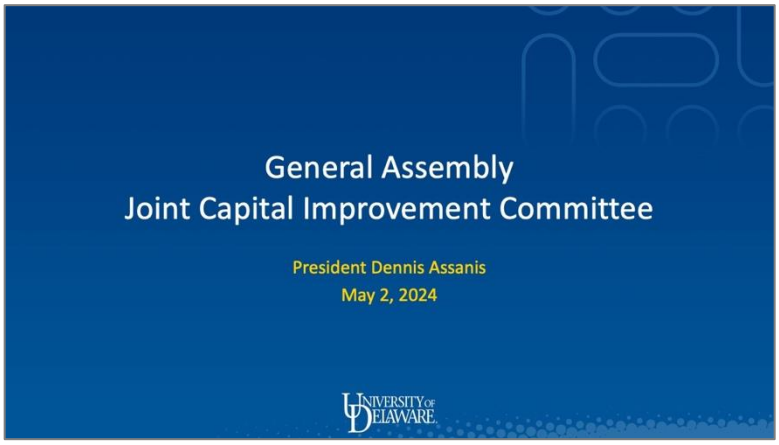
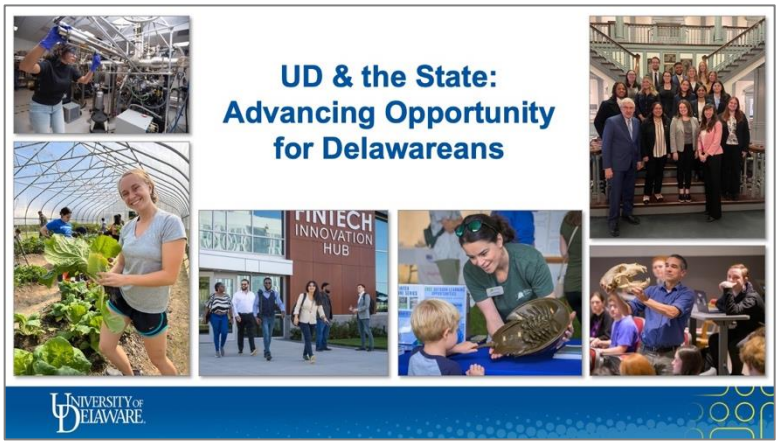
Delaware Joint Capital Improvement Committee
President Dennis Assanis
Thursday, May 2, 2024



Good morning, Representative Heffernan, Senator Walsh and other members of the Joint Capital Improvement Committee. I have with me Peter Krawchyk, Vice President of Facilities, Real Estate and Auxiliary Services, as well as others who can help answer any questions you may have.



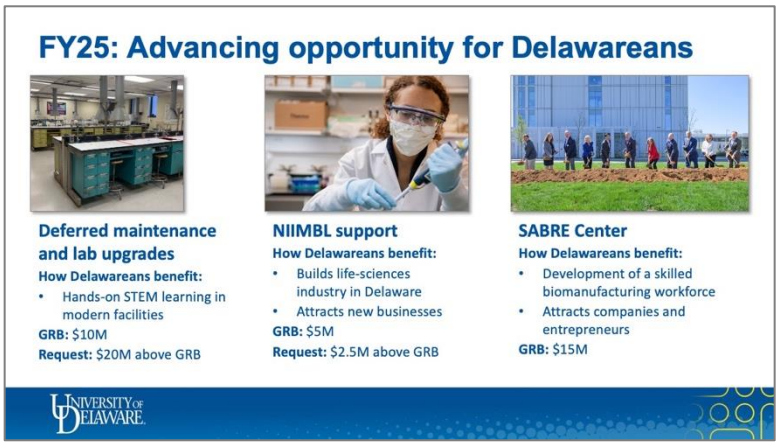
Thank you for taking the time to talk with us today about our capital appropriation request and how the State and UD can continue to work together to advance opportunities for all Delawareans.

