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Representative Gregory
Haddad

SENATORS: Flexer, Hwang, Maroney,
Slap

REPRESENTATIVES: Ackert, Arora, Doucette,
Green, Hall, Mushinsky,
Rochelle, Sanchez,
Simmons, Smith B.,
Sredzinski, Stallworth,
Turco, Ziogas

SENATOR HASKELL (26TH): If everyone wouldn't mind taking their seats? All right. Thank you all very much for being here. As is the tradition with this Committee, we are going to spend the first hour alternating between legislators, agency and municipal officials as well as students. We always value the input of Connecticut students who come and make the trip to Hartford to testify. We are going to stop with Scott Jordan and Andrew, I'm gonna mess up this last name and I apologize, Agwunobi from UConn and UConn Health.

SCOTT JORDAN: Thank you, Mr. Chairman and members of the Committee. Good afternoon, my name is Scott Jordan. I am the Chief Financial Officer and Executive Vice President for Administration for UConn. I'm joined by Dr. Andy Agwunobi, CEO of UConn Health. We are here to testify today in favor of House Bill 5115. We are in strong favor of the concept supported in this bill, that is funding of the unfunded pension and I know we're supposed to say unfunded liability clause in the State Pension

System that are currently being charged to UConn, UConn Health and other public higher education institutions in Connecticut.

This has been a critical problem for the University and for UConn Health over the last several years. We appreciate that this is a public policy problem for the State of Connecticut and that the legislature over the last several years has taken this seriously and is finally after generations of kicking the can, is funding the State Pension System. This is the right thing to do. However, an unanticipated impact on the University and UConn Health and public higher education is that the fringe benefit rate charged by the Comptroller to UConn and UConn Health is now so high that we are no longer competitive.

With your support, the University has experienced dramatic progress in recent years. UConn is one of the state's most important assets, something that we can all be proud of. We provide a first-rate yet affordable education. We have very high-quality healthcare and health education, medical and dental education. We are training Connecticut's young people or students for today's and tomorrow's jobs. We're creating a stimulus to the economy. UConn and UConn Health together generate about \$5.3 billion dollars of economic activity for the state, including 26,000 jobs and \$277 million dollars in state and local tax revenue, but these fringe rates, the unfunded liability costs are really a drag on our competitiveness.

Currently, state appropriations for UConn are about a quarter of our budget, that's the block grant plus fringe, but the rest of the money that supports the

University and UConn Health comes from research grants, tuition, student fees, and clinical revenue, and it's really the charging of these fringe benefit rates to those parts of our work that are creating a hard time for us to be competitive.

It's estimated for FY20 that UConn and UConn Health together will pay \$78 million dollars of own-source revenue, that is from tuition fees and clinical revenues to the State Pension System for these unfunded costs. Next year, that number is expected to rise to \$85 million dollars. That's why we are in support of this bill. The bill states that the State Comptroller will fund the unfunded liability costs out of the same mechanism that the State Comptroller uses to pay those costs for all state employees.

For most state agencies, the state funds 100 percent of salaries and 100 percent of the fringe costs. At UConn though, the state pays about 47 percent of our salaries, about 40 percent at UConn Health and for the remainder of our employees, those fringe costs are borne by tuition fees and clinical revenue and research revenue. When we talk about this at UConn, the unfunded pension liabilities amount to about \$700 dollars per student so when we talk about the rising costs of public higher education and the University's need to raise tuition and fees each year, it's about \$700 dollars per student that's going right from the student and family again, into the State Pension System to pay for these unfunded costs.

When we talk about our research competitiveness, our researchers, and remember, in higher education and in clinical work, when we compete for research we're

competing in two ways. First, we're competing directly against other researchers all over the country for federal funding on our grants, but we're also competing to attract and retain those researchers. Research dollars travel with the researcher so we are engaged in a very competitive business to attract and retain the best research staff at UConn and UConn Health and to win the funding. And when our research fringe rates are higher than our competitors, we are beginning to get comments from federal funders that our rates are too high and we're beginning to lose research staff at UConn moving to other universities to do their work because they simply can do more science at those other universities.

The third thing that's happening is that we're beginning to lose research dollars through subcontracting. It's totally permissible under federal research grants to receive the grant at Storrs say or at Farmington and to have the work be done by a colleague say at Ohio State and to have the University administer the grant from UConn out to a subcontracted researcher and that's becoming much more common in our space.

So I do want to thank you for your time today. The bill before you would resolve this issue once and for all. We acknowledge that it would be expensive but we are talking about a cost shift of these dollars from the University's tuition fees and clinical revenues to the state but it would go a long way toward making UConn more affordable for our students and more competitive for research and clinical work going forward.

Before I conclude today, I do want to offer a friendly amendment which I spoke to Chairman Haddad earlier about which is to clarify some of the language in the bill around what is and isn't funded or unfunded. We think that, we want to make it more clear and we will submit language to the Chair to ensure what the accountants call OPEB, other post-employment benefits, that the unfunded costs of retiree health insurance are also included in the analysis because that is the next big issue actuarially for the State to begin to pay down. So I want to thank you for hearing me out today and look forward to your questions. Thank you.

REP. HADDAD (54TH): Thank you. I had asked this question in the Appropriations Committee the other day but wanted to ask you as well. Have you ever quantified the amount say at the Storrs Campus, the amount of additional tuition that's required to accommodate the unfunded legacy costs?

SCOTT JORDAN: Yes. It's about \$700 dollars per student and that, when we talk about how we pay for this, we are talking about for Fiscal Year 21, about \$31 million dollars of pension or of fringe costs associated with unfunded liabilities, that we charge about \$24 million of those dollars to our tuition and fee accounts, mostly to fees to be honest. So it's about, dividing by our number of undergraduates, it's about \$700 dollars per student so it's not just to tuition, it's also to fees but that's, you know, fees are a big part of paying for higher education right now.

REP. HADDAD (54TH): Right and in that analysis have you ever -- would it be possible for you to calculate that based on what the rate has been, what

you've been controlled by the comptroller, to calculate that number over say the last 10 or 15 years, like it's \$700 dollars now, do we know what it was 10 or 15 years ago?

SCOTT JORDAN: It's knowable. I don't know it off the top of my head. I know that it was, before the state aggressively started paying down this debt it was near zero and as the state has started to pay down this unfunded liability, it has risen so there is a, there's, I can get for you in writing an analysis that shows you know sort of when it was negligible and how fast it's risen over the last several years.

REP. HADDAD (54TH): What you have provided for us which is on, I think it's a slide deck, it's slide 13, is the rate that's been charged from 1999 to 2020, and it shows here that it's gone from 19.38 percent to nearly 60 percent, 59.99 percent, right?

SCOTT JORDAN: Yes, that's right.

REP. HADDAD (54TH): But I imagine that this rate is a combination of normal costs and legacy costs, right?

SCOTT JORDAN: Yeah, the 59, the 59.9 is the combination of normal and legacy. I think the, I'm flipping through my slides, slide 13 myself but by memory, I believe the normal costs are about 4 percent and the remainder are these legacy costs.

REP. HADDAD (54TH): And over the last 10 or 15 years have the normal costs been increasing or have they been decreasing as a percentage?

SCOTT JORDAN: I think they've been pretty stable. I think with the, the last round of CBAC and state

employees agreeing to a reduced pension benefit, I think that number actually goes down in the future. I've not seen a schedule that projects that but my intuition is that it would go down over time.

REP. HADDAD (54TH): You have another chart here that breaks down the different rates. I'm not sure which slide it is but I just want to make sure I understood.

SCOTT JORDAN: Is this the chart that compares us to other universities?

REP. HADDAD (54TH): No. I was looking at the, let me see if I can find it here. The problem with PowerPoint's that aren't up on a screen. I'm sorry, it's slide 12 and that's where it breaks down the state retirement cost which is 59.9 percent but breaks down how that 50, how you arrive at that 59 percent, 31 percent unfunded pension liability, retiree health is another 20 percent and then I presume that these are normal ongoing costs.

SCOTT JORDAN: That's right.

REP. HADDAD (54TH): That adds up to a little bit under 59.99 percent and but my understanding for a tier IV employee, that the normal cost of their pension is down to as little as 2 percent so I can only imagine that as we've gone through the CBAC agreements, that the normal cost for each tier has significantly been reduced and that they must also I presume would be a growing number of your employees.

SCOTT JORDAN: Yes, that's right.

REP. HADDAD (54TH): Yep. Are there any questions from members of the Committee? Representative Turco.

REP. TURCO (27TH): Thank you, Mr. Chairman. Thank you, Mr. Jordan, for your testimony. I see here in the information you presented, the PowerPoint, examples of some different professors that were receiving grants that then left the university, and then there's a loss to the university of those grant dollars. Do you have an idea of the overall total loss to UConn in federal grants or outside grants that we may have received because of these fringe benefits? Just an estimate of how much money we're losing because of this?

