

**MINUTES<sup>1</sup>**  
**MEETING OF THE FINANCIAL AFFAIRS COMMITTEE**  
**IN EXECUTIVE SESSION**  
**June 24, 2015**

The Financial Affairs Committee, meeting in the Lewis B. Rome Commons Ballroom on the University of Connecticut campus in Storrs, Connecticut, voted to go into Executive Session at 9:05 a.m.

Trustees participating included: Louise Bailey, Charles Bunnell, Shari Cantor, Richard Carbray, Michael Daniels, Andrea Dennis-La Vigne, Jeremy Jelliffe, David Rifkin, Thomas Kruger, Rebecca Lobo, Donny Marshall (*via Telephone*), Larry McHugh, Denis Nayden (*via Telephone*) and Thomas Ritter.

University staff members who participated: President Herbst, Rachel Rubin, Mun Choi, Scott Jordan, Andy Agwanobi, Rich Orr, Tysen Kendig, Michael Kirk, Katrina Spencer, Jeffrey Geoghegan, Lisa Danville, Warde Manuel, Douglas Gnodtke, Gail Garber, Joanne Lombardo, Andrea Kelty, Reka Wyrnn and Debbie Carone.

Mr. Kruger introduced Scott Jordan, Executive Vice President for Administration and Chief Financial Officer, to provide the Budget Presentation.

The Budget PowerPoint Presentation presented in executive session is attached to these minutes.

Mr. Jordan explained that a balanced budget had been achieved despite uncertainty and challenges associated with development of the FY16 budget.

---

<sup>1</sup> The Board of Trustees and its committees do not create minutes of executive sessions. The June 24, 2015 executive session of the Financial Affairs Committee was the subject of a proceeding before the Freedom of Information Commission in which the University consented to an order requiring the University to create minutes of this meeting.

At the time of the meeting, no recording was made and no contemporaneous minutes were taken. The University has made a good faith effort to create minutes consistent with the order, but there are inherent limitations in the ability to recreate minutes of events that occurred nine months prior to an order.

The presentation by the administration to the Financial Affairs Committee has been preserved and is attached. The attached PowerPoint presentation includes the speaking notes of Executive Vice President for Administration and Chief Financial Officer Scott Jordan, included below each slide in the presentation, and the speaking notes of UConn Health Chief Financial Officer Jeffrey Geoghegan, appended to the presentation. Most of the time in Executive Session was consumed by the presentation. At the time the University received notice of the Commission proceeding, the University promptly took steps to preserve notes taken by individual attendees, but few people took notes and those notes are very limited. The present recollections of those who attended are also limited. Accordingly, with one exception noted in these minutes, it has proven impossible to identify specifically what questions were asked and who asked them.

These minutes, including the attachment, reflect the University's good faith best efforts to recreate the content of the executive session.

Areas highlighted during the presentation and/or during discussion<sup>2</sup> included the following:

UConn is continuing to make investments in its areas of excellence, including initiatives in cognitive neuroscience that correspond with the National Institutes of Health's Brain Initiative, which offers research funding opportunities and continued research expansion. UConn projected it would end FY15 with a \$2.6 million net gain due to cost containment and budget efficiencies.

State support currently comprises approximately 30% of University revenues. Tuition, fees and auxiliary enterprise revenue such as housing and board, cover approximately 53% of university revenues. Twenty percent (20%) of UConn's costs go toward fringe benefits for employees, including health insurance and retirement benefits negotiated by the state, not the University. Total personnel costs (fringe and salary) account for 59% of university expenditures.

Student enrollment is up by 250 students for FY 2016, contributing to increased tuition revenue.

University employees are 95% unionized and are covered by the state-wide SEBAC health and pension benefits agreement, which drives the cost of fringe benefits within UConn's budget. The state of Connecticut only covers approximately 50% of the fringe costs. From FY15 to FY16, the cost of fringe benefits rose by \$34.3 million due to a state-wide fringe rate increase and collective bargaining increases. UConn is continually looking at fringe cost and our fringe reimbursement from the state. However, fringe rates and amounts are set by the state, so we have little control over these costs.

