Highlights
Fiscal Year 2014
University Spending Plan

The FY14 budget supports the President's four priority areas of focus: student success, strengthening research and economic development, increasing philanthropy and communicating the University's message of excellence and ambition. The June 26th budget presentation to the Board of Trustees focuses on the spending plan for FY14 based on tuition and fee rates that were approved by the Board in December 2011 and February 2013.

<u>BUDGET GOALS</u>

Our budget goals at Storrs and the Regional campuses balance the economic reality of a decline in state operating support over time while maintaining 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.

<u>THE STATE BUDGET</u>

Over the past several years the University has been experiencing a decline in state operating support. Though it was a difficult process, this budget maintains a commitment to meeting the needs of UConn students, faculty, staff and the citizens of Connecticut.

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 providing funding for BioScience Connecticut and the Technology Park. This investment will rebuild and expand the University of Connecticut Health Center and will allow for developing a state of the art technology park on the Storrs campus. In addition, the General Assembly and Governor recently approved the *Next Generation Connecticut* initiative. This transformational investment will launch the University into the very top tier of international universities in many disciplines. While the operating funds from the State ($15 million) to support this effort are not available until FY15, planning has already begun to ensure that the initiative is implemented to achieve the planned growth. The University gratefully acknowledges these new and substantial financial commitments and looks forward to an even closer and a productive partnership with state government and industries and entrepreneurs. This partnership will ensure the continued education of our high-achieving students, provide Connecticut with a highly qualified workforce, achieve the highest quality health care, and conduct research that serves as a catalyst for innovation, product development and job creation.

In June 2013, the revised State budget for FY14 was passed by the legislature and signed into law. State appropriation levels reflect the continuing difficult fiscal environment. The State support for the University is as follows:

The Storrs State appropriation is $202.1 million (excluding year-end accounting accruals). This amount represents an increase in State funding as compared to the FY13 allotment. While the base appropriation was reduced, collective bargaining increases were funded. Fringe benefit support from the State for Storrs is estimated to be $102.7 million for FY14. The State's share of the Storrs-based operating budget, which stood at 50% in FY91 and 35.4% in FY06, is projected to be 27.9% for FY14.

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 259 new faculty (of which 200 will be in STEM);
- Enroll an additional 6,580 talented 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 digital media and risk management degree programs and provide student housing in Stamford;
- 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 $1,551 million in new bonding, 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 Act 13-184, An Act Concerning Expenditures and Revenue for the Biennium Ending June 30, 2015, appropriated an additional $15 million of operating funds in Fiscal Year 2015 for this purpose. Future operating funds beyond Fiscal Year 2015 are subject to the annual legislative appropriations approval process. Additionally, the University will commit significant institutional resources to launch *Next Generation Connecticut* by contributing $235 million in reallocated UCONN 2000 funds for the capital program and $149 million (by 2024) in operating funds to support the academic program components.

Establishing priorities for *Next Generation Connecticut* planning will be an integral part of the work of the University Academic Vision Committee (led by Professor Richard

Schwab). Responsibility for and benefits from *Next Generation Connecticut* exist across the entire university, not only in departments or schools focusing on STEM.

SPENDING REDUCTIONS AND CONTROLS

Over the course of the last few years, the current and previous Governors have issued a number of directives to reduce state spending in response to revised State revenue projections. The University has instituted new procedures in keeping with these directives, including constraints on hiring personnel university-wide.

Also, we continue to seek immediate and long-term efficiencies where possible. The McKinsey Report identified more than $50 million in potential savings and revenue opportunities over five years, 30% of these savings were anticipated through personnel costs. Savings continue to be factored into the University operations where possible. Most opportunities identified require an initial investment.