SCOTT JORDAN: Our information right now is mostly anecdotal to be honest. We don't, it's hard for us to estimate -- we've gathered some information on those researchers that were at UConn and have left so those we know. What we don't know is how many grants we applied for and didn't get or how many grants we didn't even bother to apply for because when a researcher sort of did the math on their budget and remember, many of these grants are very small. You know we like to think of this effort as being a multi-million-dollar effort but we've got many faculty, over 1000 faculty, and they are sometimes applying for grants that are \$2, \$3, \$400,000 dollars and they're doing the math on well how many graduate students can I support on this grant or how many researchers or assistants can I have in the lab do this work, and when they build their budget, when you build in say a 60 percent fringe rate, there just may not be enough left for them to bother sometimes. And that's the thing we worry about is this hurdle that our researchers have to get over in order to make the work productive for themselves.

REP. TURCO (27TH): Thank you. It seems from this information it's at least safe to say that we are losing millions, tens of millions, losing top notch research professors because of this, right?

SCOTT JORDAN: Yes, that's right. That's right and there's a broader issue to that. Under President Katsouleas, we have a goal of doubling research over the next ten years. We want to be a place that all, you know all over in the research community, researchers at other universities want to come to. We want our reputation to be that we are aggressive and serious and the legislature's already stepped up with the UConn 2000 bonding program. We've built great buildings and laboratories and we have attracted very good researchers to come. We need to follow on and develop the reputation for being entrepreneurial and a great place to work where research dollars, you know, go far and that's really a lot of what we're doing here is trying to build a strong reputation. You know, the truth is, outside we're interviewing people all the time and we hear from potential faculty and leaders that we're trying to recruit to come to UConn that Connecticut has a great reputation for supporting public higher ed outside of you know in the national market and that this can support that.

SENATOR HASKELL (26TH): Thank you, Representative Turco. Other questions? Representative Ziogas.

REP. ZIOGAS (79TH): Just two quick questions perhaps. Is it your contention that you have no ownership in any of the unfunded liabilities, past liabilities or?

SCOTT JORDAN: I'm going to choose my words carefully here. Yes, there are university employees

who have retired and who are drawing on the state retirement system now and the university is part of the state government, all of our employees are state employees. What I would contend though is that the method for budgeting for that now by charging current university operations and current university students for the cost of maintaining those benefits for past university employees makes us uncompetitive now and is unfair to those students now and I think I speak for UConn Health as well. It affects their competitiveness too and we look forward to working with the legislature and with the Committees and the chairs on if not this bill, some other methodology that would address the issue of the unfunded liabilities in a way that didn't so harm our competitiveness.

REP. ZIOGAS (79TH): Okay. So the corollary to that question then is if you were able to run your own pension system or you were able to do your own actuarial analysis, would you still own those bodies and that liability?

SCOTT JORDAN: I'd suggest that if 20, 30, 40, 50 years ago we had done so, then sure. We have negotiated those benefits, run our system, but we probably would've charged ourselves and socked away the money at that time. The unfunded liability today is I think best seen as a debt that is there and even if today we could renegotiate anything at all with our current employees, it doesn't affect the amount that's owed.

REP. ZIOGAS (79TH): Does it make any sense at all for you to do your own actuarial studies for whatever UConn represents?

SCOTT JORDAN: We work with the state comptroller's office to do an estimation of the allocation of the unfunded liability just for our own financials, the gap requires that we allocate a piece of it to our financials, but we don't, what we aren't able to do easily is understand exactly our cost is for our retirees right now to try you know allocate it better but we would be open to thinking about the way the costs get allocated in a different way but this sort of rough justice of allocating costs based on current payroll which is you know how this fringe rate works. The unfunded liability cost is a cost that's been accrued over generations and it's mostly being paid out to you know retired employees and the state is allocating the cost out to its agencies based on current payroll and that's you know that's a rough way of doing it. But either way the rate, having a 60 or 70 percent fringe rate really does affect our current competitiveness. None of our competitors, I think Dr. Agwunobi can speak to what the fringe rates are at his competitors, at say Hartford Health or other hospitals around Connecticut and it's much lower than the rate he's paying employees at UConn Health.

ANDREW AGWUNOBI: I think our analysis shows it's probably about 28 percent out there in the market versus our 65 or something percent.

REP. HADDAD (54TH): Thank you. Representative Mushinsky, did you have a question as well?

REP. MUSHINSKY (85TH): I did. Thank you, Mr. Chairman. I'm on the Finance Committee also and you guys came in and you asked to be independent from the rest of state government and we granted that.

SCOTT JORDAN: When did we do that?

REP. MUSHINSKY (85TH): AT UConn 2000.

SCOTT JORDAN: Oh okay.

REP. MUSHINSKY (85TH): And I had a little bit of misgivings cause we were losing some control over the growth rate but you guys said you would do a good job so it was worth giving you your independence but now you're trying to come back in and put the cost back on the general fund I think. Is that correct?

SCOTT JORDAN: I think, and 2000 was a little before my time, but as I understand the UConn 2000 statute, UConn has sort of partial independence with regard to UConn 2000 which is the bonding program so we have some independence in how we b.i.d. and procure construction projects. We still follow the state law with regard how we do it but we have our own departments do that rather than through DAS, but with regard to employee benefits and administration, we're still very much a part of state government. We don't run our own payroll system. Our employees get a State of Connecticut paycheck like everybody else through the state comptroller's office and Core-CT. We don't run our own benefit programs. That's why we're here today is that our employees get state pension benefits and the state comptroller charges us the unfunded liability costs for those benefits.

REP. MUSHINSKY (85TH): So how much of this is from folks that already retired and how much is current employees?

SCOTT JORDAN: I actually don't have that in front of me, don't know off the top of my head but we can get that for you.

REP. MUSHINSKY (85TH): Okay. I'm trying to, you know being on the Finance Committee, I'm trying to figure out what this shift is going to do the general fund. That's an important question.

SCOTT JORDAN: Sure. I think, you know to be straightforward about it, when we talk about UConn Storrs and regionals paying about \$30 million dollars this year and UConn Health about \$50 million dollars, you know give or take off the top of my head but I think all told between the two campuses we're at about \$85 million dollars of unfunded pension or unfunded liability costs that are built into our fringe rates. That is the amount that we would be asking to shift to the general fund, all or part. The truth is the, you know, we're very much appreciative of the attention that's been paid to this. We've been talking about it for a couple of years and this Committee and the Appropriations Committee have been listening and have reacted. Last year's budget appropriated \$33 million dollars?

ANDREW AGWUNOBI: Yeah, \$33.2 million dollars and is proposed in this year's Governor's budget which is about \$19 million dollars, \$19.1 million dollars short of the total but we're very thankful for that.

SCOTT JORDAN: Yeah, I think this is progress. I mean the truth is that the problem has been acknowledged and has been you know funded in part both at UConn Health and I think the community colleges were funded last year too so there's, so we very much appreciate your attention on this and we're just looking forward to pushing forward and getting some relief, further relief at UConn Health and some relief at UConn Storrs and regionals.

REP. MUSHINSKY (85TH): Well don't forget to talk to the Finance Chairs cause this is gonna impact Finance and it's you know it's rather a large item so be sure to talk to those folks.

SCOTT JORDAN: It's a big number, yes.

REP. MUSHINSKY (85TH): Thank you.

SENATOR HASKELL (26TH): Thank you, Representative Mushinsky. Senator Hwang, did you have a?

SENATOR HWANG (28TH): Thank you, Mr. Chair. Thank you very much for your time here. It seems like déjà vu all over again but being said, just take me through for an education basis, you use the word legacy cost. How did we get there? How did we get to the present? It didn't happen overnight but just take us through in a brief synopsis how are we here now with the legacy costs and that's one part of the question and I'll let you handle that one right now.

