Highlights
Fiscal Year 2008
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 tentative 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. Given where we are in the state's budget cycle, the August 1st budget workshop will be dedicated to the spending plan for Fiscal Year 2008.

BUDGET GOALS

The era of dramatic growth in undergraduate enrollment has come to a close. Going forward, the University will see only minimal increases in enrollment. Our budget goals are shifting accordingly, from managing growth to growing quality. For Fiscal Year 2008, faculty hiring (which translates into course coverage, improved student faculty ratio and research productivity) is the focal point in the proposed spending plan for the Storrs-based program. At the Health Center, our goal is financial stability. The immediate financial crisis has been eased in the short term, but an extremely constrained financial environment remains the overarching reality. Programmatic focus on the Signature Programs continues, with investment largely limited to revenue-generating services.

Last year's spending plan addressed pressing needs in operations. We made significant new commitments to strengthen our construction program and to enhance audit and compliance functions. FY 08 will see the full-year rollout of costs associated with new personnel for these functions, and an assessment of whether further increases are necessary. We will continue to address the financial impact of code corrections, including those being uncovered in the course of the ongoing Department of Public Safety reviews. The University is pursuing cost-recovery, and some contractors have undertaken work at their own expense, but there are still occasions when we must manage the initial cash outlay. (This issue is addressed more fully below, in the explanation of our fund balance and plant funds.)

THE STATE BUDGET

The state's financial health is reflected in the most recent appropriation to the University. For both the Storrs-based program and the Health Center, the state budget for FY 08 brings good news. Challenges remain (both near-term and long range), but major increases in state support for the Health Center have enabled us to propose a balanced budget without having to resort to significant personnel reductions. At Storrs, "current services" costs are virtually fully funded, and dollars are available for enhancements.

Storrs

The General Assembly approved a biennial budget including an appropriation of $225,534,131 for FY 08 and $229,416,160 for FY 09. (These numbers include surplus allocations described below. In addition, the state-funded share of salary increases comes from the state's Reserve for Salary Adjustment account and is thus not included in the appropriation.) While the full state budget (with detailed descriptions of appropriated funds) has not yet been published, the legislature's Office of Fiscal Analysis has verbally confirmed the following information.

- To enable the hiring of additional faculty, the appropriation includes $1 million in FY 08 and $1 million in FY 09. (This is not additive; the $1 million in FY 08 carries forward to FY 09.)

- You may recall two important programs were created in the 2006 session: the Center for Entrepreneurship ($2 million) and the Eminent Faculty Program ($2 million.) Eminent Faculty now stands at $0 in FY 08 and $2 million in FY 09, and Entrepreneurship at $2 million in each year of the biennium. Please be aware that none of the $2 million appropriation for Eminent Faculty for FY 07 has yet been expended as we work to secure the private industry match, so these funds remain available for FY 08.

- The adopted budget also adds $200,000 in surplus dollars in FY 08 for the Masters Entry Into Nursing Program (MbEIN) in Waterbury, $200,000 in surplus dollars in FY 08 for the Long Island Sound Integrated Coastal Observing System (LISICOS), and a $200,000 appropriation in FY 08 for a basin level water planning study, an initiative of the Institute of Water Resources in the College of Agriculture and Natural Resources.

- The adopted state budget also includes a $30.2 million appropriation to the Department of Higher Education (DHE) in FY 08 and in FY 09 for the Connecticut Aid to Public College Students, a need-based financial aid program that covers UConn, the Connecticut State University system, and the state's public community colleges. This is an increase of $13.7 million over the FY 07 appropriation. The current allocation to UConn is estimated to increase by $4.1 million.

- Other items: also in the DHE budget is $100,000 (for FY 08 only) to fund veterinary school slots for any qualified Connecticut resident. The State Department of Education budget includes $500,000 in FY 09 for the CommPACT schools initiative that will be spearheaded by the Neag School of Education. The State Department of Economic and Community Development's budget receives $1 million that will be transferred to the Connecticut Center for Advanced Technology for fuel diversification research grants for institutions of higher education.