Delaware students — more than 6,800 undergraduates and more than 1,200 at the graduate and professional studies level — enroll at UD because they know they can obtain an outstanding education that is affordable and close to home. That education depends on modern, up-to-date laboratories and other facilities where students can learn new skills and prepare themselves for lifelong success far beyond graduation.

Our capital appropriation also fuels research and innovation at UD, which builds Delaware's economy and helps Delawareans live longer, healthier and more productive lives. Our research enterprise — which is now among the *top 8%* of all institutions nationwide — attracts new students, residents, businesses, entrepreneurs and others to our state.

Overall, UD continues to be an economic driver for Delaware, generating a $3.2 billion impact that supports more than 26,000 jobs in the state.

We know that you share our goal of expanding educational and economic opportunities for Delawareans. That's why your support is especially critical this year, as UD is facing significant financial challenges due to factors outside our control *and* competing with other universities in the region that benefit from greater public investments in their facilities.



I want to highlight the three main parts of our capital appropriation request for FY25:

First, we are requesting $30 million to help maintain academic spaces, especially the laboratories that provide our students with hands-on learning in biology, chemistry, physics, engineering and other STEM disciplines. We are grateful that Gov. Carney has recommended $10 million toward deferred maintenance, and we would ask that you consider increasing this to $30 million, which was our original request for FY25. We appreciate that this committee has added to the governor's recommendation in the past.

Second, we are requesting $7.5 million as part of the state's support of the National Institute for Innovation in Manufacturing Biopharmaceuticals, or NIIMBL. This is part of a four-year request, which is key to building the life sciences economy that benefits our entire state. Gov. Carney has recommended $5 million in NIIMBL capital support, but that figure needs to increase to stay on track with this multi-year request.

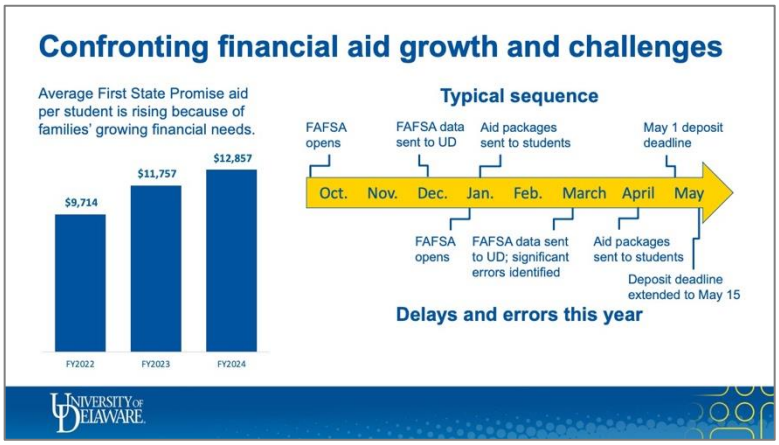
The final part of our request — which is related to NIIMBL and is included in Gov. Carney's recommended budget — is for $15 million as the state's contribution toward building and equipping the Securing American Biomanufacturing Research and Education — or SABRE — Center. We appreciate that you were able to join us for the official groundbreaking ceremony

last week. And we are very excited about the economic opportunities that this center will create in the coming years.

These requests represent only a *portion* of the University's total capital needs. Our deferred-maintenance backlog has grown to almost $1.2 billion in the past few years, presenting us with a formidable challenge that we are working to address. State assistance is one element of that plan, and every dollar that you provide advances the education of our students and strengthens the economy of our state.

Before I discuss each of our FY25 capital requests, I want to provide some context about the University's current financial situation, which will help explain why the state's support is especially important to us this year.

Like many institutions of higher education right now, UD is under significant financial pressure from *multiple* sources.



One of those challenges is around financial aid, including for Delawareans.

In the post-pandemic economy, our students are coming to UD with greater financial need, so we have increased the amount of aid that we provide. You can see this in the bar chart on the left.