In preparing the FY16 budget, UConn faced a shortfall of \$28.2 million due to receiving \$15.7 million less in state appropriations than requested, combined with increased fringe rates. Also, workers compensation claims were pushed from the state level onto the individual state agencies, resulting in an additional \$3 million in costs that must be covered by UConn. In addition, the state government maintains rescission authority of up to an additional 5% for this fiscal year. As a result, \$26.9 million of state funding is at risk, which must be considered as UConn goes into the FY16. In response, UConn has made cuts across all areas of operations.

Provost and Executive Vice President for Academic Affairs Mun Choi spoke on the budget impact on UConn's academic mission and the strategies implemented to close the budget gap. UConn increased the Storrs-based out-of-state freshmen student enrollment by 3%, which provided a \$6.1 million increase in tuition, fee and auxiliary service revenue without any tuition rate increase. The increase in the out-of-state freshmen student population is concentrated at Storrs. The quality of the incoming freshman class has been maintained. When combined with the regional campuses, the mix is approximately 80% in-state to 20%, out-of-state students. As

---

<sup>2</sup> These areas of focus described in the minutes are topics reflected in the Budget PowerPoint Presentation and notes. It cannot be determined with certainty whether the notes were taken in response to the presentation or reflect discussion. The text of the minutes is a synthesis of the notes.

the number of high school graduates in Connecticut continues to drop, UConn will need to supplement its incoming student population with top-quality out-of-state students.

The academic side of the University received a \$15 million cut as compared to last year's budget, with the allocation of these cuts determined by the Provost. Strategies discussed by the Provost included additional teaching responsibilities for faculty. Department Heads have discretion to determine teaching assignments. The goal is to protect UConn's strong programs and areas of excellence. Less highly-performing departments and programs will see rescissions of up to 6% for FY16 and decreased hiring as UConn's faculty hiring initiative slows. Last year UConn hired 75-80 new faculty, while approximately 100 departed. The current student-faculty ratio of 16.2-to-1 may rise to 16.8-to-1 in FY16, which, while not ideal, is still a significant improvement from the 18.3-to-1 student-faculty ratio of several years ago. UConn has seen significant improvement in its offerings of classes over 50 students and classes under 20 students.

The Operating Budget is balanced, but there are many concerns looking forward to FY17 and beyond.

On the Capital Budget side, concerns going forward include budgeting for deferred maintenance, with \$40.1 million allocated for deferred maintenance in the FY16 budget. It is estimated that UConn will require \$646 million over the next 20 years in deferred maintenance. As one example discussed regarding deferred maintenance, it is anticipated that more than \$100 million will be required to replace the steam system on the Storrs campus in future years.

Jeffrey Geoghegan, UConn Health Chief Financial Officer, explained the UConn Health budget to the Trustees. The UConn Health budget challenges and savings initiatives were reviewed along with capital improvements underway at UConn Health. For FY15, UConn Health is forecasted to lose \$2.1 million overall, performing better than anticipated, mostly due to increased patient revenue at rates higher than anticipated. Contractual salary increases for faculty and staff will cost an additional \$22 million in FY16. Also, \$13.2 million of the operating budget is going toward the capital budget to supplement bond funding. Issues included the \$100 million cost for conversion to electronic health records required under the Affordable Care Act. UConn Health will attempt to receive coverage for one half the cost from the state. UConn Health also faces infrastructure challenges with a cost escalation in construction. UConn Health continues to look for alternative funding sources to meet expansion goals set forth in NextGen Connecticut and Bioscience Connecticut. The scope of some projects has been adjusted in the current year to align with the current budget. UConn Health faces unique challenges in the form of competition with New York and Massachusetts healthcare providers. The new Outpatient Pavilion is expected to increase revenues in FY16. However, the operations of the new Outpatient Pavilion and the new hospital tower also create new ongoing expenses that must be factored into the FY16 budget. It is too early to establish a trend for the new Outpatient Pavilion's impact on revenue.

