MINUTES
SPECIAL MEETING OF THE FINANCIAL AFFAIRS COMMITTEE
May 25, 2016

TRUSTEES PRESENT: Andy Bessette *(via telephone)*, Chuck Bunnell, Shari Cantor, Richard Carbray, Thomas Kruger, Larry McHugh, Denis Nayden *(via telephone)*, and Thomas Ritter

STAFF PRESENT: Andy Agwunobi, John Biancamano, Alan Calandro, Jeremy Campbell, Debbie Carone, Mun Choi, Lisa Danville, Michael Eagen, Gail Garber, Jeffrey Geoghegan, Susan Herbst, Scott Jordan, Andrea Keilty, Michael Kirk, Joann Lombardo, Wayne Locust, Stephanie Reitz, Rachel Rubin, Leslie Salafia, Katrina Spencer, Thomas Trutter, Kelly Wihbey, Michelle Williams and Reka Wrynn

Committee Chairman Thomas Kruger convened the special meeting of the Financial Affairs Committee at 9:00 a.m. in the Janet M. Blumberg Hall on the University of Connecticut Law School campus in Hartford, Connecticut. On a motion by Trustee Cantor and seconded by Trustee Carbray the committee accepted a revised agenda to add the *Minutes of the Financial Affairs Committee meeting in Executive Session of June 24, 2015*. These are the minutes created after the fact at the request of the Freedom of Information Committee. On a motion by Trustee Cantor and seconded by Trustee Carbray the *Minutes of the Financial Affairs Committee meeting in Executive Session of June 24, 2015*, were approved as circulated.

Scott Jordan, Executive Vice President for Administration and Chief Financial Officer, presented agenda ***Item #2, FY17 Draft Budget Presentation for the University of Connecticut, Storrs and Regional Campuses.*** Mr. Jordan directed the committee to a PowerPoint presentation detailing the FY17 operating budget proposal for Storrs based programs. Key to the budget is to protect academic excellence; provide strong student support; and to support the research mission of the University while keeping the commitment to accessibility through increased student financial aid in the face of fiscal constraints. UConn's FY17 budget is a balanced budget through careful management of expenses, operational efficiency gains, tuition increases and enhanced external revenues to mitigate against cuts in State funding. Despite $17.2 million of State cuts the Storrs based budget will end FY16 with a small net gain of $1.1 million. The FY17 budget gap will be managed through a number of adjustments including lower fringe costs than previously budgeted; undergraduate and graduate tuition increases; no union/staff increases; a strategic 3% cut from University units, as well as strategic cuts to almost every unit. Total revenue in FY17 is anticipated to increase $24 million or 1.8% over FY16.

UConn was able to balance the FY17 budget despite a reduction of $29.2 million from the original FY17 adopted budget. This was achieved through strategic expenditure reductions, judicious hiring, careful spending and additional tuition revenue. Due to Governor and legislative authority to make mid-year reductions, UConn is at risk for up to a maximum of $30.4 million in additional cuts in FY17. UConn has sustained $75.3 million in state rescissions, lost fringe and fund sweeps since 2010. UConn tuition, fees, other revenues, expense reductions and operational efficiencies must make up for cuts to protect academic excellence and provide strong student support.

Given the State's fiscal challenges, NextGenCT operating funds were significantly less than the original plan. This reduction in funding has impacted the University's ability to hire new faculty. In FY17, freshmen enrollment will hold steady enrolling 3,800 new Storrs freshmen. NextGenCT capital funding is more critical than ever to ensure faculty have labs/equipment needed to compete for grants; STEM students and faculty have great facilities to support research and education; and STEM scholarships and financial aid are funded. Due to mid-year rescissions in FY15 and FY16, UConn has utilized one-time funds to fulfill the financial commitments of the NextGenCT Initiative in those years. Since FY13, total undergraduate enrollment has increased by 1,106 students or 5%, and is above the NextGenCT planned increase, despite NextGenCT operating fund shortages.