Over the years, we have sought to keep tuition affordable, especially for Delawareans. In 2020, at the height of the pandemic, we did not increase tuition at all. And we have introduced the First State Promise program that covers tuition and fees for Delaware families with annual incomes of $75,000 or less. This year, First State Promise is benefitting about 2,300 Delawareans enrolled at UD, which is about a third of our 6,800 in-state students. While this has been good for students, it has made it difficult for us to keep up with rising expenses.

Also this year, UD and universities nationwide have been affected by delays and flaws in the new federal system involving FAFSA — the Free Application for Federal Student Aid. This is the form that tells us about each family's financial need, so it provides critical information

about how much aid we can offer them. It is an essential element of our commitment to serving students from low-income families.

In the timeline on the right, the typical FAFSA sequence is on the top, and what happened this year is on the bottom.

As you can see, the new platform was supposed to be launched in October but did not do so until January. This contributed to a 17% decline in the number of FAFSA forms submitted by Delaware families.

Normally, FAFSA data would have been sent to us in December, but we didn't get it until March. When it did arrive, we found significant errors.

This meant we couldn't tell families how much financial aid we were offering them until late April, instead of January. To give families more time to make their decisions, we extended the deadline for paying enrollment deposits to May 15, instead of May 1.

We also increased our outreach to students who have not submitted a FAFSA, and we are expediting our financial aid packaging so families can know what to expect in assistance. Our Admissions team is revisiting several Delaware high schools to provide additional support. We are also working with the state Department of Education to help students with FAFSA issues and other needs.

But our enrollment numbers are far lower than they should be at this point in the year. Right now, new-student deposits are down almost 35% compared to last year.

All of this has had a significant impact on the University's finances because we have to rely on uncertain estimates for our financial aid budget, fall enrollment, class schedules, housing needs and more.

In addition, we are facing much higher expenses to attract and retain the excellent faculty and staff who are vital to teaching and supporting our students. We all know that the

costs of goods and services have risen in the past few years and remain high. And while UD's commitment to pay prevailing wage on all capital projects benefits workers in our state, it has also increased the cost of updating and maintaining our classrooms, labs and other campus facilities.

We are also very concerned about the cost of health insurance for our employees and retirees, which is provided through the state's plan. This expense increased by 10% — about $10 million — in the FY24 budget and is projected to increase 27% in FY25, plus increases of about 7%-10% annually in the coming years.

I recognize that healthcare costs are affecting every state agency that is appearing before this committee. We've let Gov. Carney know that we're exploring the possibility of setting up our own self-managed health insurance plan, if this could be more cost effective for our employees and retirees.

We have also taken other steps to navigate these financial challenges, including implementing a staff hiring freeze, limiting travel and discretionary spending, and pausing many capital projects unless they are substantially underway, or funded with external resources.

Still, we are anticipating operating deficits of about $40 million in FY24 and possibly about $40 million in FY25.

As we face these issues, we are working diligently to maintain the progress and forward momentum of the past several years.

UD remains committed to the sustained excellence of the top-ranked education, world-renowned research, dedicated service, and unparalleled campus experiences of our university. Maintaining the quality and breadth of our course offerings is a top priority.

We have developed well-aligned multi-year plans for enrollment, faculty hiring and capital investments, which position UD for sustained growth in a fiscally responsible manner.

Provost Carlson and I, along with other members of my senior leadership team, conducted a listening tour this spring to hear from faculty and staff throughout the University about how we will move forward amid these challenges. Overwhelmingly, we were told that we cannot sacrifice quality and long-term growth for the sake of short-term gains.

The large majority of our faculty and staff are themselves Delawareans, of course, and we are all committed to continuing to serve the educational, economic and social needs of our state.