Fringe benefit support from the state for Storrs is estimated at $90.4 million for FY 08. The state share of the Storrs-based operating budget, which stood at 50% in FY 91 and 35.8% in FY 06, is projected to be 36.1% for FY 08.

Health Center

At the Health Center, the appropriation for FY 08 is $94,374,095; for FY 09 it is $101,963,598. A comparison with our FY 07 appropriation of $76.9 million shows how significant the increase is for the biennium. In an equally positive development, the Health Center will also receive $22.1 million as a FY 07 deficiency appropriation to address the FY0 7 deficit caused by shortfalls in academic program support and clinical care revenue, as well as rising utility and fringe benefit costs. This commitment to eliminating the deficit is important for a number of reasons, not the least of which is that we pay interest when we borrow from the state to pay our bills (interest charges contributed $1.2 million to the FY 07 deficit). As with Storrs, the state-funded share of salary increases will come from the state's Reserve for Salary Adjustment account.

- The amount appropriated by the General Assembly funds the Academic Gap at the level we requested for FY 08 ($13.5 million) and FY 09 ($20 million, i.e. an additional $6.5 million). The Academic Gap represents the difference between the cost of the academic & research enterprise and the related revenues (tuition, grants/contracts & state support). As you know, these funds are absolutely critical to the financial stability of the Schools of Medicine and Dental Medicine and our research operation, because our hospital is no longer able to provide support for the academic program.

- The FY 08 appropriation does not provide any funds to help address the disparity in fringe benefit costs between John Dempsey Hospital and other hospitals. (The dollar value difference between our fringe rate and the Connecticut Hospital Association member average was $9.7 million for

FY 07. The original Appropriations Committee budget had included $5 million in each year to offset some of this cost.) However, for FY 09 the State Comptroller is directed to pay, from her budget's fringe benefit account, up to $3.6 million of the fringe benefit costs for JDH employees who are members of a state-wide bargaining unit.

- The appropriation includes an additional $100,000 to support existing Area Health Education Collaboratives, a longstanding component of our public health efforts. The Health Center also receives $200,000 in surplus dollars in FY 08 to provide services to individuals with Huntington's Disease. For both FY 08 and FY 09, $500,000 is transferred from the Tobacco Health and Trust Fund to the Health Center to work with the Department of Public Health and other state agencies to develop a plan for the Connecticut Health Information Network.

- Funding is provided to the Department of Correction for inmate health care in the amount of $99.5 million for FY 08 and $104.2 million for FY 09. Also, $3.4 million is provided in a FY 07 deficiency appropriation for this program, although it does not appear that this amount was used to also adjust the base budgets for FY 08 and FY 09, which will present some challenges as we go forward.

- The budget also includes an FY 08 statewide increase in Medicaid reimbursement of $46 million to hospitals and other clinical service providers. Our quick assessment is that the new reimbursement structure will result in a $1.4 million increase in patient care revenue for the Health Center for FY 08.

- The budget bill also provides the Office of Legislative Management with $400,000 to contract with the Connecticut Academy of Science and Engineering to undertake the study of the Health Center's clinical facilities. A preliminary report is due not later than March 30, 2008, with the final report due by June 30, 2008.

The share of the Health Center's budget supported by the state (at 23.3% in FY 99 and 16.2% in FY 06) is expected to be approximately 18.3% in FY 08. Fringe benefit support from the state is estimated at $34.4 million for FY 08.

Even if state tax receipts continue to rebound, the state budget's legal cap on expenditures remains an important context as we look to the future. As a result, the University's non-state revenue streams continue to play a critical role in our financial health. These sources include private support, research funding (with reductions resulting from shifts in the federal budget), tuition/room/board/fees at Storrs and the regional campuses and clinical revenue at the Health Center.