Gross tuition revenue is projected to grow 5.6% or $19.7 million over FY16. Undergraduate tuition revenue is expected to grow by $17.0 million driven by both rate increases and enrollment factors. 17.5% of tuition is devoted to need based financial aid; well above the required 15%. Graduate tuition revenue is projected to grow by almost $3.0 million in FY17, reflecting the tuition rate increase. Mandatory fees will not increase in FY17. Overall fee revenue will increase by $1.0 million, driven by enrollment growth within fee based programs. Grants and contract revenues have grown $13.7 million or 21% since FY13. Foundation and endowment revenue is expected to remain steady in FY17 at $20.0 million. FY17 Sales and service of educational activities is budgeted at $19.8 million. These are revenues from the sales of goods or services that are incidental to the conduct of instruction, research or public service and include areas such as the UConn Dairy Bar ice cream sales, Global Affairs incidental fees to travel abroad programs as well as the UConn Blooms Plant and Flowers Shop within the College of Agriculture. Another source of revenue is the auxiliary enterprise revenue, of which housing and dining rates make up the largest component at approximately $90.9 million. These rates will not increase in FY17. Other Revenues consist of a wide variety of sources and are budgeted at $18.3 million.

Mr. Jordan summarized that total revenues are up 1.8% over FY16. Tuition, course fees, and other smaller revenue sources have partially offset the cuts in State appropriation funding. Mandatory fees, as well as room and board rates, were not increased from the 2015-16 academic year. The University will continue to look for additional revenue, other than tuition and fees, to offset reductions in State support and to fund strategic initiatives. University expenses are made up largely of personal services and fringes at more than 57% of the total expenditure budget. Despite increased enrollment, overall employee count dropped by 32 FTEs from FY15 to FY16 due to necessary departmental rescissions. Fringe benefit costs have grown 58.6% since FY13. Financial aid is growing over FY16 by $8.3 million or 5.4% due to additional University funds to support our needy and meritorious students. The FY17 operating expenses are budgeted to increase $50.3 million over FY16. There are risks to the budget, the biggest of which is State support and the costs the State charges for state employee fringe benefits; and collective bargaining has a strong risk to impact the budget.

Mr. Jordan informed the Trustees of a recent development where the salary threshold was raised under the Fair Labor Standards Act by which an employee would be eligible for overtime. This will impact the University's research enterprise as there are a number of post-doctoral researchers that are just below the threshold. The University has until the end of the year to determine how to proceed.

Trustee Ritter requested a list, provided prior to the Budget Workshop, of all things that UConn does that if UConn (all campuses and UConn Health) did not do them the Town they are located in would have to do them; also provide a dollar amount for these things towns would have to provide; provide a list of things UConn does for towns that are not required; provide a list for last 10 years of all the Pilot Payments using the Mohegan Sun formula that the towns have received; and provide an analysis of what towns spend to support the University versus what Stamford, Middletown and Hartford spend to support their tax exempt properties. Mr. Jordan agreed to provide the data.

Jeffrey Geoghegan, Chief Financial Officer for UConn Health, provided a PowerPoint presentation on the UConn Health FY17 operating budget. He explained that the Health Center faces many of the same budgetary challenges, including collective bargaining and fringe benefits, that the Storrs based programs do. UConn Health is a complex, centralized institution supporting the integrated tripartite mission of research, education and patient care working with a $1.08 billion operating budget.

The approved FY16 budget held a $15.9 million loss, with a forecast of $3.1 million improvement resulting in a $12.8M loss. Patient revenue is projected to be on budget; John Dempsey Hospital (JDH) is over budget by $4.2million; the Dental Clinics are over budget by $1.2 million; UConn Medical Group (UMG) is under budget by $6.1 million; position/hiring management oversight saved $2.8 million in salary and fringes; and late opening of the University Tower resulting in a savings in facility costs. UConn Health will end FY16 ahead of budget by $3.1 million. Total revenue is expected to increase $21 million, or 2.1 % over FY16.

UConn Health was able to balance the FY17 budget despite a reduction of $16.8 million from the FY17 adopted budget (equates to a 7.2% drop in appropriation). This was accomplished by reviewing all positions prior to hiring, careful spending, additional patient revenue and a reduction in capital spending. There are a limited number of strategic workforce reductions, departmental consolidations and other cost savings moves anticipated in FY17. In addition, there is a plan to expand revenues through extended hours in specific revenue producing departments.

Due to the Governor and legislative authority over mid-year rescissions/lapses, UConn Health is at risk for up to $17.4 million in additional reductions in FY17. UConn Health has sustained $58.8 million in state appropriations rescissions, lost fringe and fund sweeps since FY10. Net Patient Revenue is projected to grow 5.4%, or $24 million over FY16.