SCOTT JORDAN: Sure. I'll do my best. I'm sure there are a number of people in the room here who know a lot more about the nuts and bolts or the history of this Connecticut state pension than I do but as a sort of general history, the State of Connecticut and most other states have had a defined benefit public pension system for a very long time. These pension systems require that if you, you know if you make a promise to pay somebody in the future that you start to set some money aside in the present and build a pension fund to support that. Many states have consistently over time underfunded those systems. You know Connecticut's not sort of uniquely underfunded but you know, I think in the top 10 for underfunded pension systems that some, I'll get my history a little bit wrong, but

somewhere in the mid, early mid-2000's the governmental accounting standards boards and the Wall Street rating agencies started paying much closer attention to this and requiring that states and localities and other public entities do proper accounting and actuarial analysis of this which highlighted the issue and many states began to fund their pension systems more aggressively and that Connecticut did not at that time very aggressively fund the pension system so if you think of a pension fund as sort of a bathtub with water running in and the drain coming out, the preference is for the tub to be as full as possible to that of the percentage of funding that's required to fund those future benefits. Connecticut's current funding is low against our peers and in fact, I don't have the report here in front of me but I think we're 30-40 percent funded now. I'm sure somebody has the report with them but is on a path to fully fund the system over the next couple of decades requiring that we put statewide about 1.8 billion dollars into the fund each year to get to full funding over time. The fringe rate that we're talking about is the method by which within the state budget, that \$1.8 billion dollars gets allocated out to each agency so there's a charge that's put on every dollar of payroll of about 60 percent. I just got the actuarial table here. So we're about, am I reading this right? About 43 percent funded? Yeah, statewide so there's still, there's still a way to go and the way within the state budget that \$1.8 billion dollars is raised is by allocating that cost across all state agencies as part of this fringe rate which is about 60 percentage points against the payroll of the agency and that method, there's nothing that we're talking about today that changes

the schedule that requires that the state put \$1.8 billion dollars into the pension fund. All we're asking, and I know that's a big ask, I shouldn't say all we're asking. What we're asking is that the methodology by which the state uses to allocate that cost across state agencies not include that unfunded portion to higher education, that that be paid for centrally by the general fund. I hope that answers your question.

SENATOR HWANG (28TH): Well it's a little bit of a history and you didn't get there by yourself and at UConn we have a lot of smart people, yourself included and Dr. Agwunobi. You realize of this, you're fully cognizant of this problem, right?

SCOTT JORDAN: Oh yes.

SENATOR HWANG (28TH): And you're working really hard. You don't really enjoy coming up to us every year asking for the money. Why haven't you made the initiative to kind of change your structure, change the allocation, change your benefits. I think one of the big compliments that I offer to UConn and UConn Health System is the fact that you are one of the few state systems that offer the buy-in contribution, a 401K plan that you created to allow some mobility and options to your employees. I think that came as a very pleasant surprise and I wish the state would take some of that cue and adopt it through a broad comprehensive program but in some ways, aren't your hands tied to be able to make the truly necessary structural changes to be able to address solving the problem because you've got a gaping hole and your hands are tied by a CBAC agreement, would you not say?

SCOTT JORDAN: Yeah, I think that's right. The CBAC agreement, you know UConn employees are state employees, 95 percent of our employees are in collective bargaining agreements and part of CBAC so this benefit, for the purposes of this benefit, our employees are no different than any other state employee. We don't, UConn does not negotiate benefits. We have some autonomy in negotiating with several of our union, our professional staff unions and our academic unions, our professors and our grad students that have recently unionized. We negotiate directly with them but the negotiation is limited to pay and working conditions. We do not negotiate benefits. That is all negotiated with CBAC. Just a slight caveat to that, we do have some negotiation with just our grad students on benefits cause they have a special health insurance plan but no, you're right, our hands are tied with regard to negotiating of these pensions. I will say that to the extent that any of this is in our control, we've taken some limited steps recently. President Katsouleas did reallocate some of our research fund balance. We do get, in our research program the federal government does give us some money what they call indirect costs to pay for administration and to pay for maintenance and repair and equipment of laboratories, and we do have a fund balance that has accumulated over years for that and we have allocated some amount of that for the next 2-3 years to temporarily reduce just the fringe rate on research grants, on federal research grants because it's so urgent for us to be competitive space that we've taken that unilateral action. And that's just at Storrs and regionals. I think at UConn Health they've done a similar move but that will only last for a couple of years. We'll sort of run out of

that source of money over the next couple of years. We're trying to prime the pump and build our research program and also, you know, obviously buy some time for us to work together on a larger solution. But that's -- to the extent that we have some ability to act unilaterally, I think we've done all we can do.

SENATOR HWANG (28TH): And the charts that you provided, just two that come up to mind are just striking to me. I think page eight taking a look at John Dempsey versus the Connecticut Hospital Association, for you to have to compete and provide inpatient care services, the contrast in your cost differential and your fringe benefits differential is alarming from a standpoint of how it's increased, that's one. I think even more important is the sense that UConn is our state flagship research institution and given the bioscience initiatives, of which I'm very proud the state has been a leader in, it's going to struggle against competing national competitors. When you look throughout the country, you know state flagship facilities, research facilities are not burdened with such a heavy legacy cost that are compounding at such alarming rates with no ability to kind of control their own destiny which forces you to come back every year. So I think for me, these are concerns that will impact the long-term research capability as well as the growth that is needed to get to the level of natural reputation so I'm extremely concerned about that. But another pivot of concern is this, UConn tuition has risen for the student population on the average of 7 percent over the last number of years I believe, right? How many years if I may?

SCOTT JORDAN: Gosh we've risen, we've increased tuition at least every year of the last seven or eight years.

SENATOR HWANG (28TH): Yeah, I have a point of reference that tuition has risen every year since 2013, an average clip of nearly 7 percent and what I'm understanding, it's estimated that potentially 700 of students' tuition payments are going to cover this fringe cost expense. Would that be a fair statement?

SCOTT JORDAN: Yes, that's right.

SENATOR HWANG (28TH): And so as a result, not only are we undermining and affecting our state's flagship and research institution in a sector to which we have high potential in growing and being a national and international leader in, we're hurting our students and the residents of Connecticut by raising their tuition to cover an expense in which your hands are tied and just imagine the possibilities if we could unshackle you to be able to create innovative adaptive plans that could be conducive to your business operations and your costs down the road but at the same time, crafting a plan that would be attractive to the unique and changing needs of your employees. Would you welcome that?

SCOTT JORDAN: Oh sure and I think you know the truth is many of our employees are already in our alternative retirement plan which functions a lot like a 401K. New employees that choose the state employment or state retiree system are in a plan that mostly pays its own way. Our biggest issue here is with those employees that are in the old tier I, tier II system that has this large unfunded liability and the way the state has chosen to

allocate those costs onto the university. So we really do appreciate the efforts that have been made to date both to give the university some autonomy on construction projects, to negotiate our own labor agreements with certain unions and to offer this alternative retirement plan. It's so much, and it's nobody's fault in this room that the retirement system wasn't funded in the past and in fact, we were all grappling together with how to do the right thing in the future so I think we're all, we're all together on that.

SENATOR HWANG (28TH): Well thank you. It's frightening news. It's a difficult situation we're at, the conundrum here. I wish we had greater flexibility to adapt a benefits and pension program that could serve everyone's needs and be able to allow you toward greater sustainability and competitiveness but unfortunately, the situation we are in right now in this state and the current CBAC structure doesn't afford that so we'll have to look at a different way and that's unfortunate, but I do appreciate you sharing this kind of perspective and we'll learn more about this as we go along but thank you very much. Thank you, Mr. Chair.

SCOTT JORDAN: Thank you, Senator.

SENATOR HASKELL (26TH): Thank you, Senator Hwang. Representative Arora.

REP. ARORA (151ST): Thank you, Chair. Thank you so much for being here and as you all know, this Committee is very focused on giving all of you the resources and the capacity to serve our students. The question here I wanted to ask is of the total fringe costs of \$305 million dollars, \$160 million dollars is being paid by or reimbursed by, and I'm

talking just for UConn, not the health, \$160 million dollars is being paid for by the state.

SCOTT JORDAN: That's right.

REP. ARORA (151ST): That's right? And would you say that that \$160 million dollars is about equal to the legacy cost because one of the things we need to break up and be transparent is, what is the ongoing cost which you should basically bring to market levels or competitive levels and what's the legacy cost? And yes, there are some actuarial methods and there are all kinds of things to be done, but when I look at the \$160 million dollars being reimbursed by the state separately, it does appear kind of that are the legacy costs. That's the assessment of the state for the legacy costs and so the state is indeed paying for the mistakes or the underfunding that was done in the past. So my question is let's just, can we have transparency? What do you think? Are you saying that the adjustment being done of \$160 million dollars is not equal to the legacy costs or the legacy costs are higher than \$200 or \$210 million dollars? And secondly, so that's my first question, and my second question is you have a \$1.5-billion-dollar budget, right? And we're talking about \$140 million dollars in fringe costs which come out to, because \$160 million dollars is being paid by the state anyway, the legacy, \$140 which comes down to off your salary about 28 percent, so the question is, is that competitive? Are you, do you need to make further changes? I know you just said you have made changes. Are there other changes you can make to make yourself competitive in your structure? You do have autonomy. Is there more autonomy you need from this body?

