

MINUTES
SPECIAL MEETING OF THE FINANCIAL AFFAIRS COMMITTEE

University of Connecticut
Lewis B. Rome Commons Ballroom
626 Gilbert Road Ext.
Storrs, Connecticut
June 11, 2018, 9:00 a.m.

TRUSTEES PRESENT: Andy Bessette, Chuck Bunnell (*via telephone*), Richard Carbray, Thomas Kruger, Denis Nayden (*via telephone*), Thomas Ritter (*via telephone*), Philip Rubin and Christine Savino

STAFF PRESENT: Andy Agwunobi, Lloyd Blanchard, Alan Calandro, Jeremy Campbell, Debbie Carone, David Clokey, Laura Cruickshank, Nathan Fuerst, Gail Garber, Nicole Gelston, Jeffrey Geoghegan, Lynn Hallarin, Susan Herbst, Michael Jednak, Scott Jordan, Michael Kirk, Joann Lombardo, Mona Lucas, Redenka Maric, Stephanie Reitz, Rachel Rubin, Kelly Wihbey, Kristin Wirtanen, and Reka Wrynn

SENATE

REPRESENTATIVE: Shayla Nunnally

Committee Chairman Andy Bessette convened a special meeting of the Financial Affairs Committee at 9:05 a.m. in the Lewis B. Rome Commons Ballroom on the University of Connecticut campus in Storrs, Connecticut.

Scott Jordan, Executive Vice President for Administration and Chief Financial Officer, presented agenda ***Item #1, FY19 Draft Budget Overview***. He directed the committee to a PowerPoint presentation detailing the FY19 operating budget proposal for the Storrs based programs and UConn Health. The presentation included an overview of the state of the University, the FY19 operating budget, budget risks and the capital budget plan. The Trustees will be asked to adopt operating and capital budgets at the June 27, 2018 Board of Trustees meeting.

Mr. Jordan explained that UConn's budget supports the growth and excellence of the University's academic mission. As the State's flagship university ranked #18 in the nation, the university produces a solid return on the State's \$585 million investment by contributing \$3.4 billion annually to its \$260 billion economy, employing 1 out of every 90 jobs in the State. With steady State support, UConn can improve on this return by attracting internationally renowned faculty to produce cutting-edge research and teach the brightest students.

He detailed the consequences of declining state support; rising fringe benefit costs and their impact on students including increased tuition and fees; increased class sizes; decreased class offerings which often result in longer times to graduation. Student service cuts including fewer academic advisors, mental health counseling, and other support services. Reductions in state support affect faculty and staff retention resulting in difficulties attracting the best faculty, which then impact research grants and industry partnerships. UConn administrators support more students

than many of our peers in Top 30 public universities and support more faculty than all but two of our peers, making UConn the leanest of the top 30 public universities.

Mr. Jordan stated that the State had not cut the University allocation as deeply as anticipated and the state budget included some funds for collective bargaining increases this year. Earlier this year the SEBAC agreement was negotiated which included a series of benefit cuts and pay raises as well as a no lay off clause that extends through FY20. In FY19 every state employee will receive a flat \$2,000 one-time payment. This equates to approximately \$20 million across the University and UConn Health. In FY20 and FY21 there is a 5.5% pay raise each year for unionized employees. UConn is over 90% unionized. While FY19 is balanced, he stated that the University faces upcoming pay raises in FY20 and FY21 with a no layoff provision leaving the University minimal control over the size of it's workforce.

FY18 is projected to end in balance, and the FY19 combined budget for UConn and UConn Health is a \$2.4 billion balanced budget. The FY19 budget relies more on tuition than any other revenue source at nearly 31%, greater than state support of 25%. UConn seeks stability of the current State block grant allotment level, which is approaching a 20-year low point. As State support declines, the university must rely more on tuition revenue, which is achieved through more students, flexibility in residency mix, and higher rates.

Fringe benefit costs continue to grow, accounting for over 20% of the University's operating budget. As fringe costs of the total budget rises, students pay more for fringe expenses and less for student service expenses. While the FY19 proposed budget is balanced, substantial deficits are projected for FY20-FY21, driven by collective bargaining and fringe benefit costs.

Mr. Jordan detailed some of the deficit mitigation strategies the Trustees may be requested to consider including revisiting the Tuition Plan, and possibly raising tuition in 2021 or earlier. This may impact affordability; increasing enrollment, which will bring more tuition, but may increase class size, faculty to student ratio, reduce average SAT score, and affect ranking; requiring students to live on-campus, which may turn some students away; staff hiring freeze, which may affect staff retention and have deleterious effects on research, teaching and academic performance; and possible restructure of departments for savings, which may lead to the loss of our best faculty and/or staff.

