



University of Connecticut

TO: Members of the General Assembly
FROM: Susan Herbst
DATE: December 31, 2011
SUBJECT: Efficiencies and Cost Savings Report

Pursuant to section 56 of Public Act 11-06, I am writing to submit the attached report which identifies efficiencies and cost savings in the operations of the University of Connecticut and the University of Connecticut Health Center.

To address our budget deficits, UConn has made difficult decisions to reduce spending throughout the University while still doing all that we could to protect our academic core and our reason for being: research, service, clinical care and the outstanding education we provide our students.

The attached report contains my recommendations for achieving such efficiencies and cost savings, many of which have either been implemented or are underway.

As always, thank you for your continued support of the University of Connecticut. Please do not hesitate to contact me if you have any questions or require additional information.

Efficiencies and Cost Savings Report

Public Act No. 11-6

AN ACT CONCERNING THE BUDGET FOR THE BIENNIUM ENDING JUNE 30, 2013, AND OTHER PROVISIONS RELATING TO REVENUE.

Sec. 56. (*Effective from passage*) The President of The University of Connecticut shall identify efficiencies and cost savings in the operations of The University of Connecticut and The University of Connecticut Health Center. Not later than January 1, 2012, said president shall submit a report containing the president's recommendations for achieving such efficiencies and cost savings, including recommendations for any legislation, in accordance with the provisions of section 11-4a of the general statutes, to the joint standing committees of the General Assembly having cognizance of matters relating to higher education and appropriations and the budgets of state agencies.

University of Connecticut Storrs & Regional Campuses

The University has been a full partner in assisting the state in addressing its fiscal challenges. The University now receives just 28% of its budget from the state of Connecticut. The remaining 72% is raised primarily through research grants, tuition and fees and philanthropy. Between FY 2009 and FY 2011, the University absorbed state operating cuts of \$16.7 million and fund balance reductions of \$23 million for a total decrease of \$39.7 million during that timeframe.

In FY 2012, our fiscal challenges continue. Our state block grant of \$207.7 million (actual projected allotment) in FY 2012 is \$26.8 million less than our FY 2008 appropriation of \$234.5 million. Our FY 2012 level of funding reflects adjustments related to the SEBAC agreement. The state recouped savings associated with wage concessions for University employees funded from state appropriations and those funded through non-state sources like tuition, research grants and private donations. Historically the State has allowed public colleges and universities to retain a significant portion of the savings associated with wage freezes and early retirement programs recognizing that at least a third of our employees are funded by revenues generated by the University. This was not the case this fiscal year. For the first time ever, the reduction in the FY 2012 appropriation is more than the wage savings associated with our state general fund employees by \$10.0 million. This reduction includes information technology, employee healthcare and retirement savings.

In an effort to meet our budget shortfalls, we focused not only on reducing expenditures but also on identifying alternative fund sources for necessary expenditures.

- Due to the SEBAC agreement with the state, the University did not have to pay for the collective bargaining increases of non-general funded employees nor the October longevity payment for union employees.
- The University removed the funding for building renovations and equipment purchases from the operating budget. This action increases the already high demand for limited UCONN 2000 funds.
- The fund source for certain technology funding was changed to UCONN 2000 funds. This action reduced the availability of funds for other equipment purchases.
- The refill of vacant positions was further delayed which made more one-time funds available. Note that this action has the potential to increase the workload of existing employees.
- The transfers for annual debt payments were reduced. These payments will be funded through existing fund balances.
- Certain partially self-supporting areas were shifted off of University supported funds which emphasizes the need to become self-sufficient.
- For all areas of the University, savings and efficiencies were identified through the limited refill of vacant positions, procurement savings, and facilities efficiencies.
- In certain areas, University supported activities have been shifted to private fund sources. This places an increased emphasis on private fundraising.
- Funds attributed to research indirects were shifted to the University supported budget. This reduction will impact the amount of funds available for investment in research initiatives.
- An overhead rate to recover central administrative costs was instituted for the Division of Student Affairs. This action could result in less facility renewal and replacement support to keep infrastructure in sound operating condition.

However, there is more we can do to respond to the economic pressures, to ensure our long-term fiscal health and to continue to invest strategically in UConn's future. Entering into a permanent pattern of falling revenue, tight budgets and curtailed investment is simply not an option the University is willing to consider.

With that in mind, in late 2010 the University hired McKinsey & Company (McKinsey) through a competitive selection process and embarked on a Strategic Redesign Initiative – an exhaustive review of key areas of UConn's non-academic operations which would result in recommendations aimed at reducing costs, streamlining and improving processes and generating greater non-tuition revenue. This review applied only to the Storrs and regional campuses, not the Health Center, which has already completed a similar project.

The University secured the services of McKinsey to have an experienced external entity to help us take a hard, critical look at core services and find those services which can be improved. The primary purpose of the engagement was to show the University how its non-

academic operations could be improved, not to congratulate UConn on all that we do well. Significantly, the report notes that many of the issues that were encountered at UConn are common at large research universities. The report also states: “In many instances, UConn’s costs are in-line with peer universities” and that the goal of this effort was to move UConn’s operational efficiency “from ‘about average’ towards best-practice.”

The report’s recommendations are the first step, but equally important is taking action. To that end, the University has begun implementing a number of the McKinsey recommendations. While full implementation will be a multi-year process, it should be noted that the University will recover the entire cost of hiring McKinsey in the first year alone.

We should also point out the report’s acknowledgement that we must examine the public policy implications of implementing some of these recommendations as they may have an impact on potential savings.

