University of Connecticut
Fiscal Year 2015 Budget Highlights

The FY15 budget supports the President's four priority areas: student success, strengthening research and economic development, increasing philanthropy and communicating the University's message of excellence and ambition. The budget is defined as the University's plan of current operations based on estimates of expected income and expenses. Intrinsic in all budgets are policy decisions. Although this is an annual budget, the policy decisions track with the long term strategic initiatives of the University. Therefore, decisions are long lasting. The June 25, 2014 budget presentation to the Board of Trustees focuses on the spending plan for FY15, guided by the University's budget policies and impacted by budget priorities and policies.

Budget Priorities, Policies & Impacts

Our budget priorities at the University balance the economic reality of a decline in state operating support over time while growing robust academic, research and student service enterprises from which the University derives its long-standing reputation. This reputation, along with proper stewardship of its assets, has created a value proposition that drives continued increases in applications for admission from in-state, out-of-state and international students. This budget continues the University's commitment to its students, financial aid, faculty, and research and protects academic programs.

Part of the budget process is the awareness, recognition and planning for the various short and long term financial risks. The University must always be cognizant of the potential exposures we face when building a budget.

- State support
  - Reduction in base appropriation over the past several years while new initiatives must continue to be funded
- Tuition and fees
  - Maintaining rates that keep the University affordable for in-state students
  - Maintaining rates that keep the University competitive for out-of-state students
  - Growing on-line courses and summer session
- Fringe benefit rates
  - Funding the recent growth in rates for faculty, staff and graduate students
  - Increasing numbers of conversions to the Hybrid retirement plan
- *Next Generation Connecticut*
  - Escalating of project construction costs
  - Operating costs of the new facilities need to be planned for
  - Need to request operating funds annually although UConn will be committing to 4 year scholarships and new faculty prior to the approved appropriation
- Downtown Hartford Campus
  - Transformation to a new campus will create a new operating model, programmatic changes and unanticipated costs
- Academic Plan
  - It is difficult to incorporate the new plan with uncertain budgets
  - Philanthropy will play a critical role in execution

State Support

During the 2014 legislative session, the General Assembly and Governor reaffirmed their support of the *Next Generation Connecticut* initiative. This transformational investment will launch the University into the very top tier of international universities in many disciplines. UConn began planning for this initiative during FY14 to ensure that it was implemented appropriately to achieve the planned growth. For FY15, the State appropriated $15 million for this effort. UConn gratefully acknowledges this new and substantial financial commitment and looks forward to an even closer and productive partnership with State government, industries and entrepreneurs. This partnership will ensure the continued education of our high-achieving students, provide Connecticut with a highly qualified workforce, and conduct research that serves as a catalyst for innovation, product development and job creation. However, over the past several years, the University has experienced a decline in State operating support. While total State support has increased due to higher fringe benefit rate reimbursement and collective bargaining increases, the base appropriation was reduced to achieve necessary savings to balance the State budget.

In May 2014, the revised State budget for FY15 was passed by the legislature and signed into law. In the beginning of June, the University was notified of the actual State allotment which included further reductions in order to balance the State budget. The FY15 State support for the University is as follows: The UConn State allotment is $228.3 million (excluding year-end accounting accruals). This amount represents an increase in State funding as compared to the FY14 allotment. While the base appropriation was reduced, a portion of all collective bargaining increases were funded as well as $15M for the *Next Generation Connecticut* initiative. Fringe benefit support from the State for UConn is estimated to be $120.4 million for FY15. The State's share of the UConn operating budget (including the Next Generation Connecticut initiative), which stood at 50% in FY91 and 35.4% in FY06, is projected to be 29.3% for FY15.

FY14 Budget Results

UConn Storrs & Regional Campuses budgeted a loss of $30.9 million for FY14; however, forecasted year-end results reflect a loss of $25.2 million. Prior year balances will be used to fund this loss. See TAB 2 for a more detailed review of the FY14 forecast.

UConn FY15 Budget Plan and Priorities

The *Next Generation Connecticut* initiative is our primary strategic budgetary focus and includes new faculty & staff hires and increased enrollment which will enhance the quality of the student experience, further the State's economic growth through research and workforce development, grow the University's national reputation, and maximize the investment of families and all taxpayers by reducing time to graduation. UConn's proposed spending plan for FY15 reflects a balanced budget.

FY15 Funding Initiatives/Expenditures:

- **Revenues**
  As previously stated, a major source of revenue for FY15 is State support of $348.7 million or 13.3% more than FY14. The State appropriation reflects the increase associated with a portion of the collective bargaining increases and the first year of the *Next Generation Connecticut* initiative. In addition, fringe benefit support is projected to increase as a result of the higher rates.

