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 September 28th budget presentation 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 November 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 achieve our budgeted loss of $4.2 million. 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 been preparing for the decline in state operating support which now has become a reality. Though it was a difficult process; we believe these budgets maintain our commitment to meeting 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 reflected the continuing difficult fiscal environment. While this approved State budget set a framework, many decisions that affected the University's ultimate allocation of state funds were not made until the official outcome of the SEBAC agreement in August. After this result was known, the State notified us of further reductions in our allotments on September 2, 2011. These allotments are reflected in this budget.

As a general principle, protecting program quality and accessibility are foremost, yet we recognize that cuts of this magnitude will necessitate sacrifices by all. 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. The State support for the University is as follows:

For Fiscal Year 2012, the Storrs State allotment of $207.7 million (excludes year-end accounting accruals) has brought many challenges. The amount represents a $25.0 million decrease in State funding as compared to Fiscal Year 2011. Fringe benefit support from the State for Storrs is estimated to be $84.8 million for FY12. 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 27.6% for FY12. A summary of actions taken to mitigate this reduction is included later in this document.

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 allotment of $109.7 million for FY12 is a decrease of $9.5 million compared to the FY11 appropriation. Fringe Benefit support from the State for the Health Center is estimated at $58.7 million for FY12. Total State support (including fringe benefits) for the Health Center is 21.2% for FY12. In order to offset the decrease in the allotment, the Health Center has implemented a Cost Reduction Plan. This plan includes elimination of vacant positions, savings related to the NICU contract with CCMC, savings related to fringe benefit rate changes and reductions to various other expenses resulting in a $4.2 million loss 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 in response to revised State revenue projections. The University has instituted new procedures in keeping with the Governor's directives, including strict constraints on hiring personnel for both the Storrs-based program and the Health Center.

Also, we continue to seek immediate and long-term efficiencies where possible. This past winter, the University hired McKinsey and Company, an internationally renowned management consulting firm, to work with us to identify savings in non-academic areas. 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 met with the McKinsey team to discuss ideas and the engagement is almost complete. While some of the savings attributable to procurement and facilities are included in the FY12 budget, most of the recommendations will impact future years.

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.

<u>BUDGET PLAN AND PRIORITIES</u>

For the Storrs-based program, we had budgeted a net loss of $14.0 million for FY11; however, actual unaudited results reflect a net gain of $1.7 million. The net gain includes the transfer of $15 million to the State General Fund. Overall, both revenues and expenditures are greater than budget; however, transfers were less than budgeted. We collected more tuition, fees and auxiliary revenue than expected and we transferred less funding to the water reclamation project than anticipated. In addition, preventative measures were implemented during FY11 to slow down year-end purchases.

The Health Center's FY11 operating gain of $4.0 million is 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 Dental and Medical School's had savings related to other consulting contracts and faculty start-up expenses.

The proposed budget for UCHC for FY12 is a loss of $4.2 million. This loss reflects the increases in health insurance and the decreases in retirement fringe benefits, the decrease in the state appropriation and it assumes two months (July and August) of bargaining unit increases for unionized employees based on the SEBAC agreement.

The Storrs-based proposed spending plan for FY12 projects a net loss of $4.6 million. This loss has two components; $2.0 million of the loss is due to the University's plan to partially fund an over commitment in financial aid from prior year fund balances (see financial aid section in this document for more detail), and $2.6 million is attributable to the Research Fund. Over the years, the Research fund balance for use by principal investigators, deans and department heads has grown. It is expected that $2.6 million of these funds will be spent down in FY12. The reduction in state support will be partially offset by tuition and fee revenues based on the 2.5% rate increase, reduced expenditures in almost every category, and use of fund balance for debt payments. This budget assumes no wage increases (except for two months of bargaining unit increases for unionized employees based on the SEBAC agreement for all University employees). Percentages represent increases over the prior year.

	FY11 Actual	FY12 Budget
Storrs based	$1,056.5 million*	$1,033.2 million (-2.2%)
Health Center	$776.4 million	$799.3 million (4.8%)
Total	$1,832.9 million	$1,832.5 million (0.0%)

*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 Sections 4 and 5 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 the 27th payroll.

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 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 five year goal for the faculty hiring plan had 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 by reallocating internal resources. In FY08, $2 million in reallocated funds were enhanced with $1 million of State aid specifically for hiring 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 reallocations, supported an additional 30 faculty.

52 faculty members took advantage of the Retirement Incentive Plan (RIP) in 2009, so we are behind our 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.

<u>Revenue</u>

The University relies heavily on its non-state revenue streams for fiscal stability, particularly in times when the State budget is under stress. These sources include tuition/room/board/fees 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 Section 5 of these materials. 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. As described below, financial aid is budgeted to offset the impact of student costs for 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 4.1% for FY12 over FY11. (Please see Section 5 Current Funds chart.) Changes in room and board (in Auxiliary Enterprises) and fees drive an increase of 4.1% 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 $284.2 million or 13.6% less than FY11 (partially due to changes in the fringe benefit rate and year-end accounting accruals).