SCOTT JORDAN: I think I understand your question, representative, and thank you for reading our slides. I know we gave you a, we gave you a stack. I think this is on slide 41 of a very long stack so this is the total operating budget of the University. It is true that the state does provide substantial fringe support to the University. The way that the state payroll system is set up is that any employee that we pay out of our state block grant, 100 percent of their fringe costs are paid from the state comptroller just like any other state employee so for example, at the Storrs Campus, 47 percent of our employees are paid out of the block grant so 100 percent of the costs, both the normal costs and the unfunded liability costs are paid for out of state general fund and that provides honestly a very generous subsidy to the University when compared to our peers. It's those employees that are paid from 100 percent non-state sources, whether it's tuition fees or research grants that the University pays 100 percent of the fringe costs for those employees that we're talking about and of those employees at the Storrs and regional campuses, about \$30 million dollars of that cost is for this unfunded portion and the challenge for us and the challenge for us with regard to our competitiveness is because of the activities that we are engaged in, if an employee is funded by a federal research grant, their benefits come out of the research grant too so even as the subsidy for the University's general operations is relatively generous from the state, that fringe rate of 60 plus percent makes us uncompetitive in the research sphere.

REP. ARORA (151ST): I'm sorry to interrupt but let's just look at the big picture because I think

we can definitely go and slice which goes against, it's like central accounting we all do in our own budgets and I'm sure there is management accounting you guys do which is really good stuff, but for this Committee's purpose, let's look at the big picture. You have a billion and a half in spending, \$300 million dollars in fringe costs, we pay \$160 million dollars of that right now, \$140 million dollars you pay yourself. You're saying that \$140 million dollars is not right, you want to pay 100. Is that the number we're saying and as long as the legacy, and I know there are buckets which match against each other, that's all fine and good but focus on the big picture that, do you want us, do you think that, are there other things we can do? Because at the end, you know, we're a family. You know, we're a state, you're a state, we're going to have to do whatever we need to do and I'm sure, you know, there are other Committees give you their help but what my point is, are there things you can do in your 1.5 billion dollar budget to see that \$160 million dollars of the fringe legacy costs is sufficient and reduce the amount of additional resources either changing actual things, whether it is what you have already done, you've done some phenomenal things as Senator Hwang pointed out, a 401K, unheard of in this, around here. So you know are there other things you can do? Can we push you? Can we encourage you? Can we ask you to do other things so that you can, that \$1.47 billion dollars, you got a pretty big number you're managing too, that the \$160 million dollars is enough? Can we, maybe we don't need to put the entirety on the unfunded because it does -- and also can you provide us transparency if that legacy is indeed more than \$160 million

dollars? Give us more data on that to show that the legacy is more than \$160 million dollars?

SCOTT JORDAN: Yeah, I appreciate the way you're looking at it. Of course there are always things we can do to be more efficient but the net result of this particular issue is a real competitive drag on our ability to do our work. I think it's less an issue at Storrs and the regional campuses because it particularly affects our research, and more of an issue at UConn Health where they're competing head to head on a cost structure every day against other hospitals with very little ability to negotiate price.

ANDREW AGWUNOBI: Right, right. So, Representative, first of all I have really enjoyed meeting you and hearing some of your ideas and I'd actually asked as you know and I'm hopeful that you'll come down and see us cause we're open. We're constantly open to big ideas around how we can -- I get exactly that you're saying, well this is a big, you have a big budget so is there somewhere else in that budget that we can find some of the dollars so we're open to that and we're working with OPM. We're working with the administration but one thing I will say is over the last ten years, we've actually managed these costs internally so it's only last year for Fiscal Year 2020 that we actually came to the legislature and said look, these costs have been rising, the unfunded legacy costs have been rising so much that, you know, our revenues you know in our market, we cannot cover them anymore. In the past what we've done is every single year we've grown our revenues; we've done what we call a financial improvement plan internally to the tune of \$9 to \$10 million dollars of additional savings and you know

we've closed things and we've grown things and we just to go the point where it's outstripped our ability to cover it and that's why we're here. And I think the other thing is the magnitude of it. So if you think about us being in a market, competing in a market where when we hire someone, we're paying close to 70 percent fringe rate for that person. I sit sometimes with CEO's of other hospitals and they're speechless when I, when they say well how much does it cost you to hire someone and I tell them. They're speechless. But despite that, we've been able with the help of the state in terms of buildings that we have and equipment and the rest of it, we've been able to go out there and attract some of the best people to UConn Health and we've pretty much filled our hospital, filled our outpatient, the schools are at the maximum, all the different wonderful things that are happening there and that is bringing in revenue which is at least 50 percent and we only get 23 percent of our revenue from the state. So that's bringing in revenue that has helped us to do what I just said which is to manage it internally and break even from a cash perspective every year for the last ten years. We haven't come for deficit funding to the state for a decade but so we're sort of at the point where it's just gotten to the point where we need the state's help to help us to address this issue. Now, it's going to be collaborative. It may be that we put our heads together and we figure out solutions but in the short-term, you know we have to, we have to cover our costs.

REP. ARORA (151ST): Thank you so much and thank you for all you do. We really appreciate that.

SENATOR HASKELL (26TH): Thank you very much, Representative. Representative Ackert, I just have a quick question before we go to you. It's just a clarification on the last few comments. You mentioned you transitioned your own employees to a 401K but given that you're a public educational institution, is that a 403B or?

SCOTT JORDAN: Yeah, I think it's a 403B.

SENATOR HASKELL (26TH): Okay. It's not actually a 401K.

SCOTT JORDAN: It's not a 401K. It's called the alternative retirement system. It functions very much like a 401K.

SENATOR HASKELL (26TH): That's what I thought. I just wanted to make sure we're all on the same page.

SCOTT JORDAN: And it's optional. We have not pushed anybody into the system. An employee that's either management or non-union or a member of our professional employees' union or our academic union, or professors, may choose that option.

SENATOR HASKELL (26TH): Thank you very much for that clarification and with that, Representative Ackert.

REP. ACKERT (8TH): Thank you, Mr. Chair, and thank you for your information so far. Could you help me with slide 15 on this handout and just kind of go a little bit with your peer institutions in terms of the fringe rates cause we had a lot of percentages thrown out here today and I see that in terms of the UConn Faculty, that 53.2 percent is, oh, sorry, I'll let you get to it.

SCOTT JORDAN: I'm sure I've got several copies.

REP. ACKERT (8TH): I know there's a lot of papers, a lot of papers around here. So just if you could, just a little information on the comparisons to, cause some are close, you know I mean some are you know I look at Georgia, University of Georgia at 49, what, give me a little bit of a, and I see some are less of course and you averaged them out to 36.6 and you're using that number to compare it to your overall and some are relatively close so [crosstalk].

SCOTT JORDAN: Chart, right?

REP. ACKERT (8TH): Yes, you got, yeah, page 15, slide 15, whatever.

SCOTT JORDAN: Sure, happy to. This is the --

REP. ACKERT (8TH): Thank you, thank you.

SCOTT JORDAN: So these rates, and I know there's a lot of fringe rates in the world. These are the rates that we negotiated with federal NIH, National Institutes of Health that we are allowed to charge to our federal grants and we do them in various classes of employees so the first class is faculty. We have a faculty rate, we have a professional employee rate, and we have what we call special payroll that is mostly grad students, part-time research assistants, post-docs, you know, there's a number of folks that do this work and sort of reading across the top, our faculty rate that you know what we're able to charge to the feds for faculty is 53.2 percent, for professional employees it's 64.8 percent and for this other category, 24.3 percent. What we show in the charts below are similar rates for peer and aspirant institutions that, and you can see the UConn Health rates are on

this chart as well and you know we can, we promise we're not cherry picking these for various rates with these are genuinely are pure institutions, the ones that have similar size and research profile to the University of Connecticut, Michigan State and Georgia, Indiana, etc. and then we show our aspirant institutions, you know institutions we'd like to be more like you know with the investments that we're making in UConn, that we can be like in the near future, and then other institutions is this list of just others that people might naturally compare us to so some other regional universities or I shouldn't say regional institutions, in our region. You know Yale is a national university of course that's here. Rutgers is here. We're actually very similar to Rutgers in many ways, etc. And you can see that the average of our peer institutions for faculty is 36.6 fringe rate, at UConn it's 53.2. For professional employees, 65.8 is UConn's rate, our peers are 40.8 percent. So there's a real difference there, a substantial difference that makes us honestly less competitive. This is the rate that gets put into a researcher's budget proposal when they go to the National Science Foundation or National Institutes of Health or any other federal agency and there, you know these budgets are very detailed. It shows how many people are going to work on the project, what their salaries are, what their benefit costs are, etc and when a proposal from a UConn researcher is stacked up against of these other researchers, there's very real differences in what a federal reviewer might consider to be overhead, you know, this fringe rate is part of the overhead and what they like to think about is well geez, how much science is going to get done or is all just going into overhead and this is

the thing we're concerned about. In the real work that gets done on the ground, we want more science and more dollars and more work, but also reputationally, we want to be, if we're going to be one of these other institutions that is attracting more research and more jobs to Connecticut, we want to have a reputation of being very aggressive and competitive in this space.

