

THE UNIVERSITY OF
ALABAMA SYSTEM

FISCAL YEAR
2011

OPERATING BUDGET
RECOMMENDATION

PRESENTED FOR ADOPTION BY THE
ELECTED BOARD OF TRUSTEES
SEPTEMBER 17, 2010

BOARD OF TRUSTEES:

THE HONORABLE BOB RILEY



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THE UNIVERSITY OF ALABAMA SYSTEM


THE UNIVERSITY OF ALABAMA · THE UNIVERSITY OF ALABAMA AT BIRMINGHAM · THE UNIVERSITY OF ALABAMA IN HUNTSVILLE

C. Ray Hayes, *Vice Chancellor for Financial Affairs*

September 10, 2010

TO: Elected Trustees

VIA: Chancellor Malcolm Portera

FROM: C. Ray Hayes 

Our proposed operating budget summaries for FY 2011 are enclosed. The proposed budgets are inclusive of the budget guidelines that you approved in June.

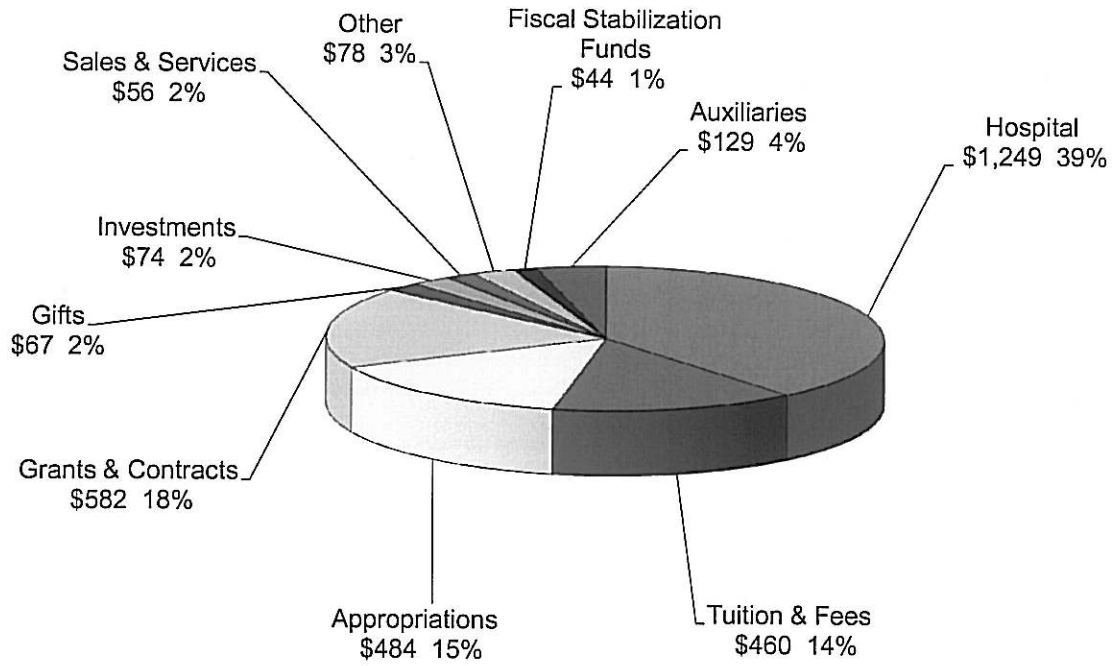
As we discussed in June, each campus and the Health System are budget planning for the long term. This will be the last year of American Recovery and Reinvestment Act (Stimulus) funding and our budgets reflect this fact. Each campus and the Health System are proposing modest raises for our faculty and staff, the first since FY 2007-2008.

The reporting format is the same as the previous three years. If you have any questions, please do not hesitate to contact me or the campus Chief Financial Officers.

Enclosure

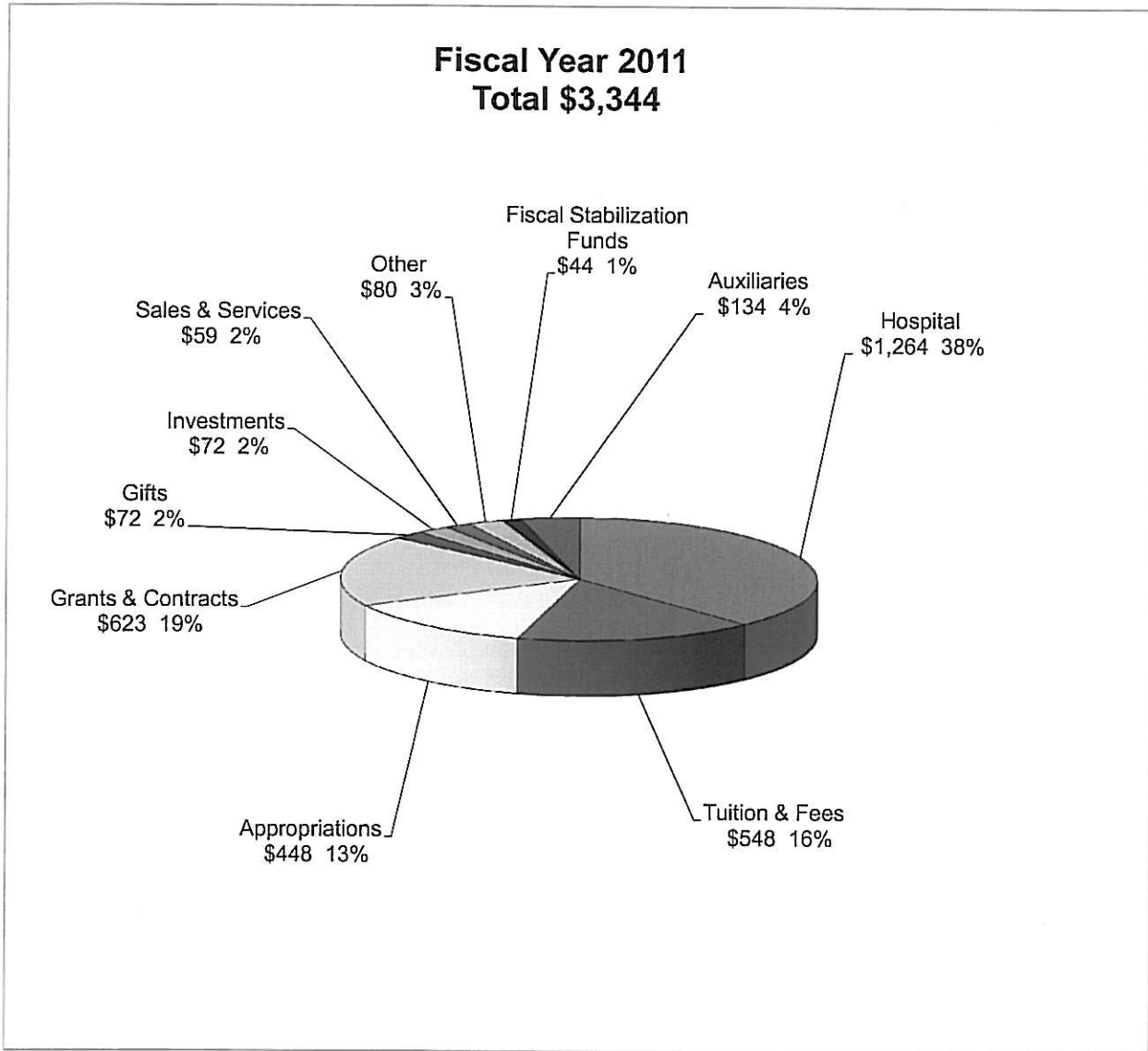
Total System Budgeted Revenues (Dollars in Millions)

Fiscal Year 2010
Total \$3,223



NOTE 1: Budgeted Revenues do not include the Health System or Health System Affiliates as these entity budgets are approved separately.
NOTE 2: FY 2010 State Appropriations of \$484 were prorated in early October 2009.