Trustee Nayden voiced his concerns about the SEBAC agreement made by the State, and its impact on the university. He requested that the State be shown exactly how the choices made at the State level are effecting the University's budget. Trustee Bessette requested additional documentation addressing these issues that can be shared with legislators as a united message of the financial challenges facing the university in the coming fiscal years. Trustee Bunnell stated that he meets with legislators frequently and he would welcome having the data available. He stated that with the financial difficulties the University faces it may be necessary to review what academic programs the University can continue to afford to offer. President Herbst suggested that a review and update of the Academic Plan may be appropriate. Trustee Nayden suggested reviewing the McKinsey study, which completed a number of years ago as an institutional financial assessment, which provided financial savings recommendations for the University. Mr. Jordan briefed the

committee on the implemented McKinsey recommendations, and those that the University was unable to implement.

Mr. Jordan introduced Dr. Andy Agwunobi, Executive Vice President for Health Affairs and Chief Executive Officer of UConn Health, Jeffrey Geoghegan, Chief Financial Officer for UConn Health, to review the FY19 operating budget for UConn Health, presented as a balanced budget. Mr. Geoghegan presented the proposed spending plan. He explained that debt service was used to balance the budget as well as outstanding building payments with the balance being what is available to spend on deferred maintenance and the capital program. The UConn BioScience dollars ended FY18 and there is still a small pool of funds from the University for the HealthOne completion. Thanks to the generous support of the State through BioScience CT, many of the clinical and lab space renovations have been completed. Funds are needed to maintain and upgrade facilities. A Master Plan is in development. Trustee Bessette inquired if the financial challenges of the SEBAC agreement also effect UConn Health and Mr. Geoghegan affirmed that they do. Dr. Agwunobi added that despite many of the financial difficulties UConn Health has faced, the next two years are expected to be the most difficult.

In FY19 revenue by category, patient care, at 51.4%, is the largest source of revenue and the second largest revenue source is State support at 22.8%. All of the funds in the block grant are utilized to pay salaries. A number of initiatives were described to increase revenue including the potential of a public private partnership. There is an anticipated \$40 million gap to balance next year's budget with an additional increase the following year. Salaries and fringe benefits are the largest expenditures facing UConn Health. This is managed through attrition. There is a large fringe differential between payments from the State versus the actual difference between UConn Health and Connecticut Hospital Association fringe rates (FY19 \$13.5 million versus \$57.4M equals \$43.9 million of unfunded differential.)

Mr. Jordan detailed the proposed capital budget. He stated that the State has been very generous in providing capital funds to the University. In October 2017, the State approved a revised bonding schedule, which deferred funding to future years. In FY19, \$200 million will fund year 5 of the 13-year NextGenCT capital program. Spending will include \$187 million for Next Generation Connecticut and \$13 million for the UConn Health electronic medical record system. UConn funds of \$35 million and \$125 million in UConn revenue bonds for the new Rec Center, infrastructure and Athletic stadia round out the total \$360 million for the capital budget. Authorized bond funds of \$937 million remain in FY20-FY27 for projects that are already under construction or are in planning/design. UConn has delayed, re-scoped and cancelled multiple projects in the capital plan because of the bond fund deferrals. Mr. Jordan reviewed major building openings in FY18 and major capital projects in construction.

Committee Chairman Bessette thanked Mr. Jordan and Dr. Agwunobi and their staffs for all their hard work in developing the budgets. Trustee Nayden suggested that the budget be shown as it is with a deficit, then list the actions needed to balance the budget. He stressed the importance of showing the steps taken to manage the University budget within the financial constraints that it faces. Mr. Jordan agreed to provide that information in the presentation for FY19, FY20, and FY21. Shayla Nunnally, University Senate Representative, reiterated points previously made to the committee, regarding the balance of human resources at the university and its effect on morale and

productivity. In addition, she emphasized the work and effect the University has on the state as an institution and not to simply be fiscally lean but also remember the mission of the University to the State in the process.

There being no additional agenda items the meeting was adjourned on a motion by Trustee Carbray and seconded by Trustee Rubin at 10:27 a.m.

Respectfully submitted,

Debbie L. Carone

Debbie L. Carone,
Secretary to the Committee