

Testimony
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Higher Education and Employment Advancement Public Hearing
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**SB No 800 AN ACT CONCERNING FUNDING THE FRINGE BENEFIT
DIFFERENTIAL FOR EMPLOYEES OF JOHN DEMPSEY HOSPITAL AT THE
UNIVERSITY OF CONNECTICUT HEALTH CENTER**

Good afternoon Senator Handley and Representative Willis, members of the Higher Education and Employment Advancement Committee, my name is Rich Gray, Vice President and Chief Financial Officer, University of Connecticut. On behalf of President Mike Hogan, I would like to share his and my strong support for SB No 800 AN ACT CONCERNING FUNDING THE FRINGE BENEFIT DIFFERENTIAL FOR EMPLOYEES OF JOHN DEMPSEY HOSPITAL AT THE UNIVERSITY OF CONNECTICUT HEALTH CENTER.

The John Dempsey Hospital for the past 34 years, since it opened, has remained the state's only public acute care hospital and a vital component of the University of Connecticut Health Center providing the high quality clinical experience that is integral to the training of doctors and dentists in the University's Schools of Medicine and Dental Medicine. Our graduates are considered some of the best nationally and the University is committed to the clinical, academic and research enterprises that represent approximately one half of the University of Connecticut's personnel and budget.

In the Committee's agenda today you will hear testimony as to the current state of the John Dempsey Hospital and the exciting proposal for its future that resulted from the CASE report. Therefore being mindful of the members' time constraints I will keep my remarks brief.

The hospital is too small, its bed mix too limited, its Medicaid census too high, and its dedication to its public mission regardless of costs too strong to allow it to be viable in the future. Until the status quo is altered, the hospital will continue to record annual deficits.

Please make no mistake, the financial realities that occur as a result of the previous items as well as the deterioration of its physical plant jeopardizes its ability to provide the clinical environment for the Schools of Medicine and Dental Medicine required for the maintenance of these very valuable university programs that directly benefit the State.

In spite of over \$8 million in revenue enhancements and cost reductions obtained this year, the John Dempsey Hospital is on track to record a deficiency in excess of \$17 million for FY 2009.

A significant component of this deficiency, over 50%, is attributable to the fringe benefits differential paid to employees of the University of Connecticut Health Center including the John Dempsey Hospital. The fringe benefits paid to hospital employees must be paid from revenue generated by the hospital and this is not the case in other state agencies.

For the fiscal year ending June 30, 2009, given the competitive environment in which it exists, the John Dempsey Hospital is projected to pay approximately \$41 million in fringe benefit costs and this will cause a \$12.5 million deficiency. This amount is estimated to increase to \$13 million for FY 2010 and \$14 million for FY 2011. These deficiencies are caused by the substantially higher state fringe benefit rate as compared with the fringe benefit rates for competing hospitals in the state. For example, John Dempsey Hospital pays a fringe benefit rate of approximately 40% as opposed to a rate of approximately 28% as reported by the Connecticut Hospital Association for FY 2007.

The General Assembly has recognized this problem and for the first time this year provided \$3.6 million in relief through the Office of the State Comptroller. This amount equates to about one-quarter of the cost of the full fringe benefits differential. We are grateful for this support but in order to improve the viability of the hospital in the future, we respectfully request the Committee recommend full funding of the differential of \$13 million for FY 2010 and \$14 million for FY 2011.

We would respectfully ask the Committee to note the differential in fringe benefits is a market condition under which the John Dempsey Hospital operates now and will continue to operate in the future. We respectfully request that a permanent solution be implemented.

Thank you for your attention. I am happy to answer any questions you may have.

Fringe Benefit Cost

• JDH v. CHA Member Hospital Average

- As a state entity, JDH has fringe rates significantly higher than other hospitals.
- JDH has absorbed the cost of fringe benefits for its employees. For the first time in FY09, \$3.6M in the state comptroller's fringe account will help to offset some of that cost.
- The dollar value of that differential was \$8.4M in FY 05, \$6.7M in FY 06, 10.7M in FY 07, and is estimated at \$12.5M in FY 08, \$13M in FY 09, \$13M in FY 10 and \$14M in FY11.