Total System Budgeted Revenues (Dollars in Millions)



NOTE: Budgeted Revenues do not include the Health System or Health System Affiliates as these entity budgets are approved separately.

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**The University of Alabama
Budget Proposal for Fiscal Year
Ending September 30, 2011**

The University of Alabama
Operating Budget Highlights
For the Year Ending September 30, 2011

Highlights

As The University of Alabama turns our vision for the future into reality, we are making a multi-year balanced investment in excellence. Our budget priorities ensure that we can continue to maintain our momentum by investing in our faculty, staff and students; in our academic programs, from Honors College to research initiatives; and in our facilities.

Again this fall, The University of Alabama attracted another outstanding and academically talented freshman class. For almost a decade, we have been ranked among the top 50 public universities in the nation and among the top 10 percent of all universities included in *U.S. News and World Report's* annual rankings.

Despite significant legislative budget cuts, UA has been able to continue operating proactively to avoid many of the consequences impacting Universities nationally. This has been accomplished through a long term strategy of cost containment and positioning to be the University of Choice for the best and brightest.

Since financial aid plays a critical role in our ability to attract the best and brightest, funding for need-based and merit-based financial aid will be higher this year. We will continue to make investments in our students as their families face the reality of this difficult economic downturn.

We continue to focus on upgrading and expanding our facilities to meet the needs of the growing student population. In the coming year, we will continue construction on the third building in the Science and Engineering complex and begin construction on the fourth building of the complex. The construction of the Nursing Building and the renovation of Adams Hall are complete adding valuable teaching and research capacity. Both the Lloyd Hall and Foster Auditorium renovations are preserving the nationally acclaimed historic quality of the University.

Construction on the North Bluff residential community complex has begun with an expected opening of the first residential hall scheduled for fall 2012. This project will upgrade the current housing stock to meet the needs of today's students.

The completion of the South End Zone of Bryant Denny Stadium has brought additional seating to the stadium as well as greater excitement to one of the nation's premier college sports programs.

And finally, The University continues to invest in its most important asset – faculty and staff through a merit salary program and funding for new positions in the critical areas that serve our growing student population.

Revenue Related

- The FY2010/2011 tuition budget represents an increase in tuition rates of 12.85% for in-state students and 6.77% for out-of-state students in addition to a projected enrollment increase of 400 students.
- State appropriations reflect level funding from the 2009/2010 prorated appropriations except for a \$75,000 increase earmarked for Special Outreach. The \$11.499 million proration included reductions of \$11.481 million in O&M and \$18,000 in Teacher In-Service funds.
- Grants and Contracts operating revenues reflect an overall increase of nearly 8%. \$180,000 is attributed to continued growth in federal financial aid grants (due to enrollment and tuition increases) combined with a \$5.4 million increase expected in other federal, state and nongovernmental awards.
- The 19% projected increase in non-operating revenue for Grants and Contracts is based on increased Pell grants awarded during FY2009/2010 due to continued enrollment growth and rate increases. The maximum rate for a full time student increased by \$200.00.
- The increase of 8% in sales and services of educational activities is due mainly to increased funding provided for Nursing Clinical Services—a program to serve rural communities (\$219,000)—and a higher level of support to the College of Community Health Sciences by the Health Services Foundation (\$518,000).
- The overall increase in auxiliary enterprises revenue of nearly 5% is due predominantly to projected increases in football ticket sales (\$2.5 million), Housing rental income (\$2.3 million), Bookstore sales (\$1.8M) in addition to reclassification of Cheerleading Camp (\$672,000). These increases were offset to some degree by the closing of apartments for demolition (\$877,000) and an increase in scholarship allowances (\$2 million).
- Residential housing occupancy for fiscal year 2010-11 is projected at 92%. Rates were increased by an average of 9%.
- The growth in other revenue of 15% is attributed mostly to increased revenue expected in the Crimson Tide Foundation (\$2.4 million) due to the addition of the Tide Pride South Zone, Sky Boxes, and Stadium Club and increased revenue for the Tide Pride Field Suite, Tide Pride Football and Basketball, and Crimson Traditions sales in addition to revenue generated by the recently acquired University Club (\$1 million).
- Gifts are expected to increase by 8% due mainly to a higher level of giving expected in the Crimson Tide Foundation (\$2 million) and growth in restricted gifts (\$873,000).

Expenditure Related

- \$14.8 million was allocated centrally for faculty and staff merit based salary increases and associated fringe benefits. This funding was supplemented with additional funding made available through internal reallocations.

- In addition, salary and associated fringe benefit allocations were provided for faculty promotions (\$483,000), for salary equalization to increase salaries of lower paid employees (\$200,000), for faculty and staff new hires (\$2.320 million), and for graduate assistant stipends (\$630,000).
- Other benefit related increases include \$2.7 million to provide accumulated fringe benefit needs, \$250,000 for graduate student health insurance, \$1.1 million for retiree health insurance, and \$1 million for projected employee health cost increases.
- Total scholarships and fellowships increased \$21.4 million which is composed of an increase in scholarship expense of \$3.7 million and in scholarship allowances of \$15.7 million for E&G and \$2 million for auxiliaries.
- Supplies and other expenses are expected to increase by nearly 4% due to unavoidable needs for library support (\$600,000) in addition to increased expenditures expected in Continuing Studies Program Development & Marketing (\$1.1 million). Auxiliary operating increases are reflected by Housing (\$351,000), Intercollegiate Athletics (\$2.6 million), and Bookstore (\$1.5 million).

