

Testimony
Appropriations Committee
President Michael J. Hogan
University of Connecticut
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Senator Harp, Representative Geragosian, Vice Chairs, Ranking Members, and Members:

I want to thank you for inviting me here today to discuss the proposed biennial appropriation to the University of Connecticut. We all are aware that the financial environment that existed when I testified just a year ago has changed profoundly. National economies expand and contract over time, as we all know, but not many people anticipated the rapid and sharp contraction of the past 12 months.

Before I discuss how the University of Connecticut at Storrs and our regional campuses will manage through these challenging times, I want to share some positive information. Evaluating UConn by any objective metric, one would have to conclude that the University is thriving.

We have enrolled more well-prepared and diverse students than at any time in our history. Competition for admission drove our average SAT score over the 1200 mark for the first time in our history and more than 20% of our freshman class members are from minority groups. Record numbers of highly qualified applicants rightly recognize that our excellent academic offerings, the quality of our campus life, and our cost of attendance make UConn a very competitive value. For example, while UConn is the highest-ranked university in New England, our resident tuition and fees are below the average and below the median in our regional peer group. And, if a Connecticut student chose to go to any of the other nine public flagship universities in this group, they would have to pay a minimum of \$10k more per year.

Also, students who choose to attend UConn are more likely to be retained and more likely to graduate. Our freshman-to-sophomore retention rate is an extremely high 93% and our average time-to-degree is about 4.5 years. These are among the highest and best rates in the nation. And remember, it's the 5th, 6th, 7th year of college that really adds to the cost

These successes, not to mention the ones on the research side, are in no small part due to the generous support of the General Assembly, and its unswerving commitment to excellence in public higher education. We appreciate your leadership and are gratified by the trust you've placed in us to educate and nurture the next generation of Connecticut's leaders.

Now, maintaining this record of success will be difficult going forward. It takes decades to build a world-class university, but only a year or two to bring it down.

Recognizing the challenging times we are in, the University has taken significant actions to reduce expenses, as any responsible unit of state government should do. As a result of the rescissions mandated by the Governor, UConn has reduced its current 2009 budget by over \$12 million. We absorbed this reduction during a period of unprecedented demand for courses caused by a record Fall 2008 freshman class that enrolled 425 more students than the previous year's class.

The over \$12 million in reductions were extremely difficult to execute due to their magnitude, timing, the University's commitment to provide the highest quality academic experience to our students, and our commitment to provide financial aid that is in excess of statutory requirements. Nevertheless, due to the creativity and hard work of the Provost and the leadership of our schools

and colleges, we were successful in managing these reductions, without compromising quality, accessibility, or jobs.

As the economic crisis worsened over the last several months, we spent almost every day, literally, thinking about how to manage a rescission that could be as high as 10% of our state appropriation in FY10. Believe me when I say that we are very grateful to Governor Rell for recognizing the importance of shielding UConn, to the extent she felt possible, and setting our rescission in her proposed budget plan at 5%.

Yet 5% is not trivial and I'd like to take some time to explain how we can mitigate the debilitating effects that such a rescission might have on the University and its students. Let me start by contextualizing the proposed reduction.

The Governor's proposed rescission for the University amounts to \$21.2 million and \$37.7 million in the next two fiscal years. Together with our projected increase in operating costs, this creates a deficit in the University budget of 9% or \$34 million in FY10, and 13% or \$50 million in FY11. Make no mistake these are deep cuts.

The University administration anticipated additional reductions in state support and began taking action even before the proposed rescissions were announced. Last fall, I established a task force comprised of faculty, staff, and administrators to look both at expense reductions and revenue enhancements. In just 12 weeks, this group has already identified \$7 million in permanent cost reductions and incremental revenues that will be fully implemented during FY10. The task force has been so effective, that I have asked that it continue its work indefinitely and look for additional savings and revenue opportunities.

At the same time, we modeled various scenarios of tuition increases, unit budget reductions, program curtailments, and wage concessions in an attempt to close the gap. All of the scenarios will require sacrifice across all University constituencies and may not be achievable without compromising our academic offerings.

We do have alternative revenue streams to which we can turn, including tuition. But even there, our options are limited. On the one hand, it would take a 13.5% increase in tuition, plus \$7M in savings to close a budget gap of this size. An increase of this size in a single year might protect our educational quality, but at a price in access for students that is greater than we want to take. Failing to look to tuition and to increase it at an appropriate level that still protects access would be devastating to the University, its students, and the state over both the short and long run.

On the other hand, a tuition freeze for even one year would reduce the amount of financial aid and it would result in a loss of revenue that would have to be made up by tuition increases in the 10% to 20% range in future years.

Even a projected tuition increase of approximately 6.0% frozen for one year would permanently reduce revenue by approximately \$12.4 million and financial aid by \$3.2 million, if no adjustments were made to future tuition increases. To recoup these funds over a five-year period would require increases of 2.3% per year, added to a normal increase of 6%.

Clearly, when it comes to tuition, we are going to have to find a middle ground – one not so high as to prevent access, but not so low as to pass the burden of today's crisis, like our national debt, onto future generations.