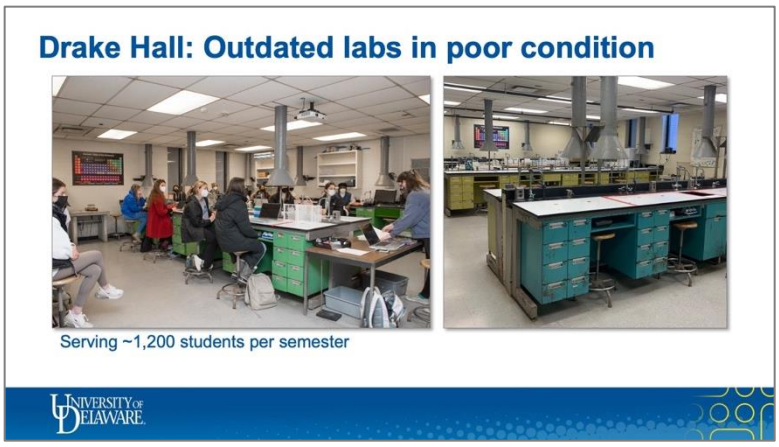
This is why your support of our capital requests is so essential this year.

So, let me first address our deferred-maintenance needs.

We are grateful for the state's investment in UD's campus over the years. With $30 million in state capital appropriations over three years, we were able to finally renovate a portion of Drake Hall and add labs to serve students in Chemistry, Biochemistry, Chemical Engineering and Biomedical Engineering, as well as many students who take introductory chemistry labs for Nursing and other majors.

In all, about 560 students take courses in the renovated portion of Drake Hall each semester.

The Drake Hall project is part of our effort to increase our capacity to educate more students in the STEM disciplines and prepare them to pursue careers in health sciences, biotechnology, the chemical industry and many other sectors that are critical to Delaware's economic future. This is how we want all of our labs to look.



However, older labs still exist in the sections of Drake Hall that have not been renovated yet. Even with the addition, we do not have enough space to accommodate all of the students taking introductory chemistry labs there, so we still have to use the old labs. And the labs in Drake Hall are fully booked for classes from 8 a.m. until 9 p.m. five days a week every semester.

In that section of Drake, we are still serving about 1,200 undergraduates each semester.

This is also true in several other academic building on campus.

Here you see Spencer Lab, Wolf Hall and Colburn Lab, which are three of our main STEM buildings. Together, these facilities serve about 4,300 students a semester.

In these and other facilities, we need to renovate or upgrade the HVAC systems, electrical systems, fire alarms, fire suppressant systems and more. In addition, we need to upgrade utility infrastructure and other systems that support our campus operations.

In our engineering facilities alone, we are facing a list of maintenance projects, upgrades and possible repurposing of space that could cost an estimated $280 million.

Another example is Sharp Lab, which serves about 7,800 students per semester. Many of those students are majoring in the health sciences, life sciences, chemistry and engineering, so they are typically required to take two semesters of introductory physics courses with laboratories. It is the kind of building where we could accelerate spending on our backlog if we had additional funds.

Sharp is home to our Physics & Astronomy department. This is a field of science where knowledge is evolving literally every single day. But alumni who took courses in Sharp decades ago tell me all the time that it has barely changed. Last week, we asked the chair of that department, Ed Nowak, to walk around with our videographer to show some of the conditions there.

In the two large lecture halls, the fabric on the seats is torn, and the padding is coming out. The lighting is poor, and they get humid in the spring and fall, which causes mold to grow under the carpet.

On the main floor, there is classroom and lab space for 1,000 students, but there are only two bathrooms, each of which has very old fixtures and no floor drain, so sometimes floods spill into the hallway.

The top floor has zero bathrooms. But it does have squirrels and bats living up there; sometimes they work their way down into the rest of the building and can be heard inside the drop ceilings.

The air-handling systems are noisy, outdated and inadequate. Put 30 students in the Introduction to Physics lab along with electronic equipment, and it becomes stiflingly warm. Sometimes the pipes in the air conditioning unit freeze, burst and flood the lab and the basement rooms below it.