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

The proposed FY15 budget incorporates the implementation of rate increases approved in December 2011 and February 2014 for tuition, room, board and fees. Detailed breakouts are in TAB 4 of these materials. For FY15, the total in-state undergraduate student cost of attendance will be $24,518, an increase of 4.3% over FY14. For an out-of-state undergraduate student, the cost will be $44,698, an increase of 5.3%. As described below, financial aid is budgeted to offset the impact to financially needy students and their families. UConn remains a tremendous value in comparison to our competitors—but it is a value only if the quality of education remains high.

FY15 tuition revenue growth, the combined effect of enrollment and tuition rate increases, is projected to be 7.6% over FY14. (Please see TAB 4 Current Funds chart.) Changes in room and board fees (in Auxiliary Enterprises) drive an increase of 4.5% for FY15 over FY14 revenue. Please note that growth in these revenue streams is a function of rate changes as well as occupancy.

- ***Next Generation Connecticut***
  This initiative represents one of the most ambitious State investments in economic development, higher education and research in the nation. With *Next Generation Connecticut*, key, targeted strategic investments in facilities, faculty, and students will establish the University as one of the top public research institutions, fueling Connecticut's economy with new technologies, highly-skilled graduates, new companies, patents, licenses, and high-wage jobs. Goals of this ambitious 10-year plan include:

  - Hire new faculty (the majority of which will be in STEM fields)
  - Enroll additional undergraduate students
  - Build STEM facilities to house materials science, physics, biology, engineering, cognitive science, genomics, and related disciplines
  - Construct new STEM teaching laboratories
  - Create a premier STEM honors program
  - Upgrade aging infrastructure to accommodate new faculty and students
  - Expand Stamford degree programs and provide student housing
  - Relocate UConn's Greater Hartford Campus to downtown Hartford

  Next Generation Connecticut is comprised of both capital and operating budget components. Public Act 13-233, An Act Concerning Next Generation Connecticut, extended the UCONN 2000 program another six years until Fiscal Year 2024, added $1.6 billion in new bond authority, and added a new named project called "Academic and Research Facilities". The total State request for operating funds through Fiscal Year 2024 is $137 million. Public Acts 13-184 and 14-47, An Act Concerning Expenditures and Revenue for the Biennium Ending June 30, 2015, appropriated $15 million of operating funds in Fiscal Year 2015 for this purpose. Future operating funds beyond Fiscal Year 2015 are subject to the annual appropriations approval process. Additionally, the University has committed significant institutional resources to launch *Next Generation Connecticut* by reallocating existing UCONN 2000 funds for the capital program and $121 million (by 2024) in operating funds to support the academic program components.

The new Academic Plan has established the priorities for *Next Generation Connecticut* planning. Responsibility for and benefits from *Next Generation Connecticut* exist across the entire university, not only in departments or schools focusing on STEM.

- **Enrollment Growth**
  The budget includes increased tuition and fee revenues from growth in undergraduate students at Storrs and the Regional campuses due to the *Next Generation Connecticut* initiative. In addition, the mix of in-state and out-of-state/international students is changing. Total undergraduate enrollment is expected to increase 1.7%. However, enrollment in graduate and professional programs has dropped over the past few years.

- **Faculty & Staff Hiring**
  In FY13 & FY14 combined, 187 new faculty positions were filled and funded. These additional faculty resulted in a student to faculty ratio of 16.3:1 compared to 18.3:1 in FY12. The FY15 budget includes filling an additional 61 new faculty positions to meet the course demands of increased enrollment, to grow the research enterprise, and to support and ensure the success of the *Next Generation Connecticut* initiative.

- **Commitment to Financial Aid**
  Financial aid represents an expenditure that (while to some extent is discretionary) is inextricably intertwined with the mission of the University. When developing the budget, the goal is to provide an appropriate amount of financial aid to ensure that no student is denied a UConn education because of financial need. Starting in FY15, UConn will be awarding approximately $1 million in new merit scholarships to students pursuing degrees in Science, Technology, Engineering and Math (STEM) fields of study.

  For FY15, the University will fund $145.3 million (including tuition waivers) of financial aid with tuition revenue. In other words, in this FY15 budget, 28.2% of the University's tuition revenue is dedicated to tuition funded financial aid; 18.3% is dedicated to need-based aid. The University's best financial aid packages are provided to in-state, low income students. For FY14, almost 21,500 students received financial aid from all known sources so this funding is very critical for student support. The amount of total financial aid in this budget represents an increase of 5.8% over the FY14 forecast.

- **Fringe Benefit Impact**
  A portion of the planned expenditures in the budget will support unavoidable increases in ongoing activities. The University develops composite fringe benefit rates annually based upon the actual charges from the benefit programs administered by the State of Connecticut. The actual State rates are not known until after this budget is approved by the Board of Trustees. In FY14, the rates were significantly higher than expected partially due to the effect of more employees choosing or switching to the Hybrid retirement plan. For FY15, the fringe benefit rates assumed in the budget are 1.5 percentage points higher than the FY14

rates. This increase adds $10.8 million to the FY15 budget. In addition, the FY15 budget includes funds for increased graduate student health insurance costs.