If some suggest that we manage the current crisis without lifting the cap on tuition increases, others have urged that we do so without laying off some portion of our workforce. This suggestion is counter-intuitive, because 100% of our state appropriation is allocated to cover salaries at the University. So obviously, we have to face the possibility of workforce reductions, even if we keep our tuition increase in the normal range of 6%.

Wage concessions, however, are an area we are examining. We have communicated with the leadership of the collective bargaining units with whom we negotiate directly regarding the sacrifices the University must make to manage its budgetary challenges. They are very concerned and want to partner with UConn, but recognize that wage concessions are a viable way to help UConn only to the extent that the savings from such concessions are returned to the University and to the extent that the appropriation is not further reduced by an amount equivalent to any concessions.

If afforded flexibility in responsibly managing tuition and personnel policies, I am confident that we can make the needed sacrifices in a way that will balance protection of accessibility for students, jobs for our workforce, and the quality of our programs. In the absence of such flexibility, more drastic measures will be required.

For instance, many universities around the country are dealing with the fiscal crisis by limiting enrollment, in effect, downsizing the university to its budget. At UConn a reduction of the freshman class by 200 students in the fall semester, equally split between resident and non-resident students would save about \$1.9 million, with the vast amount of the savings attributable to the in-state students who would not be admitted. It's interesting to note that this savings approximates a 1% increase in tuition. That is, every 1% tuition increase we must forego may amount to denying admissions to 100 Connecticut students. This is not an alternative I believe is good for the state. Like tuition hikes at or above the current cap, it lacks balance and covers our debt at the expense of student access.

Besides further erosion of our student-teacher ratio, which is already too high, course offerings will have to become less frequent and class sizes will grow, both of which will extend the time-to-degree and actually add to the cost of the degree for students and their families. These contingencies are being mapped right now.

In addition, we are also prepared if necessary, to consider selling University assets; closing the Graduate School and distributing its services; curtailing weekend dining services; reducing our financial aid set-asides from 17% to the state-mandated level of 15%; and curtailing operating hours in our libraries, museums, recreational facilities, and performance venues.

These alternatives are not approached enthusiastically, but are options that may be needed to allow UConn to sustain and protect, to the extent possible, its core teaching and research missions, should we be limited in our ability to manage budget rescissions through a balanced approach.

That balanced approach is going to involve and has involved some difficult decisions. For instance, we will have cut \$19M from our budget by the end of FY10, through measures that do not require lay-offs, do not limit accessibility, and do not threaten program quality. About \$12M of the \$19M was already cut by leaving positions vacant, re-organizing staffing, and curtailing low-demand services and programs. Another \$7M is being realized through energy conservation, more effective workflow processes, reorganization of graduate student assistantships, generating revenues through an expanded summer session, and more effectively deploying indirect cost recoveries from sponsored research.

We are also looking for ways to save students and their families on the costs of attending UConn, by providing them with more options. For example, we will save junior and senior students living in our apartment housing over \$4,000 each year by creating more housing for them.

We will make \$100M in new scholarships available through the President's Challenge fund – a new scholarship program that has already raised over \$100K in just a few weeks.

We will continue to work with our collective bargaining units to engage them as partners in addressing our budget challenges in a manner that continues to deliver outstanding programs to students, while avoiding lay-offs, which only burden our state's economy more.

We recognize sacrifices are needed – sacrifices on all sides. Students and their parents will have to sacrifice, if they want to continue to enjoy the high quality of education that they currently enjoy at the University of Connecticut. Faculty, staff, and administrators will also have to make sacrifices by working with fewer resources, if they wish to avoid job losses. And all parties will have to work harder to focus the resources we have on the very highest priorities enumerated in the University's Academic Plan. Responsible stewardship of a multi-billion dollar asset is simply not feasible, if even one of these options is taken off the table.

In recent history, the State of Connecticut has invested close to two billion dollars in UConn's campuses. We must have the flexibility to protect this investment, which even now provides significant returns to the state. A recent study by state economist Stan McMillan shows that:

- In 2008, operations at UConn and its Health Center added \$2.3 billion to Connecticut's GDP in fiscal 2008;
- For every state dollar allocated to UConn, including the Health Center, \$5.05 is added to the state's GDP;
- As a result of these operations, the state realized \$76 million more in tax revenues than it spent to fund UConn and its Health Center;
- UConn generated more than 29,000 jobs and brought \$713.5 million to the state;
- Nearly 70% of UConn graduates stay in Connecticut, contributing to our workforce;
- UConn is the primary contributor to the state's talented professional workforce, graduating doctors, dentists, nurses, engineers, teachers, lawyers, pharmacists and scientists, who contribute daily to our economy.

The significant state investments in the University through UCONN 2000 and to our operating budget are paying high dividends; these investments have enabled tremendous enrollment growth of more than 6,000, including more highly prepared students and diverse students, as evidenced by the 87-point rise in SAT scores and 131% increase in freshmen from minority groups.