Trustee Nayden suggested that UConn institute upon departments a version of a performance metrics evaluation system, yet to be determined, to help determine the allocation of revenue.

It is anticipated that the merger of the Alumni Association into the UConn Foundation will result in limited cost savings.

Looking into the future years beyond FY16, the most significant unknowns in estimating UConn's future budgets include the amount and security of state support; the impact of the SEBAC health and pension benefits agreement; collective bargaining; the state-mandated fringe rate; and tuition levels for FY17 onward.

The Executive Session ended at 10:31 a.m., and the committee moved into open session.

Respectfully submitted,

Scott Jordan  
Executive Vice President for Administration and Chief Financial Officer

CONFIDENTIAL DRAFT

# Board of Trustees

FY16 Budget Presentation  
Executive Session

June 24, 2015

**UConn**

# Key Principles

- Protect excellence and the core academic and research enterprise
- Commitment to financial aid
- Ensure budgets are aligned to our top priorities
- In a period of constrained resources, hard choices have to be made

# FY15 Update

- Project FY15 to end with small gain of \$2.6M
- Balanced budget despite multiple State rescissions by:
  - Careful review of all positions prior to hiring
  - Higher fringe return
  - Operational efficiencies
  - Elimination of specific positions
  - Cuts in operational spending

**UConn**

CONFIDENTIAL DRAFT

3

- \$2.6M is only .2% of total 1.2B budget – SMALL gain
- Gain is largely due to slower hiring and higher fringe benefit return
- 3 rescissions totaling \$7.4M, \$11.7M with fringe
- Structural deficit was result of cut in state support coupled with high fringe rates in FY14.
- Facilities/Res Life savings of \$2.6M (part of deficit mitigation)

# FY16 Spending Plan

## FY16 Spending Plan for Storrs and Regional Campuses

<b>Revenues:</b>		<b>Expenditures:</b>	
State Support	\$396.7	Personal Services	\$507.8
Tuition	346.8	Fringe Benefits	259.3
Fees	117.4	Other Expenses	208.2
Grants & Contracts	86.5	Energy	24.5
Sales & Service Education	18.4	Equipment	3.9
Auxiliary Enterprise Revenue	215.7	Student Financial Aid	146.5
Other Revenue	11.3	Debt Service/Projects	38.0
Total Operating Funds	\$1,192.8	Total Operating Funds	\$1,188.2
Research Fund	101.8	Research Fund	104.2
<b>Total Revenues</b>	<b>\$1,294.6</b>	<b>Total Expenditures</b>	<b>\$1,292.4</b>
		<b>Net Gain / (Loss)</b>	<b>\$2.2</b>

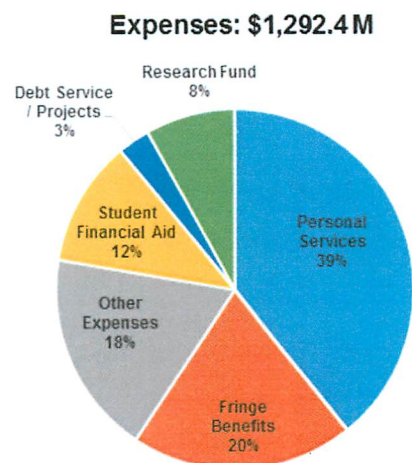
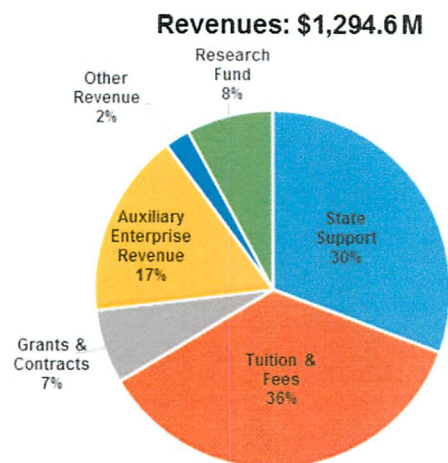
**UConn**