SPENDING REDUCTIONS AND CONTROLS

We continue to seek efficiencies where possible, both immediate and long-term. At Storrs, the most significant of these efforts is in the area of energy efficiency, with the new cogeneration plant as the foundation. The "go live" of the plant could not have come at a more opportune time. The decision to pursue this cost-avoidance strategy has proven to be a sound and timely one given the current climate of spiraling energy costs. Revised estimates of the net present value of cost avoided by the construction of this plant stand at approximately $233.6 million, and savings will increase after lease payments expire in 19 years. The project will also increase the reliability of campus utilities, and lower emissions. For FY 07, the new plant and the successful negotiation of lower natural gas prices have resulted in energy costs being approximately $8.9 million under budget.

At the Health Center, approximately $75 million in operational efficiencies were achieved from FY 00 through FY 07. 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.

BUDGET PLAN AND PRIORITIES

By way of background, although we have not yet completed year-end closeout, our very preliminary estimates indicate that the Health Center will end FY 07 with a break-even result after receipt of the deficiency appropriation. The Health Center faced major financial challenges in FY 07. The most significant problem was in net patient revenues ($11 million) due to changes in case mix and payor mix (with more patients in Medicaid, our lowest reimbursement payor, and fewer patients in Medicare, our best). The second largest gap was in utility cost increases, which accounted for another $4 million. This was not just a matter of fuel costs; you will recall that, as a commercial (rather than residential) customer, the Health Center was subject to the 18.9% electric rate increase approved by the Department of Public Utility Control last winter. A series of other contributors made up the remainder of the $22.1 million deficit that formed the basis of our deficiency request in the spring. Viewed programmatically, the $22.1 million deficit was made up of a $12.8 million Academic Gap and a $9.3 million hospital shortfall. Again, we have not yet closed out FY 07, and the complexity of last year's finances may delay closeout longer than usual.

The Storrs-based program is forecasted to close FY 07 with a net gain of $5.8 million. $1.0 million of the net gain represents a reserve repayment for the November 2001 drawdown of $11.5 million for Towers Dining Center and the Student Union. $3.3 million of the net gain represents unspent state appropriation funds for the Center for Entrepreneurship ($1.3 million) and the Eminent Faculty ($2.0 million) programs. (You will recall that the legislation creating the latter program requires a private industry match, and both programs needed lead time for recruitment.) The unspent funds will carry forward to Fiscal Year 2008 and be designated for these programs. In addition, the Storrs bottom line now reflects an unbudgeted transfer to Plant Funds for various building improvements and code related corrective action.

This proposed spending plan for FY 08 projects a $2.3 million net loss for the Storrs-based program. (This is because expenditures for the Entrepreneurship/Eminent Faculty programs are budgeted in FY 08 but funded by carry-forward funds.) The Health Center plan projects a net gain of $50,000. FY 07 and FY 08 budget totals are displayed below. (Percentages represent increases over the prior year.)

	FY 07	FY 08
Storrs-based	$ 853.4 million (5.7%)	$903.3 million (5.8%)
Health Center	$ 670.2 million (5.6%)	$712.9 million (6.4%)
Total	$1,523.6 million (5.7%)	$1,616.2 million (6.1%)

(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: the faculty hiring plan at Storrs and the Health Center's Signature Programs and academic/research priorities
- Expenditures for equity: increased financial aid

STORRS AND THE REGIONAL CAMPUSES

Our budgetary focus for the next few years will be 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 achieve four goals: 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.

The hires would be made in areas that respond to student demand, offer greatest research opportunity and tie to the state's economic development. The initial positions would be in the fields of the state's workforce needs, namely science, technology and financial services. The faculty hiring plan has as its five year goal the addition of 175 net new faculty active in both instruction and research. In FY 06, we began the academic year with 51 net new faculty members. In FY 07, we added 13 faculty to that number. Although we had sought state support for the effort in past years, to date our additional hiring has been funded through reallocation of resources.

In FY 08, that reallocation will continue, but it will be significantly enhanced with an important infusion of new, targeted state aid. The FY 08 appropriation includes $1 million for the hiring of additional faculty. (The biennial budget includes $1 million— not additive— for FY 09 as well.) The funding of the FY 08 component of the plan stands at $2.5 million excluding fringe benefits, with $1 million from the state, $0.7 from the Center for Entrepreneurship program, $0.4 million from reallocation and $0.4 from new revenue in the FY 08 budget. (Please note that recruitment for the Eminent Faculty Program may result in hiring in late FY 08, which would increase these numbers.)

