

**MINUTES**  
**SPECIAL MEETING OF THE FINANCIAL AFFAIRS COMMITTEE**

University of Connecticut  
Wilbur Cross Building  
North Reading Room (Room 109)  
233 Glenbrook Road  
Storrs, Connecticut  
June 11, 2019, 9:00 a.m.

TRUSTEES PRESENT: Andy Bessette, Shari Cantor, Richard Carbray, Marilda Gandara (*via Telephone*), Kevin O'Connor (*via Telephone*), Thomas Ritter, Philip Rubin and Nandan Tumu (*via Telephone*)

STAFF PRESENT: Andy Agwunobi, Lloyd Blanchard, Jeremy Campbell, Debbie Carone, Laura Cruickshank, John Elliott, Michael Enright, Gail Garber, Nicole Gelston, Jeffrey Geoghegan, Susan Herbst (*via Telephone*), Michael Jednak, Scott Jordan, Michael Kirk, Andrea Keilty, Joann Lombardo, Stephanie Reitz, Rachel Rubin, Kelly Wihbey, Kristin Wirtanen, and Reka Wrynn

UNIVERSITY SENATE MEMBERS PRESENT:  
Rajeev Bansal

Committee Chairman Andy Bessette convened a special meeting of the Financial Affairs Committee at 9:07 a.m. in the North Reading Room of the Wilbur Cross Building on the University of Connecticut campus in Storrs, Connecticut.

President Susan Herbst welcomed the Trustees to the meeting and thanked Governor Lamont for the budget and his continued interest and support for the University. She stated that the University is indebted and grateful to the Legislature for providing both capital and operating funds for the University. She stated there are some major projects in the works including the new science complex, as well as continued attention to deferred maintenance for all campuses including UConn Health. She thanked all the staff involved in preparing the budget and stated that if not for the fringe challenge the University would be doing far better. Continued attention is being paid to fund raising, grant acquisition and efficiencies to be a competitive institution.

Chairman Ritter reiterated President Herbst's comments thanking the Trustees and staff for the work to bring the budget to completion. He recommended that the meeting be utilized to work through issues and answer questions so that the final budget may be reviewed and approved by the full Board on June 26. Trustee Bessette agreed and thanked both the President and the Chairman for their comments and support and the staff for their hard work on the budget. He thanked the Governor and Legislators for their continued support for the University.

Scott Jordan, Executive Vice President for Administration and Chief Financial Officer, introduced agenda *Item #1, FY20 Draft Budget Overview*. He directed the Trustees to a PowerPoint presentation and stated that the University's core business functions are sound and fiscally healthy. University enrollment has expanded over the last few years and is capped. Patient and clinical revenue is growing. State support has been fairly level; and State support for Capital Program debt service has increased over the last several years. The University's partnership with the State remains strong.

Mr. Jordan detailed the challenges the unfunded pension liability places on the University for both Storrs based programs and UConn Health. The State passes these costs onto the University through the fringe rate, which is a percentage rate that is charged against salaries. This makes the University not competitive on the fringe rate. He noted that the Legislature acknowledged that this is an issue and provided for a one-time addition of \$33.2 million in State support to cover the unfunded liabilities at UConn Health. This has improved the original UConn Health projected FY20 cash shortfall of \$40.3 million, which has dropped to \$7.1 million. The State is a strong and generous partner to UConn.

The State block grant is for University employee salaries, but only covers 47% of all employees. The remaining 53% of employee salaries are funded by non-State revenue sources including tuition and fees, auxiliary enterprises, research, grants and contracts, Foundation, and sales and services.

The FY20 combined budget, before unfunded fringe costs, show a gain of \$15.2 million. After adding fringe costs the total loss is \$26.7 million. The budgets presented show a structural deficit for the Storrs and Regional campuses of \$19.6 million and a \$7.1 million deficit at UConn Health. The FY20 deficits will be managed through prior year fund balances, cost cutting and attrition. The administration will provide regular reports to the Trustees on the budget balance progress.