REP. ACKERT (8TH): Thank you. So then can you have, I know you had a slide that had 59.9 percent. The 53.2, let's say we'll take and just compare it to you know Michigan, make it easy, the 47.2. Is this current fringe rates or is this with legacy or is this right now where you're at? So when you put it in, I don't think, I'm guessing that when you put it in, this is okay. This is our current rate now; this is what we have to figure in for our current employees. Is that correct? Is it today's?

SCOTT JORDAN: Yeah and I'm sorry this is confusing, like I said, there's so many rates. The slight that I showed that showed the 59 percent, that is the current rate the state comptroller charges the University for an employee. The rate that we negotiate with the federal government for reimbursement, which is what this slide shows, is actually a several-year moving average and it is an average across all employees. So in say this professional rate of 64.8 percent, that includes all professional employees in our research, that are performing research including those that are in the state employee system with the 59 percent rate for them, but also those that have chosen the alternative retirement plan that have something closer to an 8 percent, I think it's an 8 percent rate for them. I could be wrong, it's probably a

different number, but it's a much lower number so it's a blended, it's an average of all the employees in our research program over I think it's a two-year rolling average, I think is how we do it, something like that. So it's, so the, it's hard to crosswalk from the 64.8 percent federal research reimbursement rate to the actual rate the comptroller charges which changes every year and is actually particular, it's 59 percent for an employee that chooses SERS, but the actual rate that we pay includes that portion, but also includes reimbursement for the health insurance plan that employee took and FICA taxes and it's a fully loaded rate and this 64.8 percent takes all of that into account too. I'm sorry if it's confusing.

REP. ACKERT (8TH): No, I'm just trying to think about how you know the percentages are high either way I'm just saying is it, is that are, I'll make it simple, is our benefit package better than the other institutions I guess?

SCOTT JORDAN: I think our health insurance benefit that we offer is very good. I don't know how good it is at some of the others. My guess is we're comparable especially to many of the other public. Our retirement is generous but the biggest difference between us and the others is the unfunded portion. You know, each state does it differently and the private universities of course don't have that problem. They're all offering something closer to a defined contribution plan.

REP. ACKERT (8TH): Thank you. Thank you for your time. Thank you, Mr. Chairman.

SCOTT JORDAN: You're welcome.

SENATOR HASKELL (26TH): Thank you, Representative Ackert. Other additional questions or comments from Committee members? Seeing none, we thank you both for your testimony.

SCOTT JORDAN: Thank you, Mr. Chairman.

SENATOR HASKELL (26TH): Wonderful to see you and thank you for your expertise on this tricky issue. Next, we're going to move to the student list. Forgive me, the handwriting is a little tricky to read, Nitán? Nután, I apologize. Welcome. Thanks for being here today.

NUTAN MISHRA: So I'm here to testify for SB 102 which is the act concerning the learn here, live here program.

SENATOR HASKELL (26TH): I'm sorry, ma'am, if you could state your name just for the record.

NUTAN MISHRA: Oh, it's Nutan Mishra. So good afternoon honorable members of the Committee. As a soon to be graduating student at the school of Social Work, University of Connecticut, I realize the importance of the bill SB 102, an act concerning the learn here, live here program.

In 2017, 42.51 percent of graduates from Connecticut moved out of state. This bill will go a long way to bring back students moving out of the state after graduating to come back to the state and generate revenue for the state, curbing the brain drain. There are four kinds of brain drain that might be concerning for economic, cultural, or political reasons. One worry is that if the state cannot convince its most skilled children or graduates to remain within its borders as adults, then the state will suffer from the loss of this homegrown talent.

What may be of concern is not the loss of state born talent, but whether this loss exceeds the in-migration of out-of-state talent. In that case, a state would experience net brain drain. The opposite of net brain drain is net brain gain when a state enjoys greater in-migration of skill than out-migration. Even if a state experiences no substantial net brain drain because it attracts people to replace the talent it loses, gross brain drain might still be worrisome since talented people born and raised in a state may have a better understanding of the state's needs and of its people. They are also likely to be more similar to the other residents of the state culturally and demographically, which may lead them to better promote social capital development than talented people from outside.

I am also a single mother living in a rented apartment who is about to graduate. I wish if this incentive was in place I would have been all set with the down payment to buy my first house in the state where I wish to continue to work. Non-traditional students like me are constrained by the family obligations to move out of state. This bill certainly provides incentives for the graduates of the state to continue to live here and be around their family and friends. I strongly urge you to support SB 102, an act concerning the learn here, live here program which would help and support on-traditional students like me to be able to establish themselves with their family after graduating within the state. Thank you.

SENATOR HASKELL (26TH): Thank you very much for your testimony and for your personal insights.

Other questions or comments from other Committee members? Senator Hwang.

SENATOR HWANG (28TH): Thank you, Mr. Chair. Thank you very much for your testimony. You bring a totally different perspective to this bill. When you cite being a nontraditional student, when we hear about the brain drain we're usually thinking about the young millennials. You bring up a very interesting perspective that as a nontraditional student, and thank you very much for your commitment to social work which is predominantly among the lower paying most important work that we have. This kind of program would actually allow you to pretty much set aside some of the work experiences that you have and particularly because as a single parent you don't have a lot of family that's able to offer you cash down payment to make that home purchase commitment, you bring a completely new perspective to what the learn here, live here program would provide.

NUTAN MISHRA: Thank you. And also being an immigrant as well it's kind of difficult because once you are graduating in school you move that network right and to move out of the state is a challenge as well so yeah, both ways.

SENATOR HWANG (28TH): And when you talk about nontraditional student, I think in your testimony you said you would have to actually move out of the state to be closer to family, to be able to provide that kind of network. We don't think about you know as it relates to education for me, people being impacted by this, we don't account for the nontraditional student. You brought that into mind and how do you feel about the income level from the

standpoint of \$120,000 dollars, maybe bringing it down to \$75,000 dollars?

NUTAN MISHRA: It's not even \$75, it's below that [laughter] so it's really a tough decision you know especially when you're working and you know planning on buying a house and you have kids you know so yeah, it's, especially in the social work you start off with really low income and so this will really be a big help to, as we establish and you know keep going with the.

SENATOR HWANG (28TH): So the \$75,000-dollar-limit threshold would actually not make an impact on you, it would actually help you?

NUTAN MISHRA: Yeah.

SENATOR HWANG (28TH): Okay. Thank you. Thank you very much for your perspective. Thank you, Mr. Chair.

SENATOR HASKELL (26TH): Thank you, Senator. Are there additional questions or comments from Committee members? I echo my colleague's comments. Thank you so much for your perspective here today. All right. Now we're going to go back to Ben Barnes. Welcome.

BEN BARNES: Hello. Good afternoon.

SENATOR HASKELL (26TH): Good to see you.

BEN BARNES: Thank you for the opportunity to testify before you. My name is Ben Barnes. I'm the CFO for the Connecticut State College and Universities and I'm here to testify in favor of House Bill, sorry, let me take off my glasses, 5115, got the number right, an act concerning unfunded pension liability portion of the fringe benefit

costs for employees of the constituent units, the state system of higher education. We are very clearly in favor of relief from our fringe benefit obligations in any way that we can get them, get such relief and this is a very reasonable and appropriate method of providing that relief.

I've provided you some written testimony that details some of the statistics with respect to how unfunded liability impacts the cost and financial situation of the state university system. I want to point out first of all though and thank the General Assembly for their generosity with respect to supplemental fringe benefit payments to the community college system. As of now, as of Fiscal 20 and again under the proposed budget for Fiscal 21, the state Committee college system, while we continue to have some fringe benefit expenses, the supplemental payments from the state fully cover the unfunded liability portion. However, the state university system is more like the University of Connecticut experience that you heard describe earlier this afternoon. With respect to the state universities, we anticipate that as much as \$350 depending on how you calculate it, it could be a little bit more than that, of the tuition fees paid for by in-state students at the CSCU's is used to pay for unfunded pension liabilities and unfunded OPEB liabilities. We believe that the overall impact to the state university system is approximately between \$11 million and \$12 million dollars a year that must be paid out of tuition funds. Obviously, I have long supported in this current position and prior positions paying down unfunded liabilities. The best way to address unfunded liabilities is to pay them down. There's

only one thing worse than paying unfunded liability payments and that's not paying them and I think the state has made the wise choice of aggressively pursuing the financially prudent approach of addressing these unfunded liabilities and I certainly support that.