We hope to hire 36 additional faculty in FY 08. Sixteen of these faculty will focus on Workforce Development which includes Engineering, Biological Sciences, Pharmacy, Nursing and the Allied Health Sciences. Twelve hires will be in the School of Business and one will be in the Neag School of Education. Six more faculty will be teaching and researching in our Critical Research arena, which encompasses the Center for Regenerative Biology, the Fuel Cell Center, Functional Foods, Intellectual Property, Operations & Information Management and the Physical Sciences. Additionally, 10 faculty hires will meet the educational needs of Undergraduate Education, Humanities and Social Sciences.

Clearly, however, the challenge for FY 08 (i.e. the current year) is our ability to bring in new faculty by the start of the school year in August given the timetable of the standard faculty search process. We have brought almost 90 searches to a close (not netted for resignations, retirements and temporary end-date positions), and have accelerated 10 more. (This may mean the addition of some faculty for second semester rather than August of 2008.) We will also look to hire 5 new in residence faculty pending permanent hires. It is likely that not all of the available funds can be fully spent in FY 08, but this actually provides the opportunity to set aside what funds remain to be used for faculty start-up costs for the following year.

Revenue

The proposed budget incorporates the implementation of increases approved in November 2007 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 FY 08 the total in-state undergraduate charge will be $17,510, an annualized increase of 6.46% over FY 07. Out-of-state undergraduate charges would rise at approximately the same percentages, for a total charge of $31,454 in FY 08. As described below, additional financial aid is budgeted to offset the impact of increased charges on financially needy students and families. In a dynamic college marketplace, UConn remains a tremendous value in comparison to our competitors—but it is a value only if it ensures high quality.

Tuition revenue growth—the combined effect of enrollment <u>and</u> tuition charges—is projected at 6.5% for FY 08 over FY 07. (Please see Tab 6 Current Funds chart.) Changes in room and board (in Auxiliary Enterprises) and fees drive an increase of 7.1% for FY 08 over FY 07 revenue. Please note that growth in these revenue streams is now mostly a function of rate changes, as enrollment is stabilizing. Another major source of revenue for FY 08 is state support of $325.3 million (a 5.7% increase over FY 07).

<u>Expenditure Highlights</u>

- <u>Undergraduate Course Offerings</u>

  The enrollment surge is nowhere reflected as clearly as in the increase in undergraduate credit hours, which jumped from 360,191 hours in FY 96 (Fall of 1995) to 558,496 in FY 07 (Fall of 2006). This is a 55% increase over that period at all campuses and 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. This flexibility has been an essential element in managing instructional demand because of shifts in student course-taking behavior by content area, as well as financial realities. For FY 08, a commitment of $4.0 million will support the new faculty hires described above and includes $250,000 in additional course coverage/extra sections. From FY 00 to FY 07, the University has devoted $9.35 million in new dollars to meet course demands of increased enrollment, with much of the increase in CLAS. Our largest increases in enrollment have been in nursing, pharmacy, biological sciences, physical sciences, psychology, finance and engineering. Two related points: 1) these are disciplines that address critical workforce shortage areas and 2) all of these students take courses in CLAS.

- <u>Financial Aid</u>

  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 FY 08, the University will earmark $265.1 million for all forms of financial aid, and $87.0 million (including tuition waivers) of that amount will be funded with tuition revenue. In other words, a remarkable 17.5% of this University's tuition revenue is dedicated to financial aid. In fact, 77% of UConn's students received some form of assistance last year. This budget represents an increase of $15.1 million over FY 07 total financial aid expenditures. This year is unusual in that the state will share the burden of some of the increased costs. Approximately $4.1 million will be available to UConn through the Connecticut Aid to Public College Students, a need-based financial aid program that covers UConn, the Connecticut State University system and the state's public community colleges.