CONFIDENTIAL DRAFT

4

NOTES and VARIANCE REASONS – slides 6 and 7

# FY16 Revenues and Expenses



**UConn**

CONFIDENTIAL DRAFT

5

66% of revenue is either state or tuition and fees  
59% of expense is Salaries and Fringes

# FY15 – FY16 Revenue Changes

Revenues (\$M)	FY15 Forecast	FY16 Budget	Change	Notes FY15 Forecast to FY16 Budget
State Support	\$355.7	\$396.7	\$41.0	\$17.5M Collective Bargaining \$6.7M NextGenCT; \$3.1M W/C claims; \$13.7M fringe rate increase and other adjustments
Tuition	318.1	346.8	28.7	\$19.0M due to 6.75% rate increase \$9.7M additional enrollment fall 2015 and increase of out-of-state mix to 43%
Fees	112.3	117.4	5.1	Mandatory fees, including GUF held flat, increases in some fee based programs
Grants & Contracts	86.3	86.5	0.2	Increase in Financial Aid (Federal)
Auxiliary Enterprises	204.9	215.7	10.8	Room and Board revenue growing at 3%
Other	26.7	29.7	3.0	Various fee increases driven by higher enrollment
<b>Total</b>	<b>\$1,104.0</b>	<b>\$1,192.8</b>	<b>\$88.8</b>	

**UConn**

CONFIDENTIAL DRAFT

6

Tuition, FY16 in-state student count held flat over FY15, FY16 Rates \$10,524/\$32,066

Fees- FY16 all mandatory fees hold flat over FY15, largest mandatory fee is GUF, \$1,914 in and out of state students. Assumes incremental 250 freshmen enrolled.

Grants & Contracts – Continued favorability in Pell Grant revenues

Auxiliary Enterprises – Housing bed count remains flat, favorability driven by rate increase, increase in Athletic revenue (although much more expense than revenue)

Other- Increased income from additional student count

# FY15 – FY16 Expense Changes

Expenses (\$M)	FY15 Forecast	FY16 Budget	Change	Notes FY15 Forecast to FY16 Budget
Personal Services	\$482.3	\$507.8	\$25.5	Collective Bargaining Increases; NextGenCT hiring
Fringe Benefits	225.0	259.3	34.3	\$17M fringe rate change (assumes 3.5% rate increase); \$10.2M Collective Bargaining increase; \$7.1 NextGenCT hiring, other adjustments
Other Expenses	191.3	208.2	16.9	Faculty start-up; New acquisition operating costs; 1.5% inflation
Energy	23.0	24.5	1.5	Increase in gas transportation costs
Equipment	5.2	3.9	(1.3)	Decreased spending
Student Financial Aid	142.3	146.5	4.2	Higher Pell Grant, CT scholarships, other university scholarships
Debt Service/Projects	31.9	38.0	6.1	Projects and Debt Reserve
<b>Total Operating Expense</b>	<b>\$1,101.0</b>	<b>\$1,188.2</b>	<b>\$87.2</b>	

**UConn**

CONFIDENTIAL DRAFT

7

- CBI = 5% for FY16

# State Fringe Return

- In FY14, UConn's fringe return percentage was 11% lower than UConn Health and 23% lower than Board of Regents.

Fringe Return on Appropriation	FY11 Actual	FY12 Actual	FY13 Actual	FY14 Actual	FY15 Forecast	FY16 Budget
UConn	41%	41%	45%	49%	57%	64%
UCH	43%	44%	48%	60%		
BOR	53%	54%	62%	72%		

**UConn**

CONFIDENTIAL DRAFT

8

- FRINGE EXPENSES**
- For FY16 we are projecting a 2.5% point fringe increase:
  - Faculty Rate = 46.7%
  - Professional = 59.7%
  - Classified = 94.6%
  - Research** Faculty = 53.0%
  - Research** Professional/Classified = 71.0%