The old, sprayed insulation in the ductwork is deteriorating, so dark dust comes out of the air vents.

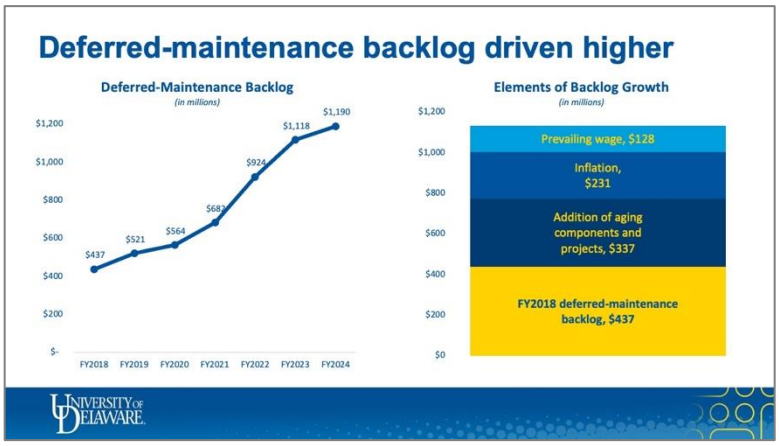
Humidity levels in the building fluctuate a lot. When it's too humid, water condenses on scientific equipment that's supposed to stay cold. When it's too dry, electrostatic shocks can damage the equipment, as well.

All of this works against us when we're trying to attract the best students and faculty to come to UD.

Don't get me wrong: The faculty in Sharp Lab are doing excellent work despite these conditions. Their teaching and scholarship are top-notch. In fact, some of their research was highlighted during a visit last month from Dr. Nicola Fox, who is the head of the science directorate for NASA.

But I know that this work would be even better if we could make the renovations and upgrades that are so clearly needed in Sharp Lab. And the longer we delay, the more urgent and challenging the situation becomes.

I want to explain the University's situation regarding our deferred-maintenance backlog.



As I mentioned earlier, our backlog now stands at $1.2 billion. This figure has grown substantially in the past few years, as you can see in the graphic on the left.

On the right, you can see the factors that have driven this increase.

Both graphics start with a deferred-maintenance backlog of about $437 million in 2018. That was certainly not a small number, but we were chipping away at it.

Since then, the backlog has grown for three main reasons:

- About $337 million has been added as HVAC units, generators, roofs and other building components have come to the end of their useful life. Think of all the components in your own home or here in Legislative Hall, then consider that UD has more than 460 buildings statewide. Our facilities teams coax as much life out

of those components as possible, but there's only so much they can do before replacement is necessary.

- Another $231 million has been added to our backlog simply because of inflation in the cost of labor and materials.
- And our commitment to pay prevailing wage on all capital projects at UD has added $128 million.

Those last two factors make up almost a third of the total backlog, and they represent simply an increased cost, rather than additional improvements.

As our backlog has grown, funding for deferred maintenance has not been sufficient to keep up, especially during the pandemic. This is a serious situation, so I want to talk about the plan that we have developed and have begun implementing to address our backlog.

First, we are examining all of our buildings and our space needs so we can ensure that we are using our facilities in the most efficient way possible.

Second, we are working to retire our outdated or obsolete facilities that have large deferred-maintenance backlogs.

And third, we are working to increase the amount of funding from UD's budget and our state capital appropriation to invest more money in renovations and upgrades where it will make the biggest impact.

This strategy won't turn things around immediately, but over the next several years, it can bring down the backlog to a more manageable level.

It's important to note, too, that the aging condition of our labs is not only a drag on our budget. It puts us at a clear disadvantage when prospective students — especially those from Delaware — compare UD with other universities in the region.

For example, Penn State University, which is one of our biggest admissions competitors, is building a massive engineering hub, with the state contributing almost three-quarters of the cost, or more than $230 million.