- <u>Library Acquisitions</u>

  As you know, UCONN 2000 includes a project line entitled "Equipment, Library Collections and Telecommunications," and we have used this source to fund library needs to date. We have, however, discussed for the last few years the importance of gradually shifting this item onto operating dollars. A steady phase-in, which started in FY 06, will free up UCONN 2000 dollars for reallocation to other capital expenses. This is of concern in the short-term (because of restructuring of the annual bond caps), but it is also an issue in the mid-term (because construction material prices show no signs of improving) and in the long-term (because at the end of Phase III of UCONN 2000 we must ensure a stable funding stream for this activity). In FY 07, $2 million of the $6.3 million total came from operating dollars with the remaining $4.3 million from UCONN 2000. For FY 08, $3.2 million of the total will come from operating dollars.

Operations

Two significant investments in FY 08 will add to the University's ongoing efforts to enhance campus safety and security. The first commitment, of $530,000, will support an expanded emergency communications system. At the main campus, we will soon have the ability to text message students, faculty and staff (in addition to our present capacity with e-mail and cable television). A new "state of the art" siren system will replace the current one. Upgrades for the Stamford, West Hartford and Law School campuses are also underway.

The UConn Fire Department will see an addition of two firefighters in this budget, for staffing of 31 full-time career firefighters (including the Chief). UConn is one of very few universities nationally that has a full-time department, which responds not only to campus safety problems, but which also serves as the region's hazardous materials first responder. We are beginning a long-range strategic planning process for the Fire Department, to be completed by the end of this fiscal year.

To assist with the ever-increasing workload of the University's Capital Projects & Contract Administration, two additional staff are funded for FY 08. The work of this office is the first, and perhaps most critical, step in hiring design professionals and bidding out construction work; CPCA is responsible for compliance with all procurement requirements for capital projects.

HEALTH CENTER

In our budget presentation two years ago, we said "Given the relentless pressures of the health care marketplace, and the challenges of managing those issues in a public sector environment, FY 06 promises to be another tough year for our academic medical center." It was. And FY 07 was worse. Despite record hospital volume, and hospital expense per adjusted discharge below budget, John Dempsey Hospital's lean operations and fiscal discipline could not overcome the realities of low Medicaid reimbursement and changes in payor mix and service mix. We will continue efforts to hold the line on expenses, while struggling to hold true to the Strategic Plan, but achieving a balanced budget for FY 08 is likely going to be as great a challenge as ever.

Revenue

The state appropriation for FY 08 for the Health Center is $94.4 million. We expect state fringe benefit support of $34.4 million. Of the Health Center's $712.9 million in revenue for FY 08, sources other than the state appropriation account for an increase of $39.5 million. Clinical revenue is projected at $312.6 million, a 7.6% increase over FY 07. Clinical revenues include volume assumptions that continue historical growth trends. In addition, the volume projection reflects Signature Program business plans, new faculty recruitments, increased marketing efforts, the impact of UMG's clinical incentive plan, the Dental Implant Center, the Electrophysiology Lab, changes in Farmington Surgery Center operations, and other performance improvement initiatives. Clinical revenue price assumptions include a continued slight shift to managed care, with recently renegotiated non-governmental contracts improving the revenue picture. Medicaid rate changes will increase income by an estimated $1.4 million.

In FY 08, we expect to see research award activity remain essentially flat. Research revenue is $93.8 million, a 3.1% increase over the prior year (and research awards stand at $92 million, a 0.5% decrease from FY 07). Income related to the placement of interns and residents is $34.2 million, an increase of 10%.

Tuition and fee revenue is $151.1 million, which reflects the 4% rate increase approved by the Board. $99.7 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 $27.3 million.

Expenditures

The Health Center's "Signature Programs" in cancer, cardiology, musculoskeletal medicine and Connecticut Health 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. The Health Center's FY 08 budget includes new incremental investments of almost $3.8 million – bringing total investments in the Signature Programs to $17 million since FY 01.

