of operations. This has dropped by 3 days since 2009.

The $66.9 million projected current funds balance represents the funds 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 for 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 current funds 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, as we do when the state informs us of changes in fringe benefit rates after the fiscal year has started as frequently the increases have a significant fiscal impact. Additionally, in 2010 the Governor requested fund balances of $3 million and then another $5 million from us during the year. We were able to meet this obligation using existing fund balance. 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 and Dining Services projects, the window of opportunity to actually complete many repairs, renovations and improvements 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 $27 million set-aside for the water reclamation project. This project started at the beginning of June 2011 with substantial completion expected in December 2012.

For Storrs, our FY11 year-end unrestricted net assets forecast of $173.4 million consists of $66.9 million current funds balance, $71.5 million in unexpended plant funds and $35.0 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 FY11 year-end unrestricted operating fund balance of $70 million represents 8.6% of the FY12 unrestricted expenditure budget ($817 million) or, alternatively stated, 31 days' worth of operations.