The University of Alabama
Budget Proposal for the Fiscal Year Ending September 30, 2011

Revenues and Expenses (Dollars in thousands)	FY 08 Actuals	FY 09 Actuals	FY 10 Projected Actuals	FY10 Approved Budget	FY 11 Proposed Budget	\$ Change Budget	% Change Budget
Operating Revenues							
Tuition and Fees	239,247	282,803	338,645	281,247	340,092	58,845	20.92%
Less: scholarship allowance and bad debt	(45,731)	(54,898)	(65,235)	(54,828)	(70,563)	(15,735)	28.70%
Net tuition and fees	193,516	227,905	273,410	226,419	269,529	43,110	19.04%
Grants and Contracts	60,460	65,287	72,297	71,390	76,960	5,570	7.80%
Sales and services of educational activities	11,105	12,227	12,582	9,260	10,030	770	8.32%
Auxiliary enterprises, net of scholarship allowance	80,215	102,294	119,389	98,924	103,517	4,593	4.64%
Other Operating Revenue	27,755	30,148	31,023	23,619	27,252	3,633	15.38%
Total Operating Revenues	373,051	437,861	508,701	429,612	487,288	57,676	13.43%
Operating Expenses							
Compensation and benefits	384,522	406,422	420,417	413,494	441,925	28,431	6.88%
Depreciation	30,243	40,668	49,495	-	-	-	n/a
Scholarships and fellowships	14,214	16,747	25,514	24,852	28,530	3,678	14.80%
Supplies and other services	169,560	174,457	179,516	176,625	183,108	6,483	3.67%
Total Expenses	598,539	638,294	674,942	614,971	653,563	38,592	6.28%
Nonoperating revenues (expenses)							
State appropriations-Operations and Maintenance	199,417	156,521	153,084	153,084	141,678	(11,406)	-7.45%
State appropriation-Teacher InService	-	-	-	236	218	(18)	-7.63%
State appropriations-proration reductions	-	-	(11,481)	-	-	-	n/a
Grants and Contracts	13,347	18,091	24,506	24,310	28,980	4,670	19.21%
State Fiscal Stabilization Funds	-	-	14,699	14,699	14,699	-	-
Gifts	34,000	47,104	42,920	37,144	40,192	3,048	8.21%
Investment (loss) income	38,848	41,154	40,803	31,984	32,051	67	0.21%
Realized/unrealized gains (losses)	(133,338)	(39,896)	5,659	-	-	-	-
Interest expense	(17,982)	(17,940)	(24,593)	(28,469)	(35,535)	(7,066)	24.82%
Net other nonoperating revenue (expense)	(1,955)	(196)	(145)	-	-	-	n/a
Net nonoperating revenue	132,337	204,838	245,452	232,988	222,283	(10,705)	-4.59%
Change in net assets from on-going operations ¹	(93,151)	4,405	79,211	47,629	56,008	8,379	17.59%

¹FY10 projected change in net assets includes the reduction in State Appropriations of \$11,481; realized loss of \$184 and unrealized gains of \$5,843 on investments; and depreciation of \$49,495. Excluding these items, the change in net assets from on-going operations would be \$88,240.

Notes:

>Includes blended component unit - Crimson Tide Foundation

>O&M state appropriations include Special Outreach Program and Alabama Center for Civic Life (David Matthews Center)

>Effective FY09, Pell Grants were classified as nonoperating grant revenue rather than operating. All prior years presented were restated for this change. This required line item adjustments of the FY2010 contract and grant budget.

FY2010/2011 Budget Presentation



September 16, 2010

touching lives
THE UNIVERSITY OF ALABAMA



FUNDING NEEDS & RESOURCES

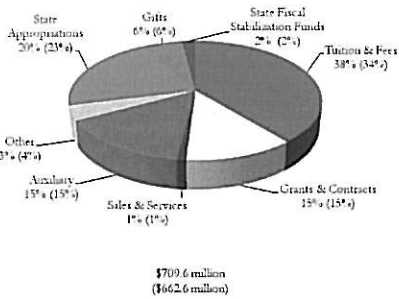
Proposed Budget FY2011 Needs

- Compensation Enhancements
- New Faculty Positions
- Employee Benefits
- Scholarships for Continuing and New Students
- Library Support
- New Debt Payment

FY2011 Proposed Operating Budget (All Funds)

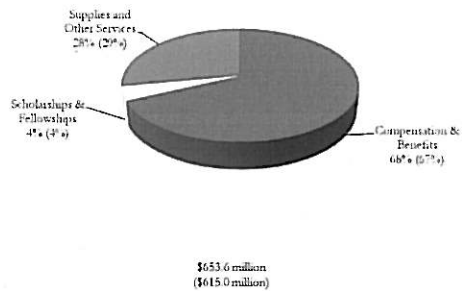
	Approved FY2010	Proposed FY2011
Operating Revenue	\$429,612,000	\$487,288,000
Non-Operating Revenue	232,988,000	222,283,000
Total Revenues	\$662,600,000	\$709,571,000
Operating Expense	\$614,971,000	\$653,563,000
Change in net assets from ongoing operations	\$ 47,629,000	\$ 56,008,000

FY2011 Proposed Revenues (All Funds)



Five year percentages in parentheses

FY2011 Proposed Expenses – Natural (All Funds)



Five year percentages in parentheses

The University of Alabama at Birmingham
Budget Proposal for Fiscal Year
Ending September 30, 2011

**The University of Alabama at Birmingham
Operating Budget Highlights
For the Year Ending September 30, 2011**

The major goal of the University of Alabama at Birmingham (UAB) for the FY 2011 budget year is to continue to grow key strategic initiatives while maintaining critical operations. These initiatives are:

1. To be a leading funded public research university through:
 - Sustaining and strategically enhancing leading-edge research
 - Recruiting/maintaining world-class research faculty
 - Expanding and upgrading facilities
 - Enhancing graduate education
2. To provide health and life sciences excellence through:
 - Professional schools (Medicine, Dentistry, Optometry)
 - Integrated programs for Health Professionals (SHP, Nursing, Public Health, Life/Social Sciences, Business, Engineering)
3. To retain and graduate our undergraduate students by:
 - Providing a diverse student body
 - Maintaining rigorous academic standards
 - Providing focused, result-driven academic advising
4. To support degree and research programs that enhance the economic development of the region and state.

Research, Discovery, and Economic Development

UAB continues to invest in infrastructure and people to ensure that the university remains a leader in innovative research that impacts people's lives. FY 2011 institutional initiatives include:

- A fifth-year commitment of \$10 million to supplement the UAB IMPACT Biomedical Research and Development fund
 - IMPACT is a targeted research enhancement resource designed to:
 - support biomedical research investment with potential for significant economic development
 - attract new faculty recruits from top-tier institutions in critical areas
 - retain mission-critical, distinguished UAB faculty who have substantial extramural financial support

- A fourth-year commitment of \$10 million for the UAB Comprehensive Cancer Center (supplemented by FY 2011 special State line item appropriation of \$4.18 million):
 - This program is helping to:
 - build/enhance programs in medical oncology, bioinformatics, imaging, and drug discovery
 - advance UAB's recruitment plan to attract key leaders in cancer treatment and cancer-related research
 - develop cancer imaging research via the establishment of a PET/Cyclotron arrangement to facilitate human and animal imaging research on solid tumors
- Joint venture in drug discovery initiated with Southern Research and international partner.
- Sponsored projects awards at record high including American Reinvestment and Recovery Act awards of \$95 million over two years.