- **Spending Reductions and Controls**
  UConn has acted to mitigate its deficit and has reduced expenditures within the FY15 budget as follows:
  - All procurement contracts are being reviewed for possible savings opportunities and revenue enhancements
  - Pressure to cultivate alternative sources of revenue such as an expanded summer session and utilization of private (philanthropy)/grant funds will continue for all areas
  - Existing funding structures are still under review in order to move certain programs towards self-sufficiency
  - Utilization of existing designated fund balances is strongly encouraged when appropriate
  - Realignment of resources to UConn priorities

Detail for the UConn FY15 spending plan may be found in TAB 4.

UConn Fund Balance

The FY14 year-end unrestricted current funds balance is forecasted to be $69.4 million. This unrestricted fund balance represents 6.7% of the FY15 unrestricted expenditure budget ($1,041.1 million) or, alternatively stated, 24 days' worth of operations.

The forecasted $69.4 million current funds balance represents the funds remaining in the following operating areas: 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 the MBA program). The unrestricted current funds balance is considered operating money and used for support of programs and activities that generate revenue and is not supported by the State appropriation.

Fund balances may be held in a departmental account for start-up costs for new research faculty. Additionally, 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. These balances also include inventory and prepaid expenses.

Throughout the year, when funds are available, the University sets aside funds for planned one-time expenditures, largely capital, in the plant fund. The balances are primarily for Auxiliary Enterprise projects such as Residential Life, Dining Services and Student Health Services. The University has a policy that a departmentally funded construction project cannot begin unless the funding has been identified and transferred to the plant fund. In addition, 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. Currently, Dining Services has several projects underway such as renovations to new spaces, regulatory compliance improvements, and equipment upgrades.

The FY14 forecasted unrestricted net assets of $118.3 million consists of $69.4 million current funds balance, $21.5 million in unexpended plant funds and $27.4 million in funds that are internally restricted for the retirement of indebtedness. The projected FY15 unrestricted net assets are $105.9 million and consists of $68.7 million in current funds, $9.8 million in unexpended plant funds and $27.4 million in funds internally restricted for the retirement of indebtedness.

UConn Health
Budget Highlights

FY14 Budget Results

UCH budgeted a loss of $11.0 million from operations for FY14; forecasted results reflect a loss of $15.7 million. UCH has reduced its capital spending by $4.7 million in FY14 to fund this difference. See TAB 2 for a more detailed review of the FY14 forecast.

FY15 Budget Plan and Priorities

UCH's proposed spending plan for FY15 projects an operating loss of $12.5 million. However, decreasing the FY15 capital spend to $9.8 million will balance the requested Spending Plan budget in FY15.

- **Revenue**

  The State allotment for FY15 for the Health Center is $135.2 million. The Health Center expects State fringe benefit support of $78.3 million along with $13.5 million for the John Dempsey Hospital fringe benefit differential. Of the Health Center's $938.9 million in revenue for FY15, sources other than State support account for an increase of $51.0 million. Clinical revenue is budgeted at $397.5 million or an 8.3% increase over FY14. Clinical revenues for JDH are budgeted to increase 6.5% over FY14. The revenue increase is due to a slight volume increase of 2.7%, a rate increase of 2% and the remaining portion is attributable to Berkeley Research Group (BRG) savings. For the UConn Medical Group (UMG), the overall increase to net patient revenue is 12.4% of which 10.4% is based on volume and the remainder is due to rate increases.

  In FY15, we expect research revenue activity to increase by 1.9%. Research revenue is budgeted at $87.7 million. Income related to the placement of interns and residents is $63.6 million or an increase of 12.4%. Tuition and fee revenue is $21.2 million, which reflects the rate increases approved by the Board. $93.9 million (on both the revenue and the expense side) reflects the contract with the Department of Correction for inmate health services.

- **Expenditures**

  Salaries and fringes are budgeted at $562.2 million, an increase of 8.0% primarily related to bargaining unit salary increases based on the SEBAC agreement and an increase to health, dental and pharmacy insurance benefits of 14.0%. Utilities are increasing by 17.4% or $2.0 million and Repairs and Maintenance is increasing by 22.8% or $2.4 million due to the Outpatient Pavilion opening in January 2015. The increase in repairs and maintenance also includes new parking operations service contracts. There is a 6.3% decrease in medical supplies due to the initiatives of BRG and hospital administration. Outside purchased services are budgeted to increase by 13.0% due to BRG fees, marketing and external rent for offsite facilities.

Detail for the Health Center spending plan is in TAB 3.

Fund Balance

The FY14 forecasted unrestricted operating fund balance of $25 million represents 2.8% of the FY14 unrestricted expenditure budget ($896 million) or, alternatively stated, 10 days' worth of operations.