The University of Maryland, which already has extensive and modern engineering facilities, is constructing a new $150 million interdisciplinary engineering building — again with state funds covering about three-quarters of the cost.

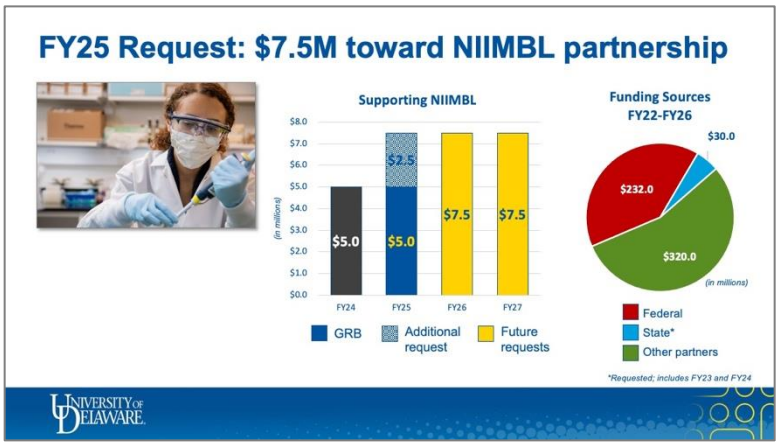
And Rutgers University in New Jersey has received more than $400 million from the state over the past several years for a variety of capital projects, including construction of the new 104,000-square-foot Richard Weeks Hall of Engineering.

We are developing a long-range funding plan to build and upgrade our academic facilities at UD. In the meantime, we need your assistance to adequately address the financial and competitive challenges presented by our existing infrastructure.

As I mentioned earlier, we are requesting that you build on the governor's recommended capital appropriation by increasing it to $30 million.

I do want to thank this committee for including $6 million in the FY24 capital appropriation for upgrades to the women's softball stadium at UD.

Construction will start later this month after the season is over and will finish early in 2025. The project includes new lighting for night games and conference tournaments, a synthetic turf playing surface, new dugouts and scoreboard, an expansion of the bleachers, and new fencing and a padded outfield wall.



The second part of our capital request involves state support for NIIMBL.

As you can see in this center bar chart, this funding is part of a multi-year request for the state to invest $27.5 million over four fiscal years. In FY24, the state provided $5 million. To meet the full request, we are asking the state to invest $7.5 million in FY25 and the following two years.

The pie chart on the right of this slide shows that state support is about 5% of the total five-year funding package for NIIMBL. Federal funding and investments by NIIMBL's other partners make up the remaining 95%.

As you know, NIIMBL presents a unique and powerful economic opportunity for our entire state.

Its headquarters is located at UD because of investments that the state and the University have made over the past two decades to build a strong science- and technology-based economy. The life-sciences industry has now grown to become one of the largest employment sectors in the state, with about 11,000 workers today.

Biopharmaceuticals are extraordinarily complex medicines made from living cells, and they have to be made in very precise ways. While companies compete on the drugs they make, they all use similar manufacturing processes, so NIIMBL enables them to work together and with researchers at UD and elsewhere to develop those innovations that enhance patient access to these medicines.

Since 2017, NIIMBL has resulted in more than $200 million in spending related to biomanufacturing among Delaware's 22 members. NIIMBL's presence here has encouraged many companies to locate or stay in Delaware and has led to the creation of more than 500 jobs in this sector and the retention of hundreds more.

NIIMBL also continues to benefit Delaware Technical Community College and Delaware State University by expanding their access to national partners and collaborative education and research projects.