Academic Programs

In FY 2011, UAB will continue to invest state resources in academic programs and initiatives that ensure quality service and support for its diverse student body. Programs that will be supported include:

- Academic and research opportunities for the new College of Arts and Sciences
- Advanced curricula in leading-edge research and academic disciplines
- Diverse and unique research opportunities for undergraduate and graduate students
- Multidisciplinary academic study
- Scholarships for undergraduate and graduate students
- Faculty and student retention initiatives
- Classroom renovations and technology updates
- Technology upgrades
- Opportunities for academic and administrative operating efficiencies

Student Enrollment & Programs

- Fall 2010 enrollment represents an all time high for UAB of 17,543, including professional students.
- First time freshmen enrollment increased to 1,571 or 3.6% over Fall 2009.
- Over 1,000 freshmen are living in on-campus housing, which is the highest number in UAB's history.

Revenue-Related


- The FY 2011 tuition budget represents an increase in tuition rates.
- Grants and contracts reflect an increase of 9% over the last two years to an all time high of \$439 million. Overhead recovery from these activities is currently budgeted at \$80 million.
- State appropriations reflect a permanent reduction of \$18.3 million. Position reductions, expense reductions, deferral of capital replacements, and use of limited reserves have mitigated this impact.
- In FY 2011, \$21.6 million in federal stimulus funds provided through the State will be used to retain positions, provide financial aid to students, and make minor renovations to academic facilities. This funding is not anticipated for FY 2012.
- Auxiliary revenue is up slightly over projected FY 2010 actual. Dining and Housing programs continue to be strong performers. Housing rates were increased by an average of 6% in the Fall of 2010. Housing occupancy is at 100% for the second year in a row with continued unmet demand for on-campus housing.

Expenditure-Related

- After two years without a general salary increase plan, the campus made available funding for a merit-based salary plan to reward performance and keep UAB salaries competitive.
- The University was able to moderate benefit cost this year due to a flat employer rate for TRS, modest rate increase for PEEHIP, and renegotiation of some health care contracts that resulted in only a modest increase in employee health care program costs for FY 2011.
- Increased scholarship and fellowship investment to support increases in targeted enrollments and offset cost of tuition increase.

THE UNIVERSITY OF ALABAMA AT BIRMINGHAM
Budget Proposal for the Fiscal Year Ending September 30, 2011


Revenues and Expenses (Dollars in thousands)	FY 08 Actuals	FY 09 Actuals	FY 10 Projected Actuals	FY 10 Approved Budget	FY 11 Proposed Budget	\$ Change Budget	% Change Budget
Operating revenues							
Tuition and fees	107,112	121,375	132,875	126,658	147,860	21,202	16.74%
Less: scholarship allowance and bad debt	(29,538)	(31,941)	(34,000)	(30,000)	(35,000)	(5,000)	16.67%
Net tuition and fees	77,574	89,434	98,875	96,658	112,860	16,202	16.76%
Grants and contracts	389,085	382,974	404,674	405,046	413,800	8,754	2.16%
Sales and services of educational activities	50,026	50,831	48,831	47,134	49,005	1,871	3.97%
Auxiliary enterprises, net of scholarship allowance	19,019	19,442	20,942	23,603	21,500	(2,103)	-8.91%
Other operating revenue	48,964	51,382	51,232	54,033	52,000	(2,033)	-3.76%
Total operating revenues	584,668	594,063	624,554	626,474	649,165	22,691	3.62%
Operating expenses							
Compensation and benefits	639,904	635,953	638,953	635,284	651,727	16,443	2.59%
Depreciation	63,116	66,453	66,418	-	-	-	-
Scholarships and fellowships	20,499	20,734	23,269	23,875	27,855	3,980	16.67%
Supplies and other services	251,125	238,041	241,969	286,444	284,015	(2,429)	-0.85%
Total operating expenses	974,644	961,181	970,609	945,603	963,597	17,994	1.90%
Nonoperating revenues (expenses)							
State appropriations	307,855	248,446	246,729	246,729	228,374	(18,355)	-7.44%
State appropriations-Proration Reductions			(17,883)	-	-	-	-
Supplemental state appropriations-TRS retirees	4,076	-	-	-	-	-	-
Grants and contracts	24,543	21,467	24,818	20,814	25,500	4,686	22.51%
State Fiscal Stabilization Funds	-	-	-	21,623	21,623	-	100.00%
Gifts	28,018	30,501	31,267	27,286	29,500	2,214	8.11%
Investment (loss) income	(88,013)	8,494	12,641	20,033	18,533	(1,500)	-7.49%
Interest expense	(9,627)	(9,796)	(9,546)	(10,114)	(9,278)	836	-8.27%
Net other nonoperating revenue (expense)	2,764	2,305	2,305	-	-	-	-
Net nonoperating revenues	269,616	301,417	290,331	326,371	314,252	(12,119)	-3.71%
Intergovernmental Transfers	42,844	35,883	44,128	44,128	41,485	(2,643)	-5.99%
Change in net assets from on-going operations	(77,516)	(29,818)	(11,596)	51,370	41,305	(10,065)	-19.59%



UAB THE UNIVERSITY OF ALABAMA AT BIRMINGHAM

Operating Budget FY 2010/2011

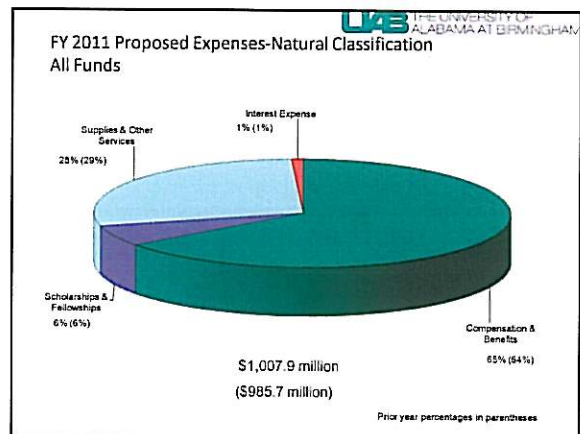
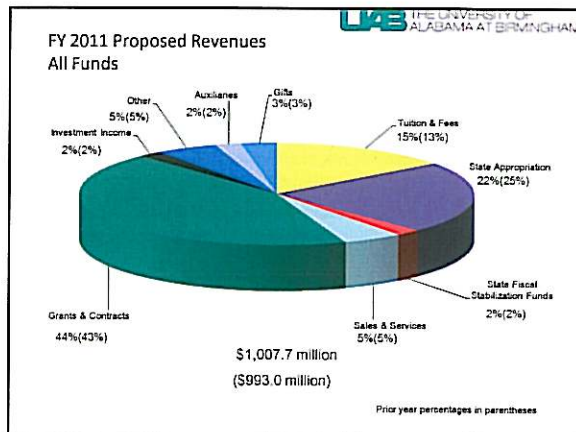
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- Budget Imperatives**
- Sustain academic programs of excellence for larger student body
 - Sustain research investment emphasis
 - Initiatives to support student retention and graduation
 - Invest in our faculty and staff
 - Remain attentive to Health/Life/Safety environment of the campus
 - Invest wisely in facilities and campus infrastructure