## **FY16 Components:**

### **RETIREMENT**

State Retirement	53.58%
Alternate Retirement Plan (ARP)	11.99%
Teachers Retirement	43.14%
Hazardous Duty Retirement	62.51%

**FICA SS** 6.20%

**FICA MEDICARE** 1.45%

**UNEMPLOYMENT COMP** 0.12%

**GROUP LIFE INSURANCE** Rates vary according to coverage

**HEALTH INSURANCE** Rates vary according to medical/dental plan

selections (about 30%)

# FY16 Budget Gap

Operating Budget (\$M)	FY16
FY16 State Request	\$258.9
FY16 State Appropriation	243.2
Appropriation Reduction	(\$15.7)
Fringe Reduction	(9.4)
Workers' Compensation Claims	(3.1)
Total Reduction (including fringe)	(\$28.2)

During FY16, an additional \$26.9M is at risk due to lapses, a 1.5% additional rescission authority requested by the Governor and the 5% rescission authority already granted to the Governor.

**UConn**

CONFIDENTIAL DRAFT

9

6-18-15 – Already **\$1M** reduction issued due to lapse (\$1.6M with Fringe)

# Budget Gap Strategies

FY16 Budget Gap	(\$28.2)
Increase Enrollment by 250 / Increase non-CT Freshman Enrollment to 43%	6.1
Reduction of Merit Aid for specific programs	1.0
Finance, Operations & President Cuts	6.1
Provost Cuts	15.0
Remaining Budget Gap	\$0.0

**UConn**

CONFIDENTIAL DRAFT

10

Res Life/Facilities – \$2.6M

\$1.5M = cleaning contract

\$0.5M = reduction in OT

\$0.5M = operational cuts (vacancies, lower costs for parts, etc.)

Finance, Operations & President Area Cuts - \$3.5M

Elimination of 14 positions from 2L funds (\$1.7M)

Reduction of operations budgets (\$0.5M)

President's Areas have target of \$1.2M, but plans aren't set yet

# Budget Gap - Details

Budget gap details to balance FY16:

- **Finance, Operations & President**

- Facilities/Residential Life operational efficiencies
- Slower staff hiring – any new position must be approved by the EVP and President
- Elimination of positions vacated due to resignation, retirement, etc.
- Selective layoffs

- **Provost**

- Slower faculty hiring – any new position must be approved by Provost and President
- Selected rescissions to academic departments and programs
- Reductions in faculty start-up
- Reduction in use of temporary labor including special payroll and student labor
- Selective layoffs
- Additional teaching requirements for faculty
- Reduction in sabbatical leave approvals
- Reduction in service hours and collections budgets in libraries

**UConn**

CONFIDENTIAL DRAFT

11

Res Life/Facilities – \$2.6M

\$1.5M = cleaning contract

\$0.5M = reduction in OT

\$0.5M = operational cuts (vacancies, lower costs for parts, etc.)

Finance, Operations & President Area Cuts - \$3.5M

Elimination of 14 positions from 2L funds (\$1.7M)

Reduction of operations budgets (\$0.5M)

President's Areas have target of \$1.2M, but plans aren't set yet

ATHLETICS – will also face cuts

# Challenges

- Have strategies in place to balance FY16 budget
- For FY16, State support was reduced and concerned about lapses and mid-year rescissions
- There are many unknowns in FY17:
  - State support, including NextGenCT
  - Tuition rates must be set and approved for FY17 and beyond
  - Collective bargaining (SEBAC ends in FY16)
  - Fringe rates continue to rise

**UConn**

CONFIDENTIAL DRAFT

12

- Salary (collective bargaining) and fringe are our biggest expenses
- ATHLETICS – a topic for Exec Session?

