

MINUTES
SPECIAL MEETING OF THE FINANCIAL AFFAIRS COMMITTEE

June 12, 2017, 9:00 a.m.

University of Connecticut
Lewis B. Rome Commons Ballroom
626 Gilbert Road Ext.
Storrs, Connecticut

TRUSTEES PRESENT: Andy Bessette, Mark Boxer (*via telephone*), Shari Cantor, Richard Carbray, Adam Kuegler, Thomas Kruger, Larry McHugh, and Thomas Ritter (*via telephone*),

STAFF PRESENT: Andy Agwunobi, Chad Bianchi, Jeremy Campbell, Debbie Carone, David Clokey, Laura Cruickshank, Lisa Danville, Elly Dougherty, Nathan Fuerst, Gail Garber, Jeffrey Geoghegan, Michael Gilbert, Susan Herbst, Michael Jednak, Scott Jordan, Tysen Kendig, Michael Kirk, Joann Lombardo, Mona Lucas, Josh Newton, Richard Orr, Stephanie Reitz, Rachel Rubin, Katrina Spencer, Jeremy Teitelbaum, Scott Wetstone, Kelly Wihbey, Michelle Williams, Kristin Wirtanen, and Reka Wrynn

Committee Chairman Thomas Kruger convened a special meeting of the Financial Affairs Committee at 9:00 a.m. in the Lewis B. Rome Commons Ballroom on the University of Connecticut campus in Storrs, Connecticut.

President Susan Herbst provided opening remarks. Scott Jordan, Executive Vice President for Administration and Chief Financial Officer, presented agenda ***Item #1, FY18 Draft Budget Presentation for the University of Connecticut, Storrs and Regional Campuses.*** Mr. Jordan directed the committee to a PowerPoint presentation detailing the FY18 operating budget proposal and options for the Storrs based programs. The budget presentation included an overview of the operating budget for Storrs and regional campuses and a capital budget overview. The goal is to adopt operating and capital budgets at the June 28, 2017 Board of Trustees meeting; which is dependent on the State adopting a budget. If the State has not adopted a budget by that date there may be a need to bring a revised budget to the Trustees after the June 28, 2017 meeting.

The budget presentation included an FY17 end of year projection, an overview of budget expenses and revenue for FY18; a history of State support; details of the most challenging budget areas; and a summary of the University's strengths, weaknesses, opportunities and threats. The committee discussed the effects the various state budget proposals, including SEBAC concessions, on the University's budget and financial situation. The detrimental impact of budget cuts to UConn were detailed as well as the effect of fringe benefit costs on the University and the research enterprise. Trustee Bessette emphasized the importance of planning for 2021 if the SEBAC concessions are adopted, as they include 3.5% salary and step increases. The committee discussed the need to pursue and generate additional revenue while continuing careful oversight of expenditures.

Mr. Jordan reviewed the University's Capital Budget, which is also subject to State budget uncertainties. The presentation included the status of major capital projects, deferral of critical projects and a summary of the Capital Program. The Capital Budget follows the NextGenCT Program. FY18 is the fourth year of the NextGenCT Program; and a great deal has been accomplished in those four years. A number of other projects, not funded by NextGenCT, are also complete or in construction including the new Recreation Center and Innovation Partnership Building as well as a number of infrastructure projects. Bond funds of \$1.3 billion have not been authorized by the State for projects that are already under construction or are in planning/design. The FY18 capital amount has been reduced by \$29.6 million, which may delay some projects to future years, reduce projects and some projects may be cut. President Herbst confirmed that despite the capital plan cuts the Fine Arts renovation is planned to move forward.

Mr. Jordan stated that the Capital Budget Plan, to be presented to the Board on June 28, will be based upon the current statutory amount of \$295 million as a "not to exceed" amount and then reduce the amount as the State cuts the budget. It is important for the University to have a budget on July 1. A balanced budget will be brought to the Trustees on June 28. Should the State's budget adjustments cause the University to require revision of the approved budget, a revised budget will subsequently be presented to the Trustees for approval. Chairman McHugh congratulated the administration, staff and faculty for addressing budget issues and cutbacks as they occurred during the year and for bringing a balanced budget forward at year-end.