Mr. Geoghegan summarized UConn Health FY17 revenues including: tuition and fees increase of $1.4 million for the School of Medicine (SOM) and School of Dental Medicine (SODM) (assumes approved rate increase); Federal and nonfederal grants revenue 4.5% increase (offset by expense increase); interns and residents revenue will decrease by 2.5% due to a one time additional revenue in FY16; net patient revenue has an overall increase of $24.5 million – UMG $1.2 million or 1.4% and John Dempsey Hospital $23.3 million or 6.8%; Correctional Managed Health Care decrease of 1.7% (offset by expense decrease); gift and endowment income decrease of $1.3 million due to an decrease in Foundation dollars for capital projects; and other income increase of 4.4% due to full year of 340b contracts. Operating expenses are budgeted to increase $24.8 million, or 2.5% over FY16.

Personnel costs, including salaries and fringe benefits, account for over 59.1% of UConn Health's total operating budget. The FY17 operating budget risks for UConn Health include: mid-year appropriation lapses, rescissions, lost fringe, and fund sweeps; unsettled contracts with all unions; Workers' Compensation expenses; payor mix and volume; provider based reimbursement; Medicaid reimbursement; New University Tower–minimal historical data; retirement rate not final –to be received third week of June 2016; and the Hybrid Plan employee conversion – SAG award – IRS determination letter. President Herbst noted that a new marketing plan for the Health Center is anticipated to bring more patients to the center. In addition, there is a wayfinding project underway as patients have noted that they do not go to the Health Center because it is perceived to be confusing and they do not know where to go or where to park. These issues are being addressed and as the campus is transformed it is expected that patient numbers will increase.

Mr. Jordan presented the Capital Budget Program for both the Storrs based programs and UConn Health. He stated that thanks to the strong support from the State via UCONN 2000 – NextGenCT and Bioscience CT, UConn continues the transformation of modernizing, rehabilitating and expanding the physical plant of the University. In an effort to manage all University fund sources in a more strategic manner, an all funds capital budget was presented. The first three major projects of the NextGenCT capital program will be completed this summer to include the Next Generation Connecticut Hall – a 725 bed, $105 million, 212,000 sq. ft. facility; Monteith building renovation – a $25 million, 73,000 sq. ft. new home for the Math Department; and Putnam Refectory renovation – a $23 million, 42,000 sq. ft. dining hall slated to service the new Next Generation Connecticut Residence Hall. Capital program risks for FY17: the State has deferred $26 million of funding to FY18, reducing the FY17 amount from $266.4 million to $240.4 million; the program depends upon the economic health of the State and additional deferrals are a possibility in the future; delaying a project today could equal higher costs in the future; starting/stopping projects would affect UConn's reputation and bid responses/competitive pricing; Conn bridging funding for Capital Projects; UConn funding was used to pay ~$70 million of construction bills, which was reimbursed with the April 2016 bond issuance; projecting use of ~$125 million of UConn funds prior to spring 2017 bond issuance; many needs have been identified which are not fully funded or included in the current capital plan (i.e. deferred maintenance, athletic facilities), funding strategies will need to be identified; and of specific note, capital funding for UCH ends in FY18.

Trustee Kruger thanked Scott Jordan and Katrina Spencer for all of their hard work to assemble a balanced budget for the Committee's review and providing is a better understanding of what went into developing and achieving a balanced budget. He thanked Dr. Agwunobi and Jeff Geoghegan for their constant efforts to cut costs and enhance revenues at UConn Health.

Chairman McHugh congratulated President Herbst, Dr. Agwunobi, Jeff Geoghegan, and Scott Jordan, whom he stated had been working on the budget for the last year and have been very proactive. While other agencies within the state are unable to reach a balanced budget the University is going into the next fiscal year with a balanced budget. He also thanked Committee Chairman Kruger for his leadership and proactive actions with the budget.

On a motion by Trustee Cantor and seconded by Trustee Carbray the committee voted to go into Executive Session to discuss records, reports and statements of strategy or negotiations with respect to collective bargaining. Trustee Kruger asked the following individuals to join the Trustees for the session: President Herbst, Rachel Rubin, Mun Choi, Scott Jordan, Andy Agwunobi, Mike Kirk, Mike Eagen, Katrina Spencer, Jeff Geoghegan and Debbie Carone.

On a motion by Trustee Cantor and seconded by Trustee Carbray the Executive Session ended and there being no additional agenda items the meeting was adjourned at 11:20 a.m.

Respectfully submitted,

Debbie L. Carone

Debbie L. Carone,
Secretary to the Committee