## UConn

		Lapses	1.5%	5%	Grand TOTAL
\$243,219,082					
	\$	2,319,558	\$3,648,286	\$12,160,954	\$ 18,128,798
Fringe at 60%	\$	1,391,735	\$2,188,972	\$7,296,572	\$ 10,877,279
		<b>\$3,711,293</b>	<b>\$5,837,258</b>	<b>\$19,457,527</b>	<b>\$29,006,077</b>

6/18/15 – Reduction amount of \$1M due to lapse has just been issued (\$1.6M with Fringe)

# Capital Budget Plan

UConn 2000 FY16 Capital Budget Request: \$312.1M

- UConn Storrs & Regional Campuses
  - Master Plan complete
  - NextGenCT projects underway: STEM Residence Hall, Monteith, Putnam, Hartford Campus, Engineering & infrastructure repairs
  - Phasing plan adjusted to match authorizations to spending needs
- UConn Health
  - Bioscience CT ambitious goals already being realized; projects proceeding on-time
  - Phasing plan adjusted to defer scope in hospital and lab building pending funding from other sources

**UConn**

CONFIDENTIAL DRAFT

13

- UConn:
  - Phasing plan adjusted to match authorizations to spending needs: old year authorizations due to project closeouts is reallocated to current needs; current year/future year disbursements are updated to reflect the updated project schedule
  - Over time, future year projects may be added/deleted based on changing enrollment growth (will we expand facilities if NGC operating support from State doesn't continue?)
  - The amount of DM funds in the plan will never be enough to address all the needs (a 3% depreciation model for DM would require at least \$141M/year....Sightlines target is \$65M/year needed)
- UConn Health:
  - Shortfall of \$58M from operations, special eligible gifts or other sources

# FY16 Capital Budget

UConn (\$M)		UConn Health (\$M)	
Deferred Maintenance	\$40.1	Deferred Maintenance	\$3.2
Engineering, Fine Arts, Gant	35.9	Equipment	4.2
Equipment	22.9	Main Building Renovation	9.1
Hartford Campus Relocation	33.6	New Construction & Renovation	91.2
Residential Life Facilities	71.9		
Total	\$204.4	Total	\$107.7

# Long-Term Capital Budget Challenges

- UConn Health:
  - Shortfall of \$58M for Bioscience CT – project scope deferred
  - Bioscience CT funding ends in FY18
  - Funds needed for Electronic Medical Record, Deferred Maintenance, Equipment and IT Infrastructure
- UConn:
  - Scope reductions may be needed for future projects due to market driven pricing – only planned on 3.5% for escalation – and additional enabling projects
  - Impact of reduction in State operating fund for NextGenCT impacts capital plan
  - Not enough funds for deferred maintenance needs

**UConn**

CONFIDENTIAL DRAFT

15

- Overarching question: what is the timing to request additional funds from the State?

# UConn Health Update

**UConn** HEALTH

CONFIDENTIAL DRAFT

## FY15 Update

- Approved budget was \$12.5M loss; forecast to lose \$2.1M (\$10.4M improvement)
- Patient revenue projected to be \$14.4M or 3.6% over budget
- Position/hiring management oversight saved \$16.5M in salary and fringes
- BRG initiatives achieved and exceeded in FY15
- Outpatient pavilion opened mid-year
- Bioscience on time and on budget

# FY16 Operating Budget

## Revenues:

State Support	\$ 233.2
Tuition & Fees	22.6
Research Grants and Contracts	78.7
Interns and Residents	64.6
Net Patient Care	445.8
Correctional Managed Health Care	92.4
Other Income	49.7

## Total Revenues

\$ 987.0

## Expenses:

Salary Expense	\$ 385.1
Fringe Benefits	203.3
Medical/Dental House Staff	69.8
Correctional Managed Health Care	92.4
Outside & Other Purchased Services	88.3
Drugs/Medical Supplies	76.8
Other Expenses	38.4
Debt Service	10.5
Depreciation	38.3

## Total Expenses

\$ 1,002.9

## Net Gain/(Loss)

\$ (15.9)