	FY12 Savings ($M)	**FY13 Projected Savings ($M)**	**FY14 Projected Savings ($M)**
Procurement	$1.0	$2.3	$4.0
Facilities / Energy	$2.0	$1.7	$2.7-$3.2
Information Tech		$1.2	$3.2
Parking (revenue & savings)		$0.2	$1.0
Total	**$3.0**	**$5.4**	**$10.9-$11.4**

Steady progress has been made in Procurement, Facilities and UITS. In Procurement, more than 20 major relationships with vendors were redefined, eProcurement was deployed, and joint purchasing with the Health Center continues. In Facilities, the alignment with Student Affairs has been accelerated, and the enterprise dispatch unit is being established. In UITS, the Helpdesk support was consolidated, the Project Management Office (PMO) was created, an effective Governance model was developed, the Data Center stabilization is scheduled to be completed by the end of FY14, and the managed workstation effort is being implemented. The scheduled fee increases and additional spaces for parking will be effective July 1. The energy budget has benefited from a managed gas and electricity program since 2008. The strategy and performance are regularly reviewed which has led to decreased commodity costs. In addition, we have received approximately $1 million annually from the sale of Class 3 renewable energy credits.

BUDGET PLAN AND PRIORITIES

The Storrs-based program budgeted a loss of $1.0 million for FY13; however, forecasted results reflect a loss of $2.8 million. Prior year balances will be used to fund this loss. Overall, revenues and expenditures were less than budgeted. Significant savings were experienced in energy due to favorable prices and lower usage across the campuses.

The Storrs-based proposed spending plan for FY14 projects a loss of $18.8 million. However, $18.8 million of prior year balances will be used to balance the budget in FY14. The increase in State appropriation will help to offset the cost of collective bargaining increases. In addition, tuition revenues based on the 6.25% rate increase will support year 2 of the multi-year year faculty hiring plan.

The Health Center's FY13 forecasted operating loss is $7.9 million. The FY13 forecast is impacted negatively by lower than expected net patient care revenue and a reduction in the State appropriation, and higher expenditures for salary, fringe benefits costs and an increased cost of pharmaceuticals. On the positive side, expense savings for outside purchased services and medical/dental house staff are forecasted to be achieved at or under budget.

The FY14 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 fees previously approved by the Board;
- Expenditures for quality: year 2 of the faculty hiring plan, additional course coverage and an enriched educational experience;
- Increased enrollment in incoming first year students.

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 endeavors. 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, grow the University's national reputation, and maximize the investment of parents and all taxpayers by reducing time to graduation.

At the December 19, 2011 Board of Trustees meeting, a new faculty hiring plan was presented by the President. The University's plan is to hire 290 new tenure-track faculty members over the next four years. Per President Herbst, "Our goal is to dramatically expand our faculty ranks in strategic and meaningful ways to ensure we are the university we want to be in the future."

In FY13, the first year of the faculty hiring plan, 75 positions were filled and funded. These additional faculty resulted in a student faculty ratio of 17.3:1 compared to 18.3:1 in FY12. The FY14 budget includes filling an additional 110 faculty positions.

Revenue

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

The proposed FY14 budget incorporates the implementation of rate increases approved in December 2011 and February 2013 for tuition, room, board and fees. Detailed breakouts are in Tab 4 of these materials. For FY14, the total in-state undergraduate student cost will be $23,496, an increase of 4.4% over FY13. For an out-of-state undergraduate, the cost will rise at approximately the same percentage, for a total student cost of $42,444. 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.

FY14 tuition revenue growth, the combined effect of enrollment and tuition rate increases, is projected to be 6.8% over FY13. (Please see Tab 4 Current Funds chart.) Changes in room and board fees (in Auxiliary Enterprises) drive an increase of 5.2% for FY14 over FY13 revenue. Please note that growth in these revenue streams is a function of rate changes as well as occupancy. Another major source of revenue for FY14 is state support of $304.8 million or 6.9% more than FY13. The State appropriation reflects the increase associated with collective bargaining increases. In addition, fringe benefit support is projected to increase as a result of the higher rates.

<u>FY14 Funding Initiatives/Expenditures:</u>

<u>Faculty Hiring Plan</u>

FY 14 represents the second year of the Faculty Hiring Plan approved by the Board of Trustees in December 2011. It is expected that 110 faculty positions will be filled and are included in the FY14 budget.

<u>Undergraduate Enrollment</u>

Total undergraduate enrollment is budgeted to increase by 1.4% in FY14. New freshman enrollment alone will increase by 9%. The FY14 budget includes funds to meet the course demands of a larger freshman class.

<u>Academic Programs</u>

Investments in academic programming-new degrees in digital media, business programs including risk management and international business, expansion in engineering, biology, and chemistry schools and departments to support and prepare for our new STEM initiatives, and additional resources for honors and other diversity efforts.