I will say though that having tuition paying students bear a portion of that is ironic given that of all the folks in the State of Connecticut who may or may not have some, may have contributed in some way to the underfunding of our pension liability, 19 and 20-year-olds are certainly not on that list given that during the entirety of their adult lives, the state has been fully funding the normal costs of the pensions for our employees so it is unfortunate that the way that we apportion these costs does harm our students.

So we significantly are in favor of ways to address that. We are also, I would also say that I find the entire system that UConn and the CSCU's and the community colleges must participate is I think needlessly complex so to Representative Arora's questions earlier, yes, the state provides significant financial assistance to all of our portions of higher education system. Whether that amount is sufficient or not is something that you all will continue to grapple with into the future. I will tell you that to the extent that state support goes up, tuition will go down and services will be expanded and the value of that education will be improved. To the extent that we are using a significant portion of our financial assistance for unfunded liability, that does not get to either defray the cost that our students pay or to improve the quality of the services that they get. I'm sure

I'm preaching to the choir on that point but we continue to see this as a real stumbling block to our being able to achieve financial stability.

One of the points that I want to make is beyond my testimony, is that the unfunded liability amortization of our state employment retirement system is continuing to go up. In the most recent actuarial evaluation there's a schedule of future year payments of the amortization of unfunded liability. In the current year it's \$1.6 billion dollars, \$1,596,000,000 and next year, that will go to \$1.74 billion dollars and then it will get to \$1.875 billion dollars, \$1,875,000,000 and there it will stay, at least according to the current projections until 2042 when it goes down for a couple of years and then disappears. That is good. It's great that we will achieve a steady state and we will have the ability to budget both at the state level and within the constituent units of higher education. We'll have a better sense of what our fringe benefit will cost in future years because we won't have aggressive growth and unfunded liabilities driving growth in our fringe benefit rates. But we are still, we're not quite out of the woods. We have several years before those costs stabilize and I know \$400 million dollars or close to 4, well \$300 million dollars added onto our current unfunded liability costs is going to make a material difference in the amount that we have to spend for each of our employees who are funded out of our tuition funds and will make a material difference to our students. So I encourage you to look favorably on this bill and frankly, on other approaches that have been floated around and are

under discussion in the building. I strongly encourage you to give them great consideration.

SENATOR HASKELL (26TH): Thank you very much for your testimony on this issue and sort of the broader problem posed by unfunded pension liabilities. I just want to hone in one issue and that's when representatives from UConn were up, they mentioned that they had transitioned their employees to a 403B, away from sort of the more generous packages that got us into this mess. Has the same been done with the CSCU System?

BEN BARNES: I believe he was referring to what's called the alternative retirement program, the ARP which has existed since 2000, it's been about 10 or 15 years. I'm not sure exactly when that program came into effect and we've been enrolling folks in ARP consistent. I think that the attractiveness of the ARP program is greater today because a new employee today faces the choice of going into ARP or going into tier IV. Tier IV is significantly less generous than any of the prior tiers. The actuarial value, the normal cost for a non-hazardous-duty tier IV employee is as Representative Haddad indicated, about 2 percent which is a pretty not very generous pension. I know most people who receive a 401K that's employer funded will receive greater than 2 percent. I mean 2 percent probably exists but there are a lot of private sector employees who receive 5 or 6 or 7 percent of their pay as an employer contribution to their 401K. The State of Connecticut for new employees is making about a 2 percent contribution and frankly, the employees are paying for that because they have, they're making contributions of greater than 2 percent to the pension fund. So right now, the ARP Program is more

attractive; however, there was a settlement last year through the State Labor Board called the, what was it called the SAG award, the CBAC ARP grievance that was resolved and required the state to open a new window for existing employees who had elected to take the ARP Plan as opposed to the pension plan were given an opportunity to change their designation. There was a ruling that somehow they had not been given enough opportunity to make an informed decision when they first elected the defined contribution plan. The result of that was a very large number of employees who switched from the ARP Program back into the defined-benefit pension program across higher education. This is the, the ARP Program exists only in higher ed. So the ARP Program continues at a significantly lower enrollment. I think this is true at both UConn and CSCU which is unfortunate because the ARP Program certainly has benefits for our employees.

SENATOR HASKELL (26TH): Thank you very much for your answer and thank you for your comments too about the culpability or lack thereof of 19 and 20-year-olds when it comes to our unfunded pension liabilities. I appreciate those comments. Are there questions or comments from Committee members? Yes, Representative Haddad.

REP. HADDAD (54TH): Does the limited culpability extend to 23-year-olds as well?

BEN BARNES: You know, depending on how young they were when they started working. [laughter]

REP. HADDAD (54TH): I just want to understand one thing. I mean I think that you mentioned, of course in the budget we've adopted, budgets we've adopted

recently, we've provided additional funding to the community college system.

BEN BARNES: Yes.

REP. HADDAD (54TH): To help cover the legacy cost component of the fringe benefit cost. Did you say that, does that amount to the whole amount at this point or is the, I'm trying to figure out, how is the number arrived at, how we arrived at that number in recent years? Is it the whole amount or is it a portion of the [crosstalk]?

BEN BARNES: Well there are a couple of different, it's been done in several annual tranches and the most recent number, the amount that was added for Fiscal 20 is dedicated to unfunded liability whereas the amounts that were added in earlier years were dedicated to fringe benefits generally and so I don't, I don't believe you've committed too much, don't get me wrong. We certainly would welcome all the support we can get from the General Assembly but at this point, based on the way that the, that those funds are distributed to us from the comptroller, we believe that the unfunded liability portion has been fully covered and I profoundly appreciate that and the community colleges who are I think at the beginning stages of a fiscal recovery, I think a lot of that should be attributed to the relief to fringe benefits that have been provided by the General Assembly.

REP. HADDAD (54TH): Thank you. I imagine that the medical costs in retirement isn't included in that calculation or is it?

BEN BARNES: No. That's correct. It fully funds the unfunded liability in SERS and then the

remainder of it is used to defray the cost for normal cost in SERS, for medical benefits and for OPED payments, all of which are bundled into the fringe rate.

REP. HADDAD (54TH): Right. Okay. So, no, that's good. And then for, in the CSU System, you know UConn had provided us with a figure that said that they felt like the unfunded pension liability and OPEB liability, I think this might be both, accounted for \$700 dollars of additional tuition and fees paid for by every in-state student and I think you've calculated it to be \$355 dollars for CSU students. Is that relatively accurate?

BEN BARNES: Yes and that's just a testimony to how low our tuition is. Just a plug.

REP. HADDAD (54TH): Still a bargain.

BEN BARNES: Still a bargain.

REP. HADDAD (54TH): Still a bargain, right. And then the last thing I guess I just, you know members have been asking questions about where is the fundamental fairness, right? You are an agency like every other agency and I think that we could, I mean I would not disagree with the idea that you should continue and even students who pay for a portion of your faculty and staff should pay for the normal cost, the ongoing cost of benefits for the staff that are teaching them but just to clarify a couple of things. One is when we talk about legacy costs that are assessed against the CSCU system, we're not actually, that's not linked to your past employees specifically, correct? That is a methodology that's used to pay for the entire fringe benefit liability,

unfunded pension liability for state employees over time?

BEN BARNES: Yes and it would be impossible to calculate that because while you could in fact attribute, it would take a lot of work for actuaries, thank god I'm not one, to determine the overall liability based on where people worked, in which tier and exactly which employees, how much liability is identified with each individual employee or group of employees. However, all the contributions to the pension fund and all the earnings in the pension fund since that pension fund was started have been made in a general way. So the state puts you know a billion dollars or \$2 billion dollars into each year and those funds are not distinguished for, oh this is for retirees, this is for active employees at UConn or you know Southern Connecticut State University. There's no distinction in the contributions so determining the allocation of unfunded liability is not what you could come up with some method of allocating it, there is no, there's no, you could argue about that forever. There's no real answer to how much of that lies with our employees as opposed to employees of the Department of Children and Families.

REP. HADDAD (54TH): Right and so what we do is we allocate the unfunded legacy costs to payroll, essentially to individuals who are currently under our payroll system.

BEN BARNES: Yes.

REP. HADDAD (54TH): You were OPM secretary for a number of years.

BEN BARNES: Uh-huh.

REP. HADDAD (54TH): My understanding is that the total number of state employees has declined significantly recently and somebody I think was, at least they said that actually we're at the same number of state employees as we had roughly in 1950. Is that roughly correct?

BEN BARNES: Well yes, that is true. The number of employees is, I don't know about 1950, it's been a while since I paid close attention to those numbers but yes, it certainly is. We are way down in overall number of employees. Obviously pay has risen so payroll is higher. The one clarification I would point out is it's allocated based on the number of employees who participate in SERS so actually this year when we had a large number of folks who opted out of ARP and back into SERS because of the arbitration award, that actually resulted in an increase in the payroll that is covered by SERS which all things being equal, pushed our fringe benefit rates down slightly, but that was a one-time event so the sort of denominator in that calculation has grown a little bit recently because of that one of several I think thousand employees switched from one plan to the other.