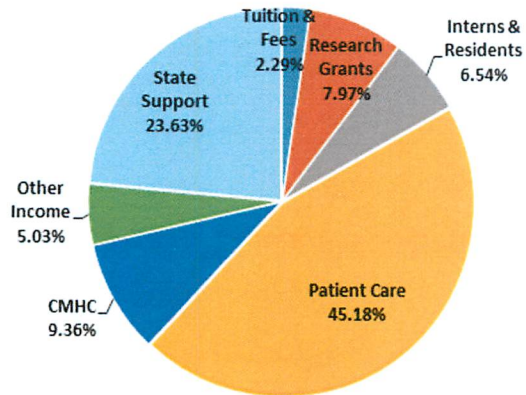
# FY16 Spending Plan

## FY16 Spending Plan for UConn Health

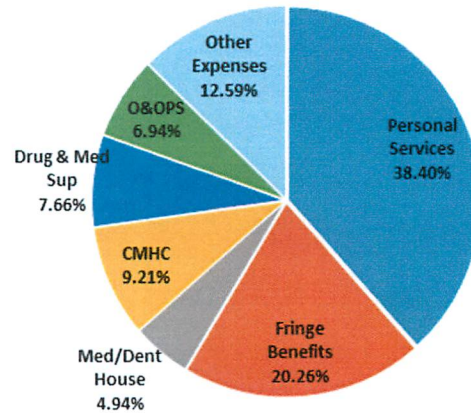
<b>Total Operating Revenue</b>	\$ 753.7	<b>Total Operating Expenses (less depreciation)</b>	\$ 964.6
State Support	233.2	Current Approved Capital Projects	2.2
		Working Capital Needs	2.0
Restricted Balances:		FY 2016 Capital Spending	13.2
Use Allowance	6.3	Use Allowance	6.3
State Bond Funds	29.4	State Bond Funds	28.8
Departmental /Grant Funds	<u>1.0</u>	Departmental /Grant Funds	1.0
		Principal Payment on Debt	5.5
<b>Total Available for Spending</b>	\$ 1,023.6	<b>Total Spending Plan</b>	<u>\$ 1,023.6</u>
		<b>Net Gain/(Loss)</b>	<u>-</u>

# FY16 Revenues and Expenses

Revenues: \$987.0M



Expenses: \$1,002.9M



# Challenges

- Reduction in State support
- DSS/Medicaid payment reductions
- Contractual salary increases
- Fringe benefit rate increases
- Outpatient Pavilion – full year of facility costs, depreciation and debt
- New Hospital tower opens last quarter

# Financial Risks

- Payor mix and volume
- Provider based reimbursement
- Medicaid reimbursement
- Outpatient Pavilion facility costs – minimal historical data
- New Hospital opening last quarter of FY16
- Hybrid Plan employee conversion – SAG award – IRS determination letter
- Mid-year appropriation rescissions
- Electronic Health Record bonds
- Hospital consolidations

BOT 6-24-15

SLIDE 17

- FY 15 UConn Health had an approved Budgeted \$12.5M loss from operations. I am happy to report that not only did we meet our saving goals and budget, we are forecasted to loss \$2.1 million for fiscal year 15. That is a \$10.4 million improvement over what we budgeted.
- So how did we get there?
- Patient revenue projected to be \$15.4M or 3.9% over budget
  - Hospital -
    - Volume increases - adjusted discharges are greater than budget 3.5% JDH is one of only a handful of Hospital in the state that has seen an increase in discharges.
    - Additionally revenue per discharge is also greater than budget by 3%
    - UMG Physician practice
    - Volume is on budget RVU's (good news it is 7% greater than prior year)
- Position/hiring management oversight saved \$16.6M in salary and fringes
  - We hold biweekly meeting to review all hiring including refilling of positions.
- BRG Financial improvement project
  - This project had \$14.4 million in revenue enhancement / cost reductions in the FY 2015 budget. We are currently projecting the savings to be \$14.6 million.
- Additionally in FY 15:
- Outpatient pavilion opened mid-year
  - Open for Business and most Clinical areas have been moved. Too early for any trends yet, but we have had positive feedback from patients and staff.
- Bioscience on time and on budget
  - Jax labs is open. Phase 2 of the demolishing the old Dowling clinic builds is substantially complete.
  - New lab space has been completed and moved into
  - New Hospital / Academic building / Incubator lab addition – All currently are under construction for 2016 completion.