UConn's visible climb in excellence to its position as the top-ranked public university in New England and one of the top-25 public research universities in the U.S. is a result of the state's investment and this visibility has led to a near-tripling in private support, and a near-doubling of externally funded research.

The University's nationally renowned research in stem cells, fuel cells, and nanotechnology and our technology transfer programs foster innovation and create jobs. In the past decade alone, UConn faculty have been awarded more than 184 patents and over 18 companies have been created from faculty inventions. Furthermore, within 18 months of first receiving state funding, UConn stem cell researchers have recently created two new human embryonic stem cell lines.

This achievement places UConn among a handful of elite universities that have developed this capacity.

It's also important to note that UConn is more than the State's premier public university—it's a 24/7 operation, equivalent to a moderately sized municipality – we not only educate students, we feed them, house them, and ensure their safety. And, the University is also a regional hub providing an array of public services, including utilities and public safety, to neighboring communities who rely on UConn to improve the quality of life for thousands of Connecticut residents who are proud to call us neighbor.

In these difficult times, it becomes more important to find ways to strengthen the role that UConn plays in driving long-term economic growth.

In closing, I would like to return to my message of hope that public higher education brings to our community in this the worst economy in decades.

Investment in an educated citizenry in good economic times is desirable. Investment in difficult economic times is critical. Some have suggested that we are experiencing a global correction of markets and national economies that occur once a century. On this point I agree. We who teach, conduct research, and support public higher education have the responsibility to teach the next generation the skills to not only compete in what will be a new economic paradigm, but the creativity, curiosity, and perseverance to guarantee their success.

We respectfully request that you continue to allow us the kind of flexibility over financial and personnel matters that has brought us to the level of distinction we now enjoy and that will continue to protect our high quality programs and student access to them.

I would be happy to address any questions you may have before also discussing the budget proposal for the University of Connecticut Health Center.

Health Center

The proposed budget for the UConn Health Center (UCHC), if passed, puts us on a path for the closure of the John Dempsey Hospital (JDH) and the serious impairment, if not terminal blow, to the Schools of Medicine and Dental Medicine. The demise of these enterprises will, in turn, severely compromise healthcare services to Connecticut citizens, as well as the research enterprise at UCHC and vitality of all of UConn.

The Governor's proposed appropriation results in a shortfall of \$7 million in FY10 and \$12.5 million in FY11. In addition, the proposed budget fails to recognize \$13 million for FY10 and \$14 million for FY11 in the fringe benefit differential for the employees of JDH. You will recall for the first time in FY09, the General Assembly recognized this unique cost borne by JDH, and had \$3.6 million in the State Comptroller's fringe account allocated to help offset some of that cost.

The result of these cuts, along with the proposed elimination in the DSS budget of reimbursement for routine dental coverage for adults covered by Medicaid or SAGA (estimated at a projected loss for UCHC dental clinics of \$3 million), will be a forecasted deficit in F10 and FY11 of \$21 million and \$30 million. In the absence of additional financial support from the state, the paucity of cash will create a crisis long before the full deficits are incurred.

We suffer from the same maladies I described last year, a small hospital, with higher than market but contractual obligated fringe benefits, an exceptionally challenging payor/service mix, and a

rapidly deteriorating physical plant that was never sized as planned and is now functionally obsolete.

Additionally, the John Dempsey Hospital projects a \$16.8 million deficit in FY 2009 and will seek a deficiency appropriation during this legislative session. (The Governor has not recognized the UCHC deficiency in her budget proposal.)

The report from the Connecticut Academy of Science & Engineering (CASE) laid out options to reverse the downward spiral that currently grips the Dempsey hospital. The report recommended a partnership between UConn and one or more hospitals in the Greater Hartford area to create a regional healthcare system, which would enhance accessibility to UConn's state-of-the-art healthcare treatments and address alarming shortages in physicians and other healthcare professionals that are imminent in the near future, if we stay on the current course.

We embraced CASE's recommendation and we are currently finalizing an integration agreement with Hartford Health Care Corporation, which if implemented, will revolutionize healthcare and economic development in the Hartford region. It will:

- Add treatment capacity and services, as well as access to them;
- Increase the class size in the Schools of Medicine & Dental Medicine addressing forecasted physician and dentist shortages in the state;
- Launch our School of Medicine from a second-tier to first-tier program on the national scene
- Secure jobs in the healthcare sector for the region;
- Catalyze the development of a biomedical economic sector;
- Grow the tax-base in the Greater-Hartford region.

In its report to the General Assembly just over 2 weeks ago, CASE validated the progress that has been made on this partnership and fully endorsed the creation of a 1,100 bed academic medical center

Key to the final integration is approval by the state to cover the fringe benefit differential and a commitment to finance the construction of a replacement 250 bed hospital costing \$475 million over the next five to six years, with approximately \$28 million to be incurred over the biennium.

I firmly believe that this is one of those instances where leadership will overcome the fear of the present and be exchanged for a future of improved healthcare provided by an integrated hospital system that will fuel a robust academic and research enterprise.

Thank you for inviting me here and listening. I would be happy to take any questions you might have.