On a motion by Trustee Bessette and seconded by Trustee Cantor agenda *Item #1, FY18 Draft Budget Presentation for the University of Connecticut, Storrs and Regional Campuses* was recommended, as presented, to the full Board for approval subject to any adjustments deemed necessary by the Executive Vice President for Administration and Chief Financial Officer given State budget developments that may occur between June 12 and June 28.

Dr. Andy Agwunobi, Executive Vice President for Health Affairs and Chief Executive Officer of UConn Health, reviewed the UConn Health budget presentation. He stated that at the end of FY17 UConn Health is forecasting a loss of \$19.7 million versus a budgeted loss of \$15.9 million. The budgets for both FY17 and FY18 reflect a difficult financial picture as this is the worst financial outlook in approximately a decade. Key drivers for the loss include unanticipated May 10 Governor's rescission of \$2.2 million; operating revenue shortfall of \$15.5 million compared to budget with the main driver being a less than anticipated surgical volume. Operating expense was favorable to budget by \$10.4 million with the main drivers being a salary and fringe decrease of \$4.3 million due to management reviewing all vacant positions; along with a decrease in other expenses of \$5.2 million due to utilities and outside purchased services.

Dr. Agwunobi explained UConn Health's financial overview from FY14-FY18; stating that it is getting harder to control the losses and increasingly difficult to cut costs and generate revenue. Despite outward appearances, the financial outlook at UConn Health has been worsening. While clinical revenue has grown, the growth in clinical revenue has fallen behind expense growth. Most Connecticut hospital networks lost inpatient volumes from 2013-2017 but UConn Health grew in patient volumes by 8.4%. Statewide UConn Health inpatient market share grew from 2.07% to 2.33% from FY13-FY17. Competition challenges hospital occupancy. Only eight Connecticut hospitals remain independent and maintain a 19.5% market share.

Another expense factor is the fringe rate for John Dempsey Hospital is significantly higher than the Connecticut Hospital Association fringe rate. The fringe payments from the State vs. the actual difference between UConn Health and the Connecticut Hospital Association (CHA) is significant. If, with all of the other financial challenges, fringe rates were at the level of other health systems, UConn Health would be above break even. The Farmington clinical campus could be sustainable if it had a different type of cost structure. Other key cost drivers include state reductions including lost fringe payments and fund sweeps; and debt service payments. The current operational structure of the clinical enterprise is financially unsustainable. The State has its own financial challenges and UConn Health cannot look to the State to solve its problems. Strategic structural changes need to be made in FY18 to ensure financial sustainability and success of UConn Health. These must include financial improvements including cost savings and revenue enhancement; outsourcing of revenue cycle management, workforce planning. The UConn Health academic enterprise is outstanding and is not experiencing the same challenges as the clinical enterprise.

Jeffrey Geoghegan, Chief Financial Officer for UConn Health, provided FY18 budget assumptions for UConn Health. He detailed a preliminary forecast of a \$59.4 million deficit but a bottom line target of an \$18.4 million deficit for FY18. A review of the capital budget and the items that are on hold, unfunded, etc. result in a balanced capital budget. Mr. Geoghegan also presented a balanced draft operating budget spending plan.

Chairman McHugh stated his appreciation for the hard work done by Dr. Agwunobi and Mr. Geoghegan and the entire UConn Storrs team under the leadership of President Herbst and Mr. Jordan to bring forth a balanced budget.

No action was taken on the UConn Health budget as it was still subject to review by the UConn Health Board of Directors.

There being no additional agenda items the meeting was adjourned on a motion by Trustee Bessette and seconded by Trustee Boxer at 11:10 a.m.

Respectfully submitted,

Debbie L. Carone

Debbie L. Carone,
Secretary to the Committee