- 
- Budget Highlights**
- State funds reduction of \$18.4 million (\$79 million over 3 Yrs)
 - Revenue growth from tuition and fees
 - Grants and Contracts revenue at all time high of \$439.3 million
 - Provide for general salary program
 - Fund unavoidable costs and sustain balanced budget



FY 2011 Proposed Operating Budget
(Dollars in thousands)

	Approved FY 2010	Proposed FY 2011
Operating Revenue	\$656,474	\$684,165
Non-Operating Revenue	<u>336,485</u>	<u>323,530</u>
Total Revenue	\$992,959	\$1,007,695
Operating Expenses	\$985,717	\$1,007,875
Intergovernmental Transfers	<u>44,128</u>	<u>41,485</u>
Change in Net Assets from on-going Operations	\$51,370	\$41,305



**The University Hospital
Budget Proposal for Fiscal Year
Ending September 30, 2011**

University Hospital
Operating Budget Highlights
For the Year Ending September 30, 2011

Overview:

As the direct and indirect impact of healthcare reform and other governmental and payor cost reduction initiatives continue to take effect, academic medical centers will face increasing challenges to maintain operating margin levels sufficient to support clinical activities and capital investments. University Hospital is confronted with numerous healthcare issues which must be effectively managed such as:

- Declining physician reimbursement rates increasing the demand for Mission Support.
- Governmental and payor reimbursement audits
- High levels of uncompensated care driven by unemployment
- Escalating Supply/Technology Costs
- Value-Based Reimbursement Plans

To address these healthcare challenges, University Hospital will focus on several key initiatives during 2011. Major initiatives include clinical/operational, revenue enhancements, and supply chain efforts. In order to obtain lower drug pricing and to benefit UAB Medicine as a whole, outpatient infusion therapy is moving from the UAHSF to University Hospital. In February of 2010, the new Women and Infant's Center (WIC) opened. Also, effective September 30, 2010, Highland's operations will be consolidated with those of University Hospital.

Note: All time periods presented include the proforma combination of the UAB Highlands campus operations with University Hospital.

The combined operating margin of University Hospital for the fiscal year 2011 operating budget is \$52.8 million or 4.1% compared to the 2010 projected operating margin of \$54.2 million or 4.5 %. Total combined margin for 2011 is budgeted at \$74.5 million, a decrease of \$2.8 million or 3.6% from 2010 projected.

Revenues:

Net Patient Revenue Net patient care revenue is budgeted to total \$1,193 million, which is an anticipated increase of \$90.8 million from projected 2010. This increase is due to the move of Infusion Therapy from UAHSF to the

hospital (\$48 million), as well as anticipated volume increases and improvements in reimbursement.

Other Revenues Other revenues are expected to increase \$2.4 million over projected 2010 amounts. This increase is primarily related to increased volume in Specialty (retail) pharmacies and improvements in CRNA billing.

Expenses:

Salaries and Benefits Salaries and benefits are budgeted to increase by \$19.3 million, or 4.0%, compared to projected 2010 amounts. The increase is due primarily to merit raises and market adjustments, and to a lesser extent, budgeted volume increases.

Depreciation Depreciation expense is budgeted to increase by \$5.1 million over the projected 2010 amount. This increase is due primarily to a full year's depreciation on the Women and Infants Center (WIC). The WIC opened in February, 2010.

Provisions for Bad Debts Provisions for bad debts are budgeted at \$196.9 million. In 2010, the hospital experienced a significant shift from bad debts to charity.

Supplies Supply expense is budgeted to total \$256.1 million in 2011 compared to \$219.4 million for projected 2010, an increase of 16.7%. This increase is related to the move of Infusion Therapy from UAHSF to University Hospital. Otherwise, supply expense will remain relatively flat due to significant supply chain initiatives which substantially offset any cost increases.

Other Expenses Other expenses include items such as utilities, maintenance, professional services, insurance and software license fees. These costs are expected to increase \$16.4 million, or 8.2%, over projected 2010 due to full year impact of WIC and continued implementation of information technology projects.

Non-operating Revenues/ (Expenses):

State Appropriations State appropriations are based upon estimated amounts provided to the University of Alabama at Birmingham and are budgeted at prior year levels.

Investment Income Investment income is budgeted to decrease by \$1.3 million from the projected 2010 due to the challenging investment environment.

Interest Expense Interest expense is budgeted to increase approximately \$4.4 million due to the ending of the capitalization of interest related to WIC and anticipated changes in interest rates on variable rate debt.

Change in Net Assets Net Assets are projected to increase by \$24.5 million, or 3.4%, for FY2011, as compared to a projected increase of \$35.2 million for FY2010.

University Hospital
Budget Proposal for the Fiscal Year Ending September 30, 2011

Revenues and Expenses (Dollars in thousands)	FY 08 Actual	FY 09 Actual	FY 10 Projected Actual	FY 10 Approved Budget	FY11 Proposed Budget	\$ Change Budget	% Change Budget
Operating Revenues							
Net Patient Revenue	1,071,314	1,107,870	1,102,606	1,176,510	1,193,449	16,939	1.44%
Other Operating Revenue	<u>65,567</u>	<u>69,896</u>	<u>68,391</u>	<u>72,178</u>	<u>70,839</u>	<u>(1,339)</u>	<u>-1.86%</u>
Total Operating Revenues	1,136,881	1,177,766	1,170,997	1,248,688	1,264,288	15,600	1.25%
Operating Expenses							
Compensation and benefits	468,845	467,854	478,640	479,600	497,971	18,371	3.83%
Depreciation	45,734	46,205	50,967	56,106	56,026	(80)	-0.14%
Provision for bad debts	211,841	214,337	184,148	242,638	196,891	(45,747)	-18.85%
Supplies	214,243	219,156	219,371	219,607	256,100	36,493	16.62%
Other expenses	<u>198,017</u>	<u>207,414</u>	<u>200,025</u>	<u>212,431</u>	<u>216,400</u>	<u>3,969</u>	<u>1.87%</u>
Total Expenses	1,138,680	1,154,966	1,133,151	1,210,382	1,223,388	13,006	1.07%
Nonoperating revenues (expenses)							
State appropriations	46,158	41,010	33,502	36,239	33,521	(2,718)	-7.50%
State appropriations - Proration Reduction	-	(4,511)	-	(2,718)	-	2,718	n/a
State Stimulus	-	-	3,288	3,288	3,288	-	n/a
Investment (loss) income	(53,412)	6,328	22,935	24,236	21,683	(2,553)	-10.53%
Interest expense	(20,503)	(20,473)	(20,485)	(26,927)	(24,856)	2,071	7.69%
Net other nonoperating revenue (expense)	<u>(1,074)</u>	<u>209</u>	<u>210</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>n/a</u>
Net nonoperating revenue	(28,831)	22,563	39,450	34,118	33,636	(482)	-1.41%
Intergovernmental Transfers	(31,659)	(27,171)	(42,086)	(44,128)	(50,007)	(5,879)	-13.32%
Change in net assets from on-going operations	(62,289)	18,192	35,210	28,296	24,529	(3,767)	-13.31%