Dr. Andy Agwunobi, Executive Vice President for Health Affairs and Chief Executive Officer of UConn Health, provided a financial overview of UConn Health including key drivers of the FY20 budget deficit. Structural gaps have historically been addressed with financial improvement plans. Increases in the unfunded pension liabilities have been managed in the past; however, the increases in the portion of the unfunded liability that the University is responsible for over time is unsustainable. With a lot of work and help from the Governor's office, key legislators and OPM, UConn Health was allocated \$33 million in the FY20 budget to offset the unfunded pension liability responsibility. For FY20 UConn Health began with a \$50.9 million loss, minus the \$33 million allocation from the State for the unfunded pension liability, bringing the deficit to \$17.9 million. It is anticipated that some of that gap will be bridged with a reduction in capital spending of \$10.6 million, leaving a deficit of \$7.1 million, which will be managed through a financial improvement plan. Dr. Agwunobi stated that periodic financial updates regarding the financial improvement to address the \$7.1 million gap will be presented to the Board of Directors and the Board of Trustees throughout the year.

Jeffrey Geoghegan, Chief Financial Officer for UConn Health, provided an overview of the FY20 operating budget and spending plan for UConn Health (UCH); as well as detailing cash flow,

which includes transfer for capital/debt service, principal payment on debt and capital equipment/projects. FY20 will be the first year without State bond funds, leaving UCH to utilize operating funds for any deferred maintenance and capital needs. The investment of the State through BioScience CT and the clinical enterprise to increase in net patient revenue has paid off. The business operations and investments made are outpacing original estimates for BioScience. Dr. Agwunobi expressed his concerns regarding the financial challenges facing UCH in FY21 as the unfunded pension liability continues to increase. The state is aware of the concern.

Mr. Jordan detailed the proposed FY20 operating budget for Storrs and regional campuses including the State block grant which is level; increasing fringe benefit costs; increasing tuition and fee revenue; salary and SEBAC wage increases; increasing financial aid; increasing debt service and capital projects. If not for the unfunded pension liability, the University's would be fiscally healthy. The operating budget lapse is \$19.6 million; which, will be managed through attrition and auxiliary account fund balances resulting in a balanced budget.

The University has balanced the budget in past years; however, department rescissions are cutting deeply into core operations, affecting productivity. Over the last four years, academic and administrative areas were cut approximately \$83 million. Mr. Jordan reviewed the revenue for the FY20 budget and stated that the University relies more on tuition than any other revenue source at nearly 31%, greater than state support at 26%. He directed the Trustees to a slide depicting historical revenue trends, which showed that every \$10 million reduction in the State block grant has led to \$3 million in tuition revenue increases; a 30% pass-through rate to students.

Mr. Jordan reviewed FY20 revenues by category. Auxiliary enterprise revenue, includes housing and dining rates that are in the third year of a 3-year rate plan. A review of FY20 expenses reveals that salary and fringe benefit costs are growing at a significant pace and account for over 57% of the University's operating budget. The current tuition plan ends in FY20. Without a tuition increase plan through FY24, the revenues cannot keep pace with rising expenditures, assuming the State only covers their portion of CBI's.

The proposed capital budget was reviewed. The State has been extremely generous in providing capital funds to the University. 93% of the \$250 million capital budget will provide funding for active construction projects, with the remaining 7% dedicated to project planning and design.

Mr. Jordan reiterated that the deficit is a reflection of the large fringe benefit cost at the State level and the University acknowledges that the State is a partner in trying to resolve the problem. The fringe costs are not the fault of either State or University leadership, but have accumulated over generations. The State's appropriation to UCH to help manage this problem will help keep the facility competitive. The University looks forward to continue working with State leadership and the Legislature on managing this effort.

Committee Chairman Bessette thanked Mr. Jordan and Dr. Agwunobi and their staffs for their hard work to develop the budgets and presentation. On a motion by Trustee Bessette and seconded by Trustee Rubin the committee recommended the FY20 Operating Budgets for Storrs

based programs and UConn Health, as well as the Capital Budget as presented, to the full board for review and approval.

There being no additional agenda items the meeting was adjourned on a motion by Trustee Carbray and seconded by Trustee Rubin at 10:48 a.m.

Respectfully submitted,

*Debbie L. Carone*

Debbie L. Carone,  
Secretary to the Committee