<u>Financial Aid</u>

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 the budget. When developing the budget, the goal is to provide an appropriate amount of financial aid to ensure that no UConn education is denied or hampered because of financial need. The FY12 financial aid budget was $5.1 million more than we originally intended due to a significant change in continuing student demand. We continued to fund this demand with $4.4 million in FY13. While we will continue to reduce this commitment to be in line with the historical practice of allocating need based awards, the FY14 budget includes additional aid to these continuing students at a cost of $2.5 million.

For FY14, the University will earmark $410.6 million for all forms of financial aid, and $137.1 million (including tuition waivers) of that amount will be funded with tuition revenue. In other words, in this FY14 budget, 40.2% of the University's tuition revenue is dedicated to financial aid; 19.2% is dedicated to need-based aid. Our best financial aid packages are provided to in-state, low income students. For FY13, more than 20,500 students received financial aid from all known sources (more than 18,200 were packaged with one or more funds administered by Student Financial Aid Services) so this funding is very critical. This budget represents an increase of $25.1 million over FY13 total financial aid expenditures.

Economic Development

The Office of Economic Development was established by President Herbst to build new collaborations with industry and entrepreneurs and to expand the University's contribution to Connecticut's economy. Within the Office, the Tech-Knowledge Portal is UConn's front door for industry, acting as a liaison for companies and entrepreneurs who seek assistance and access to UConn's wide variety of technology, expertise, and resources. Increased support in FY14 will fund new Economic Development liaisons and legal fees related to the Tech Park.

Facilities

As part of the McKinsey Report recommendations, an initial investment in Facilities is required in order to recognize savings. Included in the FY14 budget is $1.7 million to support the Campus Resource Planners, Maintenance Engineers, and the Quality Assurance and IT positions. There is a set-aside of $1.4 million for one-time expenditures for equipment and renovations needed to implement the recommendations. In addition, $1.5 million is included in the FY14 budget to cover the increased maintenance needs on the various campuses.

The new Water Reclamation Facility is now operational. The FY14 budget provides $1.8 million to support the operating and personnel needs of this new facility.

Current Services Needs / Fringe Benefits

A portion of the planned expenditures in the budget will support unavoidable inflationary 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. During FY13, the rates were significantly higher than expected. For FY14, the fringe benefit rates assumed in the budget are 2 percentage points higher than the FY13 rates. This increase adds $12.3 million to the FY14 budget. In addition, the FY14 budget includes $1.4 million for increased graduate student health insurance.

Reductions / Reallocations

The Storrs-based program has strategically enhanced revenues where possible and reduced expenditures within the FY14 budget.

- The stringent approval process for all hires and rehires will continue as well as the delay of any hire/re-hire through a vacancy management assessment.

- 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/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.

Detail for the Storrs-based spending plan is in Tab 4.

FUND BALANCE

For the Storrs-based program, the FY13 year-end unrestricted current funds balance is forecasted to be $71.8 million. This unrestricted fund balance represents 7.4% of the FY14 unrestricted expenditure budget ($976.5 million) or, alternatively stated, 27 days' worth of operations.

The $71.8 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 Continuing Studies and MBA).

The unrestricted current funds balance is our operating capital and support for 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 faculty conducting research. 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, prepaid expenses and encumbrances.

Throughout the year, when funds are available, the University sets aside dollars in accounts for planned one-time expenditures, largely capital. These accounts comprise our plant funds. These 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 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. Currently, Student Affairs has several projects underway such as dormitory window replacements and roof repairs, and dining hall renovations. Another large project included in plant funds was the water reclamation project. The total cost of the project was budgeted at $29 million and the forecasted balance at fiscal year-end is expected to be $5 million which will be expended in the next year. This project started at the beginning of June 2011 and is now substantially complete.

For Storrs, the FY13 forecasted unrestricted net assets of $145.2 million consists of $71.8 million current funds balance, $48.2 million in unexpended plant funds and $25.2 million in funds that are internally restricted for the retirement of indebtedness. Note that in FY12, there was a planned drawdown of debt reserves bringing the debt reserve to 1.25 times the annual debt payment. This is down from 1.76. This FY14 budget includes maintaining these debt reserves at 1.25 times our annual debt payments.