REP. HADDAD (54TH): Thank you. That's all my questions.

SENATOR HASKELL (26TH): Representative Hwang.

SENATOR HWANG (28TH): Thank you, Mr. Chair. Welcome back, Mr. Barnes.

BEN BARNES: It's a pleasure to be here.

SENATOR HWANG (28TH): Thank you for being here. You mentioned in your testimony in the first paragraph that the state has kind of covered your

outlying fringe benefits. Do you know what that dollar amount is?

BEN BARNES: For the unfunded liability portion of fringe benefits?

SENATOR HWANG (28TH): Yes.

BEN BARNES: Yes. The total amount of operating fund fringe benefits that are paid for by the state in the community college system is approximately \$11 million dollars so we, of the supplemental fringe benefit assistance that you give us which I believe is \$24 million dollars, about half of that goes to pay for the unfunded liability portion for our operating fund employees.

SENATOR HWANG (28TH): Has that been averaged, is that a one-year occurrence or has it been on an average basis?

BEN BARNES: That's the number this year. We were lower in prior years. This is the first year where we've gotten to that point. It was increased significantly for fiscal 20 and for fiscal 21.

SENATOR HWANG (28TH): Okay. Is there any way that you could provide a chart related to that kind of growth for me?

BEN BARNES: Yes, I certainly could.

SENATOR HWANG (28TH): Okay. That would be great. Now what would you say would be the cause of that significant spike and may I perhaps venture a guess that I presume all of the board of regents employees, state employees are bound by the CBAC agreement as well? Like the UConn employees?

BEN BARNES: Yes. That's correct.

SENATOR HWANG (28TH): And would the CBAC agreement that was passed the last couple of years be a factor in that spiking in the --

BEN BARNES: No, no. This is the, the reason that it has gone up is that the legislature and the Governor have in their budget included supplemental fringe benefit payments to the community colleges. While I don't wish to, I don't know exactly what the rationale for doing it that way was, but I expect that it was a desire on the part of the legislature and the Governor to address some of the fiscal crisis that were confronting the community college system but that it seemed preferable to put that money into operating fund fringe benefit support rather than increasing the block grant which carries with it additional fringe benefit costs and is more, does not align with the policy preferences of legislature and Governor in making that support. We welcome the additional financial support however it came and think that targeting it toward operating fund fringe benefit relief is an especially helpful mechanism for supporting the community college system.

SENATOR HWANG (28TH): I appreciate the explanation and I appreciate the previous Governor's foresight and its budget office for having supplemental idea.

BEN BARNES: Much of this was by, the recent increase was proposed and signed into law by Governor Lamont and I extend my praise and thanks to him for that as well.

SENATOR HWANG (28TH): The question would be the spike in regard to what you've experienced the last couple of years, what would be the cause of it?

BEN BARNES: The spike in?

SENATOR HWANG (28TH): In your unfunded liability costs, pension costs from previous years as you stated earlier? What would be the cause of it?

BEN BARNES: Well a significant amount of it is because of the SAG award which has resulted in more people, more of our employees are covered under SERS and therefore, we are now carrying a larger share of the statewide unfunded liability as a result of that change and that took place over the last two years, but mostly over the last Fiscal Year.

SENATOR HWANG (28TH): And the followup on that I think Senator Haskell kind of asked in regard to what UConn provided in the defined contribution program, I think you kind of articulated very effectively, but I'm not sure I got the answer. Does the board of regents and all of its schools have an alternative defined contribution program that you offer to your employees?

BEN BARNES: Yes, it's the same plan that UConn has. It's called the ARP plan. Even in the alternative plan, we are subject to single negotiation of wages and benefits through CBAC which the CBAC agreement includes this ARP plan.

SENATOR HWANG (28TH): Thank you for that clarification and with that said, you mention with very good explanation the tier IV versus the defined contribution program and the 2 percent plus or minus on the anticipated rate of return. Just what is the expected, what's our expected rate of return for tier I employees that the state guarantees?

BEN BARNES: Well the normal cost for tier I employees, I happen to have the actuarial report

here in front of me. For tier I is just 6.7 percent except for hazardous duty for whom it is 9.46 percent. Bear in mind, there are not very many employees left in tier I. Tier II which probably has a lot of employees, the normal cost for non-hazardous-duty employees in the tier II or IIA program is between 4 and 5 percent.

SENATOR HWANG (28TH): And actuarially looking at tier I there's less but what's been the relative rate of return of our pension programs? I know for us in the General Assembly at least we've reduced the expected rate of return but we haven't really hit the expected rate of returns in our pension investments for a number of years relative to the percentage you just outlined here. Would that be correct?

BEN BARNES: Oh no. We certainly have hit it in many years. I mean there have been some tough years. I mean I don't think, we didn't hit it in 2008 but there certainly have been a number of years in which we far exceeded it and I believe, you know you should put that question to the treasurer who is the custodian of those funds but my recollection is that the long-term interest earnings of the pension fund are in the, between 6 and 8 percent so that we, you know the treasurer has, I mean it's a very efficient way to invest funds in a large pension fund. The costs that they pay are extraordinarily low for management and custody of funds and the returns are I think in line with the typical long-term investment program that you'll see in pension systems or retirement systems.

SENATOR HWANG (28TH): Thank you. So let me repeat again. You've shared that the average return for the last number of years has been 6 to 8 percent --

BEN BARNES: Yes.

SENATOR HWANG (28TH): From our pension returns. Okay. Thank you very much for that information. Thank you, Mr. Chair.

SENATOR HASKELL (26TH): Thank you, Senator Hwang. Representative Arora.

REP. ARORA (151ST): Thank you for being here. I have a quick one which is what percentage of employees now do have ARP in your system in order of magnitude? Is it 5 to 10 percent, or is it a very large, is still a large number?

BEN BARNES: I think it's over 10 percent but it's under 25. I think it's in the upper teens but I'll get that information and give you an actual count.

REP. ARORA (151ST): Thank you.

BEN BARNES: I just don't have it off the top of my head.

REP. ARORA (151ST): The other question is there anything else that can be done because it looks like tier I at this point, at 6.7 percent and tier II at 4 to 5 percent is in line with private sector, what we give in private sector, at 4 percent is generous, private sector 5 percent but that's fine. The question which I have is at this high level of fringe benefits which we have seen across the board, are they all related to legacy costs of benefits which were promised earlier and people who have retired that the current employees of the state system are actually very competitive and in your

system specifically, are very competitively being given in terms of their benefits and of the current CBAC? Is that a true assessment?

BEN BARNES: I think that with respect to pensions, I mean if you look in the current actuarial evaluation, the normal cost statewide for our SERS pension is \$210 million dollars. I mean that's a lot of money but when you think that the total pension payments that the state is making is more like \$1., I'm not sure what it is this year, \$1.6 million dollars, the \$200 million dollars in normal costs is a small fraction of this. So if we had 100 percent funded pension and we're not amortizing unfunded liability, the state's pension cost would be the, well at least for the SERS pension, would be \$210 million dollars which would be pretty affordable, I think would be a few percent of our overall payroll would be very affordable. I will tell you that there are other things in our fringe benefit rate which are also expensive. We are paying as we go for, I mean there's some additional payments beyond the pay as you go costs for retiree health benefits so we don't, we are not actuarially funding retiree health benefits and those are quite expensive. Those end up being I think about, sorry I don't have the full breakdown, I think it's about 20 percent of our payroll goes to pay for retiree health benefits. We are, our health insurance program I think has made a lot of strides in recent years to find you know more affordable ways to provide the benefits but it remains a very generous health benefits program. I'm not going to say it's too expensive but it is a significant portion of our fringe benefit rate.

REP. ARORA (151ST): Coming back to the Connecticut State System, you know do you think there's other efficiencies that can be made and if there is anything this body can do to help you retain or get those efficiencies because at the end of the day, the commitments made by previous administrations and previous legislators are what they are but I think it's very important for us to say what going forward the commitments we are making or going forward our efficiency of our system is what, is our responsibility in some sense. Is there anything we should be doing to improve your efficiency so that we can cut the costs without any kind of detriment to the services and the education you're providing?