<u>Expenditure Highlights</u>

- <u>Current Services Needs</u>
  This budget respects the constraints of the current economic environment. A portion of the planned expenditures in the budget will 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.

- <u>27th Payroll</u>
  The 27th payroll is an anomaly to the bi-weekly pay schedule caused by calendar creep that occurs every 11 years. This means an extra payroll will occur in FY12.

On a cash basis, the University must fund this extra payroll; however, because of year end accounting adjustments, it is not obvious in budget documents.

- 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. The FY12 financial aid budget is $6.8 million more than we originally intended. A significant change in continuing student demand along with a change in the workflow of the office resulted in a greater commitment than originally budgeted. This budget now includes the $6.8 million. The department is reviewing its policies and procedures to prevent this from occurring in the future. When we present the FY13 budget, financial aid will be more in line with the University's historical practice of allocating need based awards.

  For FY12, the University will earmark $384.1 million for all forms of financial aid, and $125.1 million (including tuition waivers) of that amount will be funded with tuition revenue. In other words, in this FY12 budget, 41.1% of the University's tuition revenue is dedicated to financial aid; 20.2% is dedicated to need-based aid. Last year, approximately 15,000 students received financial aid packages so this funding is very critical. This budget represents an increase of $11.7 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 several months, the Provost, Vice President & Chief Financial Officer and the Vice President & Chief Operating Officer have worked diligently to address an approximate $70 million budget shortfall.
  - We imposed an even more stringent approval process for all hires and rehires. In addition, we have further delayed any hire/re-hire through a higher vacancy management assessment.
  - As recommended by the McKinsey consultants, we imposed budget reductions for non-personnel expenditures throughout the University. Many procurement contracts are under review for possible savings opportunities. In addition, the facilities area is aggressively pursuing operating efficiencies.
  - 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 instituted an auxiliary overhead rate to recover administrative costs.
  - We cut plant renewal and equipment funding for FY12.
  - We utilized fund balance held for debt payments.
  - We strategically reduced other designated fund balances where available.
  - We moved certain technology expenses back onto UCONN 2000 funds.
  - We removed inflationary increases from certain areas such as library acquisitions.

- We have set a foundation that will enable us to get through FY12 and will protect the academic enterprise as much as possible.

Detail for the Storrs-based spending plan is in Section 5.

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 and a gain of $4.0 million in FY11. The proposed budget for FY12 is a loss of $4.2 million. The following is a summary of significant revenue and expense changes.

Revenue

The state appropriation for FY12 for the Health Center is $109.7 million. The Health Center expects State fringe benefit support of $58.7 million, along with $13.5 million for the John Dempsey Hospital fringe benefit differential. Of the Health Center's $626.8 million in revenue for FY12, sources other than the state appropriation account for an increase of $33.2 million. Clinical revenue is projected at $351.8 million, a 5.1% increase over FY11. Clinical revenues for JDH are forecast to increase 1.2% over FY11 and the revenue increase is due to a slight volume increase of 2.0%. For the UConn Medical Group (UMG), the overall increase to net patient revenue is 6.4% 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 2.1% increase over the prior year. Income related to the placement of interns and residents is $53.0 million, an increase of 11.3% 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 $18.7 million, which reflects the rate increases approved by the Board. $97.0 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 Section 4.

FUND BALANCE

For the Storrs-based program, the FY11 year-end unrestricted current funds balance is $71.0 million, unaudited. This unrestricted fund balance represents 7.9% of the FY12 unrestricted expenditure budget ($893.3 million) or, alternatively stated, 29 days' worth of operations.

The $71.0 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 are not supported by the State appropriation. We borrow from the fund balance to pay our bills when necessary. 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.

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, we also set aside dollars in accounts for planned one-time expenditures, mostly capital. These accounts comprise our plant funds. These balances are primarily for Auxiliary Enterprise projects such as Residential Life, Dining Services, Student Health Services, Student Union and Athletics. 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. 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 by fall 2012.

For Storrs, the FY11 year-end unrestricted net assets of $175.4 million (unaudited) consists of $71.0 million current funds balance, $69.4 million in unexpended plant funds and $35.0 million in funds that are internally restricted for the retirement of indebtedness. This FY12 budget includes reducing these debt reserves to 1.25 times our annual debt payments.

Finally, at the Health Center, the FY11 year-end unrestricted operating fund balance of $70 million (unaudited) represents 11.4% of the FY12 unrestricted expenditure budget ($799.3 million) or, alternatively stated, 31 days' worth of operations