The challenge of maintaining a balanced budget over the last several years has entailed layoffs from time to time, and FY 07 saw the most significant cost-related workforce reduction we have had to undertake since FY 00. If there is good news in the FY 08 budget, it is that we have managed to achieve balance without layoffs. Even setting aside the human cost, we have reached the point at which reduction in workforce is tantamount to reduction in revenue.

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

FUND BALANCE

At Storrs, the fund balance and use of plant funds continues to be a significant issue, primarily because of the corrective action plan to address code violations at some of our student residential facilities and to remediate building and fire code discrepancies at the Agricultural Biotechnology and Advanced Technology Institute Buildings. This summary is intended to provide the Board with general background information as well as specifics regarding the source and timing of funds needed to accommodate $3 million (approximate) of work that is projected to be necessary in the coming year. Please keep in mind that while this cash outlay for construction is required immediately, we will continue our efforts to secure recovery from contractors.

For the Storrs-based program, the FY07 year-end Unrestricted Fund Balance is projected to be $52.0 million. However, $3.3 million of this amount is a temporary increase representing unspent State appropriation funds for the Center for Entrepreneurship ($1.3 million) and the Eminent Faculty ($2.0 million) programs. Excluding this one-time carry forward funding, the Unrestricted Fund Balance represents 6.4% of the FY07 unrestricted budget ($758.9 million) or, alternatively stated, 23 days' worth of operations.

The $52.0 million fund 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); Departmental Generated (self-supporting fee-based instructional programs such as Continuing Studies and MBA); and a liability for compensated absences (vacation/sick leave), which is an accounting requirement.

It is important to remember that the fund balance, while not all technically encumbered, may be committed in a more generic sense. First of all, funds may be held in a departmental account in anticipation of an 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 are not supported by state appropriation or tuition funds. We borrow from the fund balance to pay our bills when necessary. For example, in FY04, the University didn't receive $13.4 million in state fringe benefit support until June—the very end of the fiscal year. In FY05, 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. A good example of this is the $10 million we set aside three years ago towards our technology infrastructure upgrade plan. Plant funds also include specific repair projects and furniture/equipment replacement for Residential Life/Dining Services.

For Storrs, then, our projected unrestricted net assets of $99.5 million are made up of $52.0 million current fund balance, estimated $12.5 million in unexpended plant funds (described in more detail below) and a third component: $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 1.6 times our annual debt payments. We believe that this policy has served us well, and recent events have reinforced this view. Fortunately, the code issues we dealt with at the new residences were not health/safety issues that required the relocation of students. Had that been the case, however, the loss of the room revenue stream would have forced us to turn to our debt reserve funds.

We currently estimate that the cost of upcoming corrective action at the residential facilities, the Agricultural Biotechnology and Advanced Technology Institute Buildings, and a number of other facilities will total approximately $3 million for FY08. This estimate could increase as inspections continue. Again, we are pursuing financial recovery, but we must nevertheless upfront cash for work underway. (In the Agricultural Biotechnology and Advanced Technology Institute Buildings, the majority of the code discrepancies appear to be the result of design issues, and recovery is anticipated through the project architect's insurance carrier. The project's general contractor is no longer in business and the University is seeking recovery from the contractor's payment and performance bond surety.)

New statutory language prohibits the use of tuition or student fee revenue for repairs performed solely to correct code violations that were applicable at the time of project completion and were for named projects completed prior to January 1, 2007. Effective July 1, we have established new accounts for this activity which will enable us to segregate and track funding sources as well as expenditures in order to ensure compliance with the new statutory language. As a further safeguard, the $12.5 million in plant funds includes a transfer of $3 million from Investment Income (one of several non-student revenue sources) to guarantee appropriate funding streams to support code activity. As you know, UCONN 2000 funds may also be utilized.

Finally, at the Health Center, the FY 07 projected year-end Unrestricted Fund Balance of $54.8 million represents 8.2% of the FY 07 unrestricted budget ($670.2 million) or, alternatively stated, 30 days' worth of operations. Again, these FY 07 numbers are very preliminary projections. The fund balance includes capital budgets from other funds, and other current liabilities, including malpractice claims.