University Hospital 2011 Budget

John Faulstich
CFO
UAB Health System

UAB HEALTH SYSTEM

University Hospital Budget Issues

- Reduction in Physician reimbursement – increasing mission support
- Lingering Effects of Recession
 - Volatile Investment Returns
 - Continued high unemployment and fewer insured patients
 - Change in healthcare trends; declining elective procedures, deliveries
 - State Budget – Continued proration of state appropriations
- Healthcare Reform
 - Physician - Hospital alignment
 - Commercial payor pressures
 - Increased governmental audits/Payment reforms
 - Recovery Audit Contractor (RAC) Program, governmental audits
 - Medicaid Integrity Contractors (MICS)
 - CMS Value-Based Purchasing Plan: Pay/Penalty for Quality
- Competitive wage pressures
- Limited capital availability

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University Hospital Fiscal Year 2011 Initiatives

- Revenue Initiatives
 - Strategic Service Line Growth
 - Denial Management Program
 - Payor Negotiations
- Expense Initiatives
 - Staffing to productivity standards
 - Supply Chain – Value Analysis teams
 - Refinancing of Variable Rate Debt
- Transfer of Outpatient Infusion Therapy from UAHSF to University Hospital
 - Obtain Benefit of 340B Pricing
 - Net Benefit to Fund Mission Support
- Rebuilding Cash Reserves

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University Hospital Volumes

	FY 2010 Budget	FY 2010 Projected	FY 2011 Budget	% Variance
Discharges	45,433	46,542	48,741	4.7%
Inpatient Days	308,094	303,180	315,067	3.9%
Average Length of Stay	6.78	6.51	6.46	(0.8)%
Surgery Cases	33,208	31,618	32,877	4.0%
ED Visits	69,639	69,531	71,115	2.3%

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University Hospital Fiscal Year 2011 Budget

	FY2010 Budget	FY2010 Projected	Total FY2011 Budget	FY2011 Budget w/o Infusion	FY2011 Infusion	Variance w/o	% Var
Net patient revenue	\$ 1,176,510	\$ 1,102,606	\$ 1,191,449	\$ 1,145,456	\$ 47,993	\$ 42,850	3.9%
State appropriations	36,239	33,502	33,521	33,521	-	19	0.1%
Other revenues	70,845	68,391	70,839	70,839	-	2,449	3.6%
Total operating revenue	1,283,594	1,204,499	1,297,609	1,249,816	47,993	45,317	3.6%
Salaries	353,822	350,256	369,594	366,367	3,217	(16,111)	-4.6%
Benefits	125,760	125,096	125,099	124,063	1,036	1,038	0.8%
Supplies	219,608	219,371	256,100	221,691	34,410	(2,320)	-1.1%
Depreciation	56,106	50,967	56,026	55,954	72	(4,507)	-9.6%
Provision for bad debts	242,638	164,143	196,891	196,891	-	(12,743)	-6.9%
Interest	23,945	20,485	24,856	24,856	-	(4,371)	-21.3%
Other	211,025	200,025	216,430	215,270	1,160	(15,245)	-7.6%
Total operating expenses	1,232,994	1,150,243	1,244,956	1,225,292	19,664	(14,744)	-4.6%
Operating income	50,600	54,151	52,653	44,724	8,129	(9,427)	-17.4%
Nonoperating income	27,628	23,145	21,683	21,683	-	(1,462)	-6.3%
Net income	78,228	77,296	74,336	66,407	8,129	(10,689)	-14.1%
EBITDA	130,651	125,603	133,735	125,534	8,201	(69)	-0.1%
Mission Support/Equity Tran	(44,125)	(47,035)	(50,007)	(41,876)	(8,129)	297	0.3%
Adjusted EBITDA	86,526	78,568	83,728	83,658	72	(33)	0.2%
Operating margin %	3.9%	4.5%	4.1%	3.6%	16.9%		
EBITDA %	10.2%	10.4%	10.3%	10.0%	17.1%		

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**The University of Alabama in Huntsville
Budget Proposal for Fiscal Year
Ending September 30, 2011**

The University of Alabama in Huntsville
Operating Highlights
Fiscal Year Ending September 30, 2011

UAHuntsville continues to successfully focus on growth in key areas. The academic quality of our incoming classes remains at the upper end of public Alabama institutions. Research that directly benefits Alabama and the nation continues to grow steadily. The campus continues to develop student residential and dining facilities, with a new 400-bed residence hall and dining complex in the heart of campus opened in Fall 2010. The University maintains its financial stability despite a very challenging financial environment in which our State funding has declined dramatically over the past two years.

The major goals for which resources are allocated in the 2010-11 operating budget include:

- Maintain a balanced budget despite reductions in State Appropriations.
- Provide a merit-based salary pool to faculty, staff, and graduate students.
- Enhance retention, activities, programming, safety, counseling, and health services to our students.
- Enhance academic excellence by allocating funds for new faculty positions in targeted growth areas.
- Provide funds for investments in revenue generating areas.
- Fund fixed and mandatory costs.
- Protect budgets for plant maintenance & renewals.

OPERATING REVENUES:

Operating Revenues are budgeted at \$134,879,000. This represents an increase of 24.3% over the prior year budget of \$108,500,000. Revenues from Tuition & Fees and Grants and Contracts are the primary sources of the increase.

- **Tuition and Fees** – Tuition rate increases approved by the Board on June 18, 2010 result in an additional \$7,263,000 in projected revenues. Student enrollment projections built into the 2010-11 operating budget are based on the actual enrollment for 2008-09.
- **Grants and Contracts** – Contracts and grants revenues at UAHuntsville continue to grow at a steady pace. The budget for FY 2010/11 is projected at \$77,610,000, representing a 28.8% increase over the 2009-10 budget of \$60,253,000. Facilities and Administrative Cost Recovery revenues are also anticipated to increase and are budgeted at \$13,429,000 for 2010-11.

OPERATING EXPENSES

Operating expenses are budgeted at \$175,070,000. This represents an increase of 16.1% over the prior year budget of \$150,843,000. Compensation and benefits, scholarships, and supplies all contributed to the increase in operating expenses.

- **Compensation & Benefits** – Compensation & benefits are budgeted at \$107,355,000. The increase of \$10,262,000 over the prior year primarily comes from growth in external contracts and grants.
- **Scholarships and Fellowships** – The University increased scholarship funding in proportion to the tuition rate increase.
- **Supplies and Other Services** – Supplies and other services budgets increase by 26.3% over the prior year primarily due to growth in external contracts and grants.

NON-OPERATING REVENUES & EXPENSES:

Non-Operating Revenues and Expenses are budgeted at \$48,580,000. This represents a decrease of 1.6% over the prior year budget of \$49,385,000.

