

## Appropriations Committee Testimony

President Susan Herbst

University of Connecticut

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Co-Chairs, Ranking Members, and members of the Committee, thank you for inviting us here, and for all of your support of the University of Connecticut.

With me today is Provost Mun Choi and Executive Vice-President for Health Affairs & Dean of the School of Medicine, Frank Torti. I will be speaking first today about the Storrs and Regional Campuses and then turn my focus to our Health Center.

Before I discuss how we will manage through these very difficult budgetary times, I would like to share some positive information about the University and the dividends taxpayers are receiving from your generous investments.

The General Assembly's investments in UConn are the reason we are a top choice for Connecticut's high achieving students and ranked 19th among public research universities in the nation by U.S. News.

Nothing speaks more loudly about the success of an institution than student demand. While enrollments at the other private and public universities and colleges are on a downward trajectory, mirroring state and regional demographic trends, the opposite has been true at UConn.

Due to our tremendous value and the excitement over your investments, 444 more freshmen enrolled in Storrs and Regional campuses this year (a 10% increase). Additionally, total freshman applications across all campuses for fall 2014 have reached 31,516, a 10.4 percent increase over last year's number and the applicants are more diverse and more qualified than ever.

A great deal of this student demand can be attributed to excitement generated by *Next Generation Connecticut*, but also to our incredible value, or the intersection between quality and cost, to our students and their parents. We are pleased to report that for the 2013-2014 academic year, Kiplinger's ranked UConn the 25<sup>th</sup> best value for in-state tuition among the top 100 public colleges.

This is a good moment to underscore the fact that UCONN is a comprehensive research university. We cannot do everything or do everything well; few universities can. But I want to assure you that while the NextGen is the most recent large investment, we use our operating funds – and your investments past such as UCONN 2000 -- to build everything else as well, from drama to the School of Business and social work, to my own department of political science. Liberal arts are at our core and they will always be.

We teach students to think and to write, and there is no substitute for the humanities and the social sciences in this regard. It's not all about STEM and it never has been, despite some of the distortions I've heard.

I may be the only research university president in the nation to come to you today, in fact, brag about of Department of Philosophy, but let me do so. This is now a world class department, stealing great senior faculty from University of North Carolina, Temple University and the University of Virginia.

Not the only department that is luring top faculty: We have hired tenured professors across this university from the University of Maryland, Johns Hopkins, Princeton, Miami, Penn State, Duke, and so many other

places that *are now our peers*. You should be so incredibly proud of this! You made it possible, and it's why I came: to build not just an okay state university. But to build a top-ranked research university that profoundly changes the disciplines, enables students to follow their dreams, and solves the biggest challenges this nation has: climate change, economic downturns, poverty, energy, and of course health care and disease.

Design will be completed for the first building of the Storrs Tech Park in fall of 2014 and construction will begin next winter. Your investments have already leveraged private gifts totaling more than \$35 million from General Electric, Pratt & Whitney and United Technologies Corporation, and other corporate and non-profit partners with more gifts are on the horizon.

In terms of *Next Generation Connecticut*, while the operating and capital funding from the State does not begin until FY15, we have nevertheless been very busy getting ready. Our academic plan, something all great universities re-visit every few years, will be completed this spring and the master plan processes is underway and scheduled to be completed in 2015.

### FY14 Budget

The FY14 budget has been challenging for the University. As you may remember, the University intends to use \$30.9 million from one-time funds to balance the Storrs & Regional campuses budget. This is a structural deficit resulting from the understandable reduction in our state appropriation of approximately \$32 million since the global recession in 2008, and rising fringe benefit costs (over which the University has no control and cannot predict). In the last three years, for example, the state-mandated fringe benefit rate for employees in the SERS defined benefit system has increased more than 38% creating a budget shortfall at the University of \$9.6 million in FY14 alone.