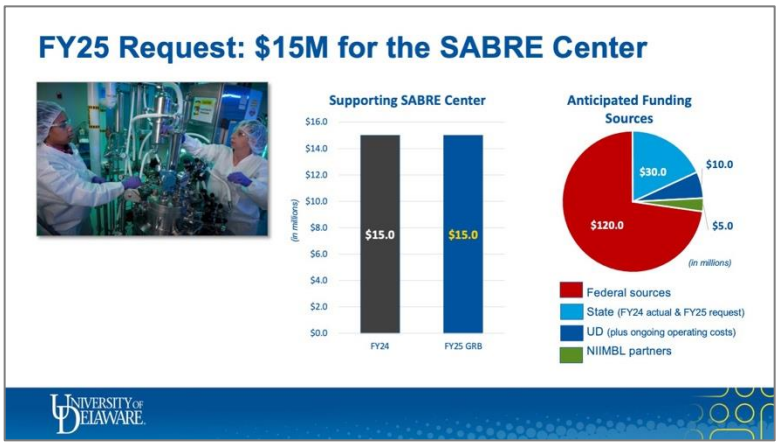
NIIMBL is also the catalyst for the most recent project on UD's STAR Campus: the SABRE Center.

Thanks to state and federal support, this project is now underway.

When it's complete, this 71,000-square-foot facility will train workers in current Good Manufacturing Practices, or cGMP. Workers with these highly technical skills are essential to the production of biopharmaceuticals and other products that require extraordinarily clean and precise manufacturing techniques.

It will also provide biopharmaceutical companies with a facility to test their innovations and make their products in an FDA-regulated environment. We anticipate that the center will be a major driver in transforming the local economy by attracting even more capital investment in biopharmaceutical manufacturing.

Conservatively, we estimate that the SABRE Center will generate about 3,500 jobs over the next five to 10 years, in addition to the initial construction jobs.



In FY24, the state provided $15 million in capital funds for the SABRE Center, and we are grateful for this support. As Gov. Carney has recommended, we are requesting the remaining $15 million in the FY25 budget to help fund the construction and outfitting of the SABRE Center.

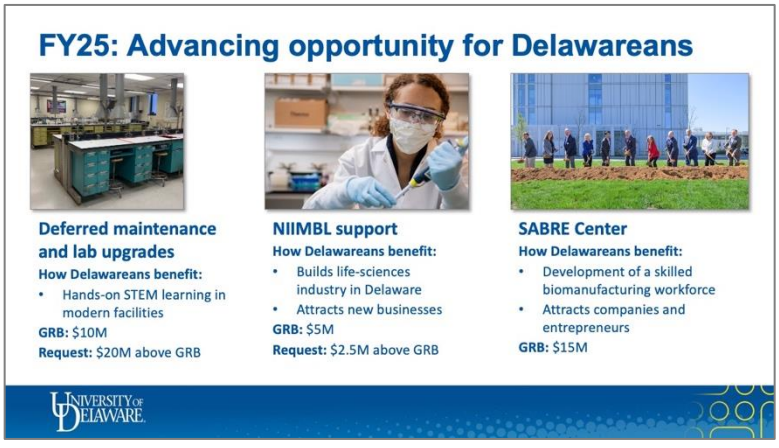
State support would represent about 20% of the funding needed for the $150 million project, as shown on the right. More than three-quarters of the funding would come from federal sources.

Finally, I want to thank the Bond Bill committee again for funding the Grant Assistance Program, or GAP.

This initiative was launched two years ago by UD's Institute for Public Administration to help Delaware municipalities access funds from the Federal Infrastructure Investment and Jobs Act. Since then, the program has helped local governments secure nearly $8.5 million in grant funding to help plan a bike path between Milford and Slaughter Beach and address issues such as flood mitigation, stormwater management and utility infrastructure.

And last month, the GAP team kicked off an intensive, eight-week program to train 77 people from throughout the state to develop compelling proposals that resonate with funding agencies.

It's a great resource, so please encourage the municipalities in your districts to reach out to UD for more information about this program and other ways we can assist them.



In conclusion, I believe you'll see that our capital appropriation requests for FY25 are aligned with our shared goal of providing the educational, research and workforce development opportunities that Delawareans need now and for the future.

Thank you for your time this morning. We'll be happy to answer any questions you may have.

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