## SLIDE 18

Our spending plan starts with our Operating budget. This is a look at operations like any other business and what costs to run the Research / Clinical and education operations of UConn Health. We then use that as the base for the funds we will have available to spend next year to ensure that we have a balanced spending plan.

The Proposed Operating budget for fiscal year 2016 consists of :

Revenues of \$987 million, including state support of \$233.2 million dollars

Expenses of \$1 billion 2.9 million dollars

For FY 16 revenue is to increase 5.8 %. The main driver is net patient revenue mainly related to volume increases at JDH and UMG. In FY 15 UConn Health has experienced a decrease in federal awards and related spending which continues into FY 2016. We remained focused on institutional goals and protecting our strategic initiatives: such as funding for research faculty growth including Bioscience faculty recruitment.

On the expense side 3 lines make up the majority of the 10.6% increase in expenses.

Salaries are up 22.1 million mainly due to the contractual increases. Fringe benefits are up 23.2 million due to the increase in salaries, Increase in the retirement plan rate and an increase in the Medical/ Dental and pharmaceutical employee coverages.

Lastly is the increase in Debt service of \$7.1 million. This is related to FY 16 being the first year we have 12 months of interest expense on the Outpatient Pavilion debt.

This is a net operating loss for UConn Health of \$15.9 million.

## SLIDE 19

Next is UConn Health's fiscal year 2016 spending plan.

As mentioned earlier we will use the operating budget for the base of the spending plan. So the operating revenue and state support come directly from the Operating budget. We add the additional restricted balances which give us \$1 billion 23.6 million available for spending in FY 2016.

Like prior year we are reducing the amount available for capital spending to ensure that we have a balanced spending plan for FY 2016. So the spending side lists all the planned spending for FY 2016 including operating expenses, capital spending, and the new principal payments on the debt for the Outpatient Pavilion.

## Page 20 – Graphs

This slide again give an idea on major areas. This has not changed dramatically over the years.

Of note in the revenue graph only 23.6% of UConn Health's revenue come from State support with 76% coming from other sources. Including 45% for patient care revenue. We focus on the Hospital and UMG a lot during our presentations because it is a major revenue source of the operations of UConn Health.

The expenses on the right hand side are similar to the Main campus and regionals. If you include Medical Dental house staff (contracted employees) our employee expense including salaries and fringe is greater than 65%

## SLIDE 21

### Challenges:

- Reduction in state support approx. 6 million less than original request
- DSS/Medicaid payment reductions as part of the overall state budget
- Contractual salary increases
- Fringe benefit rate increases
- Outpatient Pavilion – full year of facility costs, depreciation and debt
- New Hospital tower opens last quarter – new maintenance expenses will come online.

## SLIDE 22

### Risks

- Payor mix and volume- JDH had significant volume increase compared to other hospital in our market. In other words we have been stealing market share from Hartford area hospitals. It will be difficult to maintain significant increase in this competitive market.
- Provider based reimbursement reduction (not incorporated in budget)- A lot of discussion about eliminating the facility fees charged by the hospital which will be less revenue for UConn Health.
- Medicaid Reimbursement – Hospital Outpatient rates are being developed and overall payment reductions are still being negotiated.
- Outpatient Pavilion facility costs – minimal historical data
- New Hospital opening last quarter of FY16 – Estimate are developed for opening 20 new beds with the opening of the new hospital in the last quarter of FY 2016.
- Hybrid Plan employee conversion – SAG award – IRS determination letter there could be a 90 day deadline offered by the IRS for current alternate retirement employees to switch to the state plan.

- Mid-year appropriation rescissions – always a chance for less state support
- Electronic Health Record Bonds – UConn Health needs a new EHR to replace our current antiquated systems. We are in discussions with the State to discuss possibility of bond funds to help.