- **State Appropriation** – Gross State Appropriation is budgeted at \$44,025,000. The gross state appropriation includes \$1,942,500 in state earmarked programs. The net state appropriation is budgeted at \$42,082,000, which is \$3,412,000 or 7.5% below the prior year budget of \$45,494,000 and 28% less than the FY 2008 total.
- **Interest Expense** – Future debt service for a new University Center is reflected in the FY 2010-11 budget. The project will be presented to the Board for approval in accordance with Board rule 415.

FACULTY AND STAFF SALARIES:

UAH's highest priority has been to provide compensation adequate to retain and attract high quality faculty and staff. The University will provide a modest merit-based salary increase in 2010-11. In addition, the University will also provide a modest supplement to our lowest paid employees.

ENROLLMENT DETAIL

Enrollment is estimated based primarily on 2008/09 enrollment and an analysis of key indicators such as admissions and housing applications. The fall 2008/09 headcount and FTE are as follows:

	<u>Headcount</u>	<u>FTE</u>
Undergraduate In-State	5,301	4,338
Undergraduate Out-of-State	592	555
Graduate In-State	1,378	717
Graduate Out-of-State	<u>160</u>	<u>104</u>
Total	<u>7,431</u>	<u>5,714</u>

The University of Alabama in Huntsville
Budget Proposal for the Fiscal Year Ending September 30, 2011

Revenues and Expenses (Dollars in thousands)	FY 08 Actual	FY 09 Actual	FY 10 Projected Actual	FY 10 Proposed Budget	FY 11 Proposed Budget	\$ Change Budget	% Change Budget
Operating Revenues							
Tuition and Fees	41,857	49,172	51,667	51,667	60,181	8,514	16.48%
Less: scholarship allowance and bad debt	(9,790)	(11,842)	(10,984)	(10,984)	(12,350)	(1,366)	12.44%
Net tuition and fees	32,067	37,330	40,683	40,683	47,831	7,148	17.57%
Grants and Contracts	71,928	75,330	81,330	60,253	77,610	17,357	28.81%
Sales and services of educational activities	2,237	3,268	3,413				
Auxiliary - net of scholarship allowance	5,597	5,860	9,203	6,840	8,611	1,771	25.89%
Other Operating Revenue	-	-	-	724	827	103	14.23%
Total Operating Revenues	111,829	121,788	134,629	108,500	134,879	26,379	24.31%
Operating Expenses							
Compensation and benefits	119,696	122,500	115,605	97,093	107,355	10,262	10.57%
Depreciation	11,685	11,338	11,258	-	-	-	-
Scholarships and fellowships	511	928	1,357	1,353	1,518	165	12.20%
Supplies and other services	34,906	34,586	49,655	52,397	66,197	13,800	26.34%
Total Expenses	166,798	169,352	177,875	150,843	175,070	24,227	16.06%
Nonoperating revenues (expenses)							
State appropriations	58,101	45,861	44,024	47,594	44,025	(3,569)	-7.50%
State Fiscal Stabilization Fund		211	4,184	4,184	4,184	-	-
Proration Reductions	-	-	-	-	-	-	-
Grants and Contracts	-	-	-	-	-	-	-
Gifts	3,129	3,018	1,673	2,242	2,694	452	20.16%
Investment (loss) income	(8,115)	866	1,044	(1,923)	-	1,923	-100.00%
Loss on disposal of capital assets	(471)	(1,045)	(868)				
Interest expense	(2,385)	(2,323)	(2,532)	(2,712)	(2,323)	389	-14.34%
Legal Settlement			4				
Net other nonoperating revenue (expense)		5,205	5,205	-	-	-	-
Net nonoperating revenue	50,259	51,793	52,734	49,385	48,580	(805)	-1.63%
Capital Grants & Contracts	-	-				-	#DIV/0!
Change in net assets from on-going operations	(4,710)	4,229	9,488	7,042	8,389	1,347	19.13%

UAHuntsville
THE UNIVERSITY OF ALABAMA IN HUNTSVILLE

**Proposed Budget Presentation
FY 2010-11**

**Finance Committee Meeting
September 17, 2010**

UAHuntsville
THE UNIVERSITY OF ALABAMA IN HUNTSVILLE

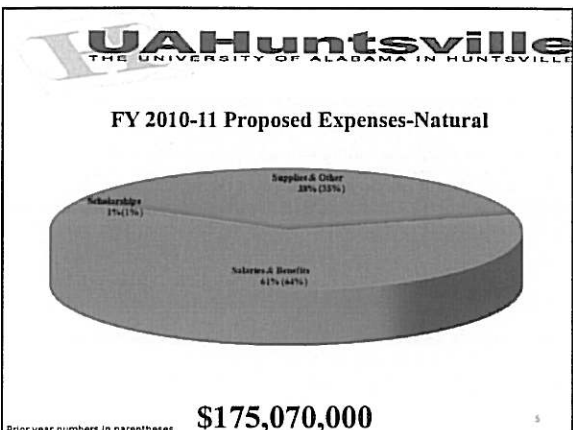
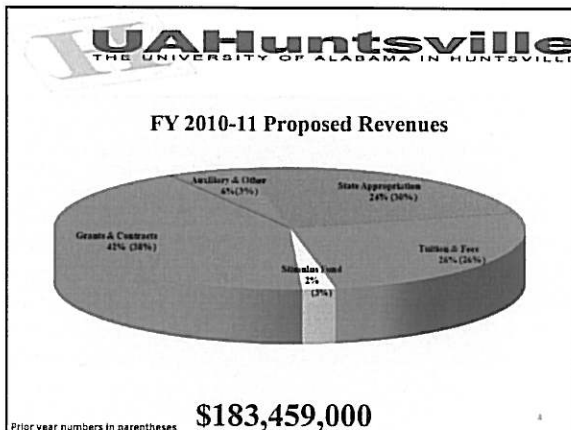
FY 2010-11 Operating Budget – Key Strategies

- Maintain a balanced budget, with appropriation reduction of 7.5%
- Provide a salary pool to faculty, staff, and graduate assistants
- Fund customary faculty promotions
- Fund mandatory costs-TRS rate, PEEHIP
- Fund fixed costs-utilities, fuel, other
- Protect budgets for plant maintenance & renewals
- Ensure adequate resources for revenue centers
- Maintain flexibility for instruction growth areas
- Continued to implement operating efficiencies
- Enhance student activities, counseling, health, and wellness
- Strengthen police force & campus safety
- Continue multi-year tuition plan to achieve Southern University Group (SUG) average
- Increase scholarships in proportion to tuition increase

UAHuntsville
THE UNIVERSITY OF ALABAMA IN HUNTSVILLE

FY 2010-11 Proposed Operating Budget

	Approved 2009-10	Proposed 2010-11
Operating Revenues	\$108,500,000	\$134,879,000
Non-Operating Revenues	\$ 49,385,000	\$ 48,580,000
Total Revenues	\$157,885,000	\$183,459,000
Operating Expenses	(\$150,843,000)	(\$175,070,000)
Capital Grants & Contracts	\$ 0	\$ 0
Change in Net Assets from on-going Operations	\$ 7,042,000	\$ 8,389,000



The University of Alabama System Office
Budget Proposal for Fiscal Year
Ending September 30, 2011

**The University of Alabama System Office
Operating Budget Highlights
For the Year Ending September 30, 2011**

Operating Revenue

Assessment to the three campuses and the UAB Health System will return to the original FY 2008-09 level plus 3.5%.