Listed below are examples of some of the cost-saving measures currently underway and the administrators who have been charged with carrying out this work:

- **PROCUREMENT.** The initial implementation of the McKinsey recommendations started in early autumn 2011. Procurement teams were formed with faculty and non-faculty members serving as co-chairs. The goal of the teams was to find ways to centralize and standardize purchasing items such as office supplies, office furniture, janitorial supplies and other goods and services. Additional teams will be formed to review areas such as audio-visual equipment, information technology software and travel. The projected savings through standardization and consolidation in the first year (FY 2012) will be at least \$4 million. When all the procurement improvements are implemented by the end of FY 2016, savings in this area are projected to be in excess of \$20 million.
- **CENTRAL FACILITIES OPERATIONS.** The initial phase of implementing the McKinsey recommendations has recently begun. Over the next several months, the way in which Facilities staff are dispatched will be reorganized to better plan work; organizational structures will be changed; and the deployment of personnel will be adjusted, which will improve service delivery. The savings in the first year (FY 2012) are projected to be \$1 million. The University has an opportunity to save over \$6 million yearly when all the changes are implemented by the end of FY 2016.
- **CENTRAL INFORMATION TECHNOLOGY.** The University’s information technology structure is being centralized to include both University Information Technology Services (UITS) and IT functions within colleges, schools, departments and other units. As an initial step in this process, these two independent units have now been consolidated under the Provost’s direction. This has been done to streamline processes, reduce redundancies and to improve service to the University community. Several other changes are already underway including a merger of the separate Storrs-based e-mail

systems and consolidation of end-user services such as Help Desk functions. By the end of FY 2016 savings could be over \$4 million yearly.

- FINANCE, HUMAN RESOURCES AND GENERAL ADMINISTRATION. Implementing recommendations from McKinsey, in conjunction with the implementation of the new financial reporting system, will provide greater centralization in these areas, improve work-flow and reduce redundancies. It will also provide current budget information for all University academic and support units. Savings by the end of FY 2013 may exceed \$1 million and as much as \$7 million by the end of FY 2016.

Beyond the recommendations that have been implemented thus far or are currently underway, there are additional recommendations contained in the report which will require further review. These recommendations will continue to be studied to determine if they are appropriate and workable. It must also be noted that UConn is a public agency and must operate according to state laws and regulations as well as the collective bargaining contracts of its workforce, including the most recent SEBAC agreement with the state, when determining which recommendations are feasible or beneficial.

We are now continuing this work as we ensure that our operations have the effectiveness and efficiency needed to maximize the resources that can be used to advance our academic goals.

University of Connecticut Health Center

The University of Connecticut Health Center (Health Center) is the State of Connecticut's only public academic medical center. It is the State's primary source of new physicians and dentists, a key provider of vital health services to some of the most vulnerable citizens, and an engine of economic growth. Its mission as an "integrated academic medical center" is improving the health of Connecticut's people through the innovative integration of education, research, and clinical care. And through the recently enacted Bioscience Connecticut initiative, (PA 11-75), the Health Center will play a pivotal role in contributing to improving Connecticut's economy by creating construction-related jobs immediately and generating long term sustainable economic growth based on bioscience research, innovation, entrepreneurship and commercialization. The Health Center remains grateful to the Governor and the General Assembly for their investment and confidence. This investment will transform the Health Center campus, securing its viability and catapulting it into the future.

The Health Center receives just 21% of its budget from the state of Connecticut. The remaining 79% is raised primarily through clinical revenues, research grants, tuition and fees and philanthropy. Operating in an extremely competitive and rapidly changing environment, the Health Center must continually identify operational efficiencies, cost reductions and

revenue enhancements. Since 2000 and with guidance provided by PricewaterhouseCoopers (PwC), the Health Center has implemented more than \$100 million in operating expense reductions and revenue enhancements. Seeking cost reductions and revenue enhancements is part of the culture at the Health Center. The Health Center must be persistent in looking for ways to gain efficiencies while making prudent strategic investments and managing financial risk. This task, however, is increasingly challenging as the readily apparent efficiencies and cost savings have already been addressed.

In the current fiscal year, the Health Center’s appropriation was reduced by \$9.5 million from the amount received in FY11. (In FY11, the state appropriation to the Health Center was \$119.2 million, and in FY12 the appropriation is \$109.7 million). In order to address this significant reduction, the Health Center has implemented a Cost Reduction Plan that is estimated to achieve \$7.8 million in savings (the balance of the \$1.7 million reduction in the state appropriation will be achieved through revenue enhancement efforts). Reductions in services are guided by two overarching principles: 1.) preserving and advancing the quality of education provided by our medical and dental schools; and 2.) maintaining patient safety and providing quality care in our clinical operations. The Cost Reduction Plan includes elimination of vacant positions and reductions to various other expenses.

It is estimated that savings totaling \$7.8 million will be undertaken in the following areas:

Functional Area	Expense Decrease
Academic/Research	1,998,671
Administration*	885,916
Hospital	1,720,000
Malpractice insurance	1,000,000
Marketing	300,000
Public Safety	296,703
Student insurance	800,000
Faculty Practice (UConn Medical Group)	788,111
Grand Total	7,789,401

*Note: Administration includes Information Technology, Finance, Facilities Management

and Library

In addition, although the McKinsey engagement at Storrs did not focus on Health Center operations, it did provide some suggestions for cross-campus procurement collaboration with the goal of cost reduction and process improvement. It is estimated that the UCHC could achieve an additional \$2-4 million in savings over the next two to three fiscal years.

The Health Center along with Storrs, continues to pursue and deploy an energy cost reductions strategy in areas such as natural gas and reverse auction bidding of electricity in collaboration with the Office of Policy and Management.

Throughout the fiscal year, the Health Center will continue to explore all avenues available to find cost savings, implement efficiencies and enhance revenues throughout its operations.