### FY15 Budget

We are grateful to Governor Malloy for including \$15 million in the University's FY15 appropriation for the first year of *Next Generation Connecticut* funding – the same funding level the General Assembly approved last session.

*Next Generation Connecticut* will expand critical STEM activities at UConn and drive innovation, enhancing job creation and economic growth. With targeted strategic investments in facilities, faculty and students, UConn will be an increasingly vital STEM institution, fueling Connecticut's economy with new technologies, highly skilled graduates, new companies, patents, licenses, and high-wage STEM jobs. FY15 funding will allow us to hire 38 new faculty and provide 75 scholarships to attract top science, technology, engineering and math (STEM) students to UConn. In fact, in anticipation of FY15 funding, we are pleased to report that offers of employment have been made to 38 faculty who will join UConn in August, and scholarship offers to students are being made in the next few weeks.

If fully funded over the 10-year period, *Next Generation Connecticut* will enable our state to compete effectively in the global marketplace, revive innovation, create jobs and provide a workforce that is prepared for the future. I believe that Connecticut is a great enough state to have a top research university that leads scientific discovery and job creation. This year's funding gets us closer to that goal.

It is important to note that even with this additional funding, the University will still be wrestling with some difficult budgetary decisions. Since the *Next Generation Connecticut* operating budget is earmarked for new faculty and scholarships to meet the goals of the program, the University will still have to address its structural deficit. This will mean shared sacrifice and challenge us to do more with less. We will continue to work with our Board of Trustees to look at all areas to achieve savings and bring our budget into balance while protecting our core academic mission.

None of this will be easy, but we will do our best to continue to provide the best academic and student services possible.

### Health Center

As the state's only public academic medical center, we serve Connecticut through excellence in education, research, patient care and outreach to prevent disease and improve health and health care across the state. We are the state's primary source of new physicians and dentists; a key provider of vital health services to some of our most vulnerable citizens; and an engine of economic growth generating nearly \$1 billion in Gross State Product each year. We touch every corner of CT.

### Bioscience Connecticut

The UConn Health Center is in the midst of its most significant transformation since it was first chartered in 1961. Through the Governor's and General Assembly's generous support of Bioscience CT, we are building and improving facilities to better meet the needs of patients and an expanded number of learners—future doctors, dentists, scientists and other health care professionals. Construction has employed more than 1,650 people; CT companies have been awarded 78% of our 134 construction contracts; and we have significantly exceeded state requirements for small and minority, women's and disadvantaged businesses participation.

All of our construction projects are on-time and on-budget. We have torn down buildings to make way for the Jackson Laboratory, constructed two parking garages for patients and employees and are looking forward to opening our new Outpatient Pavilion in less than a year followed by the new hospital tower in early 2016.

Bioscience CT is also enabling us to bring world-class clinician scientists and researchers to the Health Center. Our exceptional faculty-old and new- have defied national trends of declining research funding by growing research awards to the Health Center by more than 17% compared to the prior year.

In the last six months alone, our faculty has received \$54.5 million in new research awards, to include a \$3.2 million joint award with our colleagues at Jackson Laboratory. In addition, we have submitted a number of proposals with Jax that could lead to another \$2.3 million in research funding. These outstanding achievements exemplify how the Health Center can contribute to the Governor's and legislature's goals of long term, sustainable economic growth through bioscience research, innovation, entrepreneurship and commercialization.

The initiative also supports the expansion of our Medical and Dental school classes which began this year and will ramp up even faster once the facilities to support more students and faculty recruitment are completed. We have also begun a comprehensive reform of our curriculum to train doctors, dentists and health care professionals for the dynamic future of health care.

### FY14 and FY15 Budget

Despite all this positive news, the UConn Health Center has financial challenges. Our financial health is a major driver of our ability to meet our goals of excellence in research, education and clinical care. The State has stepped up and funded the Health Center over the years and for that support we are grateful. But, as we look at that support adjusted to inflation, funding has been flat for over a decade, and during these tough economic times we have sustained reductions in patient care reimbursement and reductions in our state appropriated block grant (a total of \$15m since FY13). We receive only 23% of our revenue from the State of Connecticut; 77% comes from other revenue sources with nearly 43% coming from patient care.