Operating Expenses

- The System Office operating budget will total \$14.4 million, of which 80% is salaries, wages, and fringe benefits. Additions include the Vice Chancellor for International Programs and Outreach, filling vacancies in Internal Audit, and other budgeted positions (unfilled) which will allow for appropriate growth in Board and campus support.
- As of August 31, 2010, we have 70 full-time and part-time employees, which total 68.5 FTEs (excluding Investment Staff).

The Office of International Programs and Outreach has been established with the specific focus of maximizing the combined strength of our three campuses and the Health System. As our University System becomes increasingly less reliant on state appropriations, we must look to other revenue options and utilizing our resources in the most efficient and effective manner.

The service departments and support areas of the System Office are committed to serving the Board of Trustees, the campuses and the Health System in a manner that is a model for the nation.

The University of Alabama System Office
Budget Proposal for the Fiscal Year Ending September 30, 2011

Revenues and Expenses (Dollars in thousands)	FY 08 Actuals	FY 09 Actuals	FY 10 Projected Actuals	FY 10 Approved Budget	FY 11 Proposed Budget	\$ Change Budget	% Change Budget
Operating revenues							
Assessments to System Operating Units*	13,541	12,362	12,791	12,791	14,015	1,224	9.57%
Special Assessment for IITS	-	-	-	-	100	100	n/a
Total operating revenues	13,541	12,362	12,791	12,791	14,115	1,324	10.35%
Operating expenses							
Compensation and benefits	10,263	10,142	10,668	10,429	11,992	1,563	14.99%
Supplies and other services	1,864	1,913	2,161	2,362	2,430	68	2.88%
Depreciation	156	150	140	-	-	-	n/a
Total operating expenses	12,283	12,205	12,969	12,791	14,422	1,631	12.75%
Nonoperating revenues (expenses)							
Investment (loss) income	(341)	300	200	-	250	250	n/a
Net other nonoperating revenue (expense)	32	23	10	-	57	57	n/a
Net nonoperating revenues	(309)	323	210	-	307	307	-
Change in net assets from on-going operations	949	480	32	-	-	-	n/a

*-System Office assessment to the three campuses was suspended for February 2009 for a total of \$1,109. Original FY 09 assessment was for \$13,487.

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APPENDIX A

University of Alabama System
 History of Teachers Retirement & PEEHIP Employer Contributions
 FY 2006 - 2009

	<u>FYE 9-30-06</u>	<u>FYE 9-30-07</u>	<u>FYE 9-30-08</u>	<u>FYE 9-30-09</u>
UA				
TRS	\$ 13,674,857	\$ 18,073,533	\$ 24,933,126	\$ 26,681,549
PEEHIP	6,158,336	6,735,872	6,136,240	6,658,309
UAB				
TRS	34,050,969	41,172,189	54,321,298	54,874,452
PEEHIP	8,140,298	8,885,819	8,503,908	9,202,951
UAB Hospital				
TRS	19,086,564	23,865,752	31,383,854	33,428,610
PEEHIP	4,925,990	5,683,333	5,058,944	5,585,400
UAHuntsville				
TRS	5,529,216	6,800,616	9,425,492	10,019,353
PEEHIP	1,174,476	1,307,488	1,236,790	1,378,256
System Office				
TRS	535,726	655,801	896,419	933,623
PEEHIP	138,904	152,672	140,928	148,598
TOTAL TRS	72,877,332	90,567,891	120,960,189	125,937,587
TOTAL PEEHIP	20,538,004	22,765,184	21,076,810	22,973,514
COMBINED TOTAL	\$ 93,415,336	\$ 113,333,075	\$ 142,036,999	\$ 148,911,101

Note 1: TRS Employer cost rate was 8.17% in FY 2006, 9.36% in FY 2007, 11.75% in FY 2008 and 12.07% in FY 2009 and will increase to 12.51% in FY 2010

Note 2: PEEHIP rate per retiree was \$388 in FY 2006; \$416 in FY 2007 and \$367 in FY 2008. The rate decrease from FY 2007 to FY 2008 was due to a rebate associated with the implementation of Medicare part D for prescription drugs. Plans with more than 100 participants offering prescription drug benefits to Medicare eligible participants receive a rebate from Medicare since their participants will not enroll in Part D. This rebate was passed on to PEEHIP employer participants in the form of a lower rate in FY 2008. The PEEHIP rate increased however in FY 2009 to \$382. It remains constant for FY 2010.

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Glossary of Terms

Operating Revenues:

TUITION AND FEES – All student tuition and fee revenues earned for educational purposes.

GRANTS & CONTRACTS – Funding received from local, state and federal governments or private agencies, organizations or individuals. Includes amounts received for services performed on grants, contracts, and agreements from these entities for current operations. This also includes indirect cost recoveries and pass-through federal and state grants.

SALES AND SERVICES OF EDUCATIONAL ACTIVITIES – Revenues that are related to the conduct of instruction, research, and public service and revenues from activities that exist to provide an instructional and laboratory experience for students that create goods and services that may be sold. Examples include revenues received from activities such as performing arts, continuing education, trademarks programs and sports camps.

AUXILIARY ENTERPRISES – Revenues derived from a service to students, faculty, or staff in which a fee is charged that is directly related to, although not necessarily equal to the cost of the service (e.g., bookstores, dormitories, dining halls, snack bars, inter-collegiate athletic programs, etc.).

OTHER OPERATING REVENUES – Other revenues generated from sales or services provided to meet current fiscal year operating expenses, which are not included in the preceding categories.

Operating Expenses:

COMPENSATION AND BENEFITS – All salaries, wages, and fringe benefits for all university employees.

SCHOLARSHIPS & FELLOWSHIPS – Expenditures for scholarships and fellowships in the form of grants to students resulting from selection by the institution or from an entitlement program.

SUPPLIES & OTHER SERVICES – All other expenses outside the ones discussed above. Includes central activities as well as support and maintenance of buildings and grounds.

Non-Operating Revenues (Expenses):

STATE APPROPRIATIONS – Appropriations from the State Educational Trust Fund, which supplement institutional revenue in meeting operating expenses, such as faculty salaries, utilities, and operations.

GIFTS IN SUPPORT OF OPERATIONS – Consist of public and private gifts used in current operations, excluding gifts for capital acquisition and endowment gifts.

INVESTMENT INCOME – Interest and dividend income.

OTHER NONOPERATING REVENUES (EXPENSES) – Revenues and expenses not directly associated with the primary missions of System institutions and not included in another category.

INTEREST EXPENSE – Interest expense associated with bond and note borrowings utilized to finance capital improvement projects.