While many health systems have further limited the care they provide to uninsured patients and those covered by Medicaid, as part of our public mission, we are delivering care to an increasing percentage of this

population. From fiscal year 2012 to fiscal year 2013, UMG's percent of Medicaid encounters grew from 17.5% to 19.2% of total encounters for the practice.

If Medicaid payments were set at Medicare rates, this would have increased \$3.4 million to our bottom line. UCHC Dental Clinics also continue to serve the Medicaid population with over 68% of total visits attributable to Medicaid. Hospital stays covered by Medicaid have also grown from 23.1% in fiscal year 2012 to 25.7% in fiscal year 2013. Care of Medicaid patients in our hospital resulted in a \$8.5 million loss to the Health Center in FY13.

The impact of declining revenues is compounded by increasing expenses, many of which are beyond our control. Approximately 57% of the Health Center's expenses are salaries and benefits. State-mandated salary and fringe benefit increases resulted in additional expenses of \$26.6 million in FY14. We have also seen a sharp rise in our fringe benefit rate as eligible employees have either initially opted for or transferred from the alternate retirement plan to the state employees' retirement plan—a difference of 43.5% in the benefit rate that we (and all higher education institutions) must pay.

In FY14, the Health Center anticipates an \$11 million deficit that will be funded with cuts to our capital spending; this is a short-term fix. Ongoing pressures on our operating and capital dollars cannot easily be resolved without consequences to the quality of our educational, clinical and research programs. To meet the challenges we have initiated a number of initiatives as outlined in the next section.

To maintain a forward trajectory and fully realize the vision championed by Governor Malloy and supported by the General Assembly through the creation of Bioscience Connecticut, we ask that you maintain our state funding at \$135.9 million—the level you approved last session and that the Governor has included in his FY15 mid-term adjustments.

### The NEW UCONN Health Center—UCONN Health

As we look to the future, we have developed a three-pronged approach that will get us to where we want to be and where we must be.

First, we continue to improve performance in all operating units of the Health Center. Last year we realized cost reductions and revenue enhancements totaling \$8million that assisted us in reducing the shortfall for the year. Additional savings and revenue enhancements must be achieved, so we have contracted with an outside performance improvement firm, the Berkley Research Group, who has a team on the ground to work closely with all of our faculty and staff to find and implement efficiencies throughout the Health Center and enhance revenues.

Second, to be financially viable, especially in this new healthcare landscape, we must demonstrate improvements in health care delivery and strengthen our clinical volumes through targeted growth. These efforts will not only improve our bottom line, but will support our academic missions of research and teaching—as we better cover our fixed costs, we can reinvest in ourselves. To achieve this goal we have focused on quality and safety. Our clinical outcomes in many areas lead the state and the nation. For example, time from the “door to doctor” in our emergency department over the last year has been 19 minutes on average. Our door to balloon time which measures the time between a heart attack patient's arrival at the hospital to the time he/she receives an intervention is 48 minutes; the state average is 58 minutes. Patient satisfaction and easy access to the medical center and its health professionals is a top priority.

Third, through new communications strategies, we are letting patients, referring physicians, industry and private donors know about the extraordinary improvements that are happening at the Health Center.

The state's investments in us are already delivering jobs and better health care for all the citizens of the state. The value of a great public academic medical center to the state cannot be overestimated.

Please know we remain appreciative of the Governor's and General Assembly's support and the University and its Health Center will continue to be a full partner in assisting the State in addressing its fiscal crisis.

We hope this provides an overview of our major priorities for this year and the budget situation we are facing. As always, thank you for your continued support of the University of Connecticut.

I would now like to ask our Provost Mun Choi to give you a quick update on some other pertinent areas. After that, we would be happy to answer any questions.