BEN BARNES: You know I think we are now, the quality of the pension benefits that we offer to new employees, we are now at a point where it's not certain that we are, that it is an inducement to hire people. There was a time I think ten years ago when people wanted to work for the state or whether it's for CSCU or for anybody in the state because of the quality of those pension benefits and I think people still want that, but my experience in hiring people recently, when I've hired people from outside of state government, they are underwhelmed by the quality of the pension benefits that we offer. It's not a particularly generous pension and they, most employees feel compelled to make considerable effort towards personal savings as a way to supplement the pension that's offered by the state so at this point, I think the discussion, if you're considering, I mean it's collectively bargaining currently, but were you to consider whether we should seek to make benefits offered to new employees less generous, I think you really should

consider where we are in the marketplace. Right now, it is much easier for me to hire at CSCU somebody who works elsewhere in state government who's already invest, you know, a tier II employee from another state agency will find a job at CSCU far more attractive than somebody from outside. I mean obviously we try to pay market rates of pay. We have wonderful health benefits. We do have a pension system but compared to other potential employers, certainly compared to many municipalities or other public sector employers, our pensions are not much of a selling point right now.

REP. ARORA (151ST): And if you leave the pension system alone, is there anything else that can be done to improve efficiency at the, from other segments of your budget so that we don't have to, you know, money is sponge-able. If you save somewhere else we can, we don't have to [crosstalk].

BEN BARNES: You know this is an opportunity for me to talk about some of the things we're doing. I'm happy to quickly cover them. We are in the middle of consolidating all of the back office functions within the community college system, accounting, payroll, purchasing, accounts payable, accounts receivable. These are all being consolidated.

REP. ARORA (151ST): Can you find some savings there so we don't have to pay this extra \$8 or \$9 million dollars you're asking for? [laughs]

BEN BARNES: You know, we would love to use the savings that we get from there to improve the outcomes for our students. That's our focus but obviously, we are going to do everything we can to do right by our students but we also have to honor our commitments to our employees and we will

certainly continue to try and find ways to do things more efficiently. I will tell you that higher education and efficiency, they sometimes, you know there are a lot of competing interests in higher education and optimal efficiency may not be the topmost priority in everyone's mind but I am certainly bringing that perspective to CSCU to the best of my abilities.

REP. ARORA (151ST): Thank you.

SENATOR HASKELL (26TH): Thank you, Representative Arora. Are there other questions or comments from Committee members? All right. I do want to flag for Committee members that we are almost at the two-hour mark and have only gotten through a handful of folks testifying. Thank you very much, Mr. Barnes for your insight and next I want to invite Dr. Kevin Claffey, and Dr. Claffey, I understand Cindy Polinsky may be joining you or would you like to testify separately? It's entirely your choice. If you wouldn't mind both identifying yourselves for the purposes of the record, thank you. You'll just need to press the button until the little red light turns on. There you go.

CINDY POLINSKY: Hi. My name is Cindy Polinsky. I'm the executive director of UCHC-AAUP.

KEVIN CLAFFEY: So my name's Kevin Claffey. I'm a Professor of Cell and Cancer Biology at UConn Health. I'm a cancer researcher. I've been at UConn Health for 20 years and in full disclosure, I'm a tier IIA employee and I was involved in CBAC negotiations in 2011 and 2017 so there's a lot of complicated that go on, but I don't know how I get my work done when I get involved in CBAC.

So researchers at UConn Health and UConn, we're totally dedicated to trying to find new ways to cure very serious diseases like cancer, Alzheimer's, psychiatric diseases and cardiovascular diseases and the mission at UConn Health is extremely important and of course, we want to find any way to support the institution. Our key missions are providing care to everyone and anyone, training the next generation of doctors, but also be a major driver in the economic drive for the State of Connecticut.

Now over the last several years it has been clear that payments required to cover our state pension unfunded liabilities, as you termed the legacy payments, have been growing at an alarming rate, but the good news is and I think you just touched up on it, is that these are supposed to peak in 2023 as far as my understanding is. But one thing that this really hurts is these payments or charges to our students in tuition, that are charged to our patients and with respect to research as you've heard, they're charged basically on my direct costs on my grants. That means that the fringe benefit rate, the total average fringe benefit rate for professional staff that I have, that do the research, that allow me to get grants is 74 percent. That's our Fiscal Year 21 projected rate that I'm putting in on grants now and our competitors are at 43 percent. When we put those type of budgets in, what we get back is this must be some kind of error they have in the budget, but it's not an error, it's a real thing.

Now what else happens is because you're spending that much extra for that personnel, we've run very tight lines when we have a certain budget. These many budgets that are from federal grants, they

don't go up every year. You get the same amount. It's just flat and thus, you have a depreciating value as you go on with that grant so if you don't have as many people because you're paying a large fringe rate, you can't get an extra half a person or a poached doc, you are less competitive getting less data, less able to reach our goal and then be competitive for the next one. This isn't something that may happen. It's happening now and although our research has increased quite a bit, it's mostly because we've been able to collaborate together, find new areas, and hire new people but as this continues to rise up, guess what? As Dr. Agwunobi tells you, we really have reached the limits of being able to make the next steps. If we can't hire new researchers and be competitive with the doctors that we hire, our mission is really complicated. So trying to move this unfunded liability pool into the comptroller's budget I think is a great idea, but one of the ideas I want to try to get across which seems pretty reasonable is figuring out a way to moderate these increases that we're seeing which I suspect as far as I understand max out in 2023 and part of that has to do with tier I people aging and really the costs that are outgoing and catching up to where you're supposed to be in our pension fund that has to be paid out.

SENATOR HASKELL (26TH): Sorry to just ask you to wrap up your remarks if you don't mind given the three-minute timer but I'm sure they'll be --

KEVIN CLAFFEY: I can't hear a timer so if it's a --

SENATOR HASKELL (26TH): The timer did go off but I'm sure they'll --

KEVIN CLAFFEY: If it's a beeper, I can't hear so I, I,

SENATOR HASKELL (26TH): No problem.

KEVIN CLAFFEY: I have a hearing loss there so I'll just finish up and be able to take any questions but it's clear that one of the things we have to do is continue to train these people, make advances, convert some of those into businesses and opportunity and actually provide a situation where the people we train have a place to stay here, be the doctors here in Connecticut and be the researchers for the next generation. Thank you.

SENATOR HASKELL (26TH): Thank you very much for your testimony and for all of your work in ensuring Connecticut is a vibrant pipeline of future doctors and researchers in the state. Are there questions or comments from Committee members? Yes, Senator Hwang followed by Representative Ackert.

SENATOR HWANG (28TH): Thank you, Dr. Claffey, and thank you for your work along with the attached testimony of your fellow colleagues. I see it's dominated by the bioscience area so kudos to that. It's funny, it has an impact on your ability to retain young scientists and be able to keep up with the research that you're competing on internationally. You know you're IIA but if you had an opportunity would you take on the, what's the definition, the 1R defined contribution program and if yes or no, why?

KEVIN CLAFFEY: Well it's a complicated question but let me give you a generality for what we observe. Most of the people coming, I'm a, I was a faculty president so I was involved in all the new

orientations, what they're choosing. Most of our new employees are choosing the alternative retirement plan, that are professionals, that are faculty as far as we see. I don't know what the pools are in the support staff, the nursing or that pool but generally they do. The tier IV is actually what's called the hybrid plan which is a combination of both. It's a contribution by the employee and by the employer but it accrues and it's self-funded as we heard before. So this is all about, and that was CBAC in 2011, 2017 so going forward for our new employees, that's not what we're talking about. We're talking about how do we catch up. Now as far as for myself, in 2011 the CBAC agreement set up a hybrid system which was you contribute into it and it's a guaranteed return by the state, a guaranteed return is 4 percent so I put money in, the guaranteed return is 4 percent if I take that out when I retire as a lump sum so I can take it and annuitize it or I can get the pension payout based on whatever metrics are there. So that system is basically set up so that when you pay into it, there's enough money there to pay out for an individual. The SAG conversion that you just heard about, every person that went into SAG had to put up the money that actuarially covered their pension benefits. So if I had ten years, I had to pay into that to cover that benefit so there really wasn't a loss for the SAG except for the fact that, as Mr. Barnes pointed out, if you're now on the pension plan, the state's charging you part of that unfunded liability to cover that pension but it's not for that person; it's for everybody else that you didn't put enough money in. So this isn't anyone's fault here, it's just where we are and I guess we like that term legacy payments. Is that an answer to

your question? You better be careful with what you ask. [laughter]

SENATOR HWANG (28TH): Wow for a sole biology professor that was a pretty good finance explanation but I found it interesting. Again, thank you for your work. It's an issue that we're in a conundrum as a state to address. We're locked by the CBAC agreement. It is what it is, moving forward, but I also wanted to note as a point of interest for me is what you said, that the new incoming employees are leaning quite heavily to the defined contribution program and that is a powerful message that I think perhaps state government should heed to understand the flexibility and the new mindset for new employees in the current state of pension and benefit concerns moving forward. Would that be a fair statement?

KEVIN CLAFFEY: I would be, as I said, this is generally the faculty and faculty have a different idea. Many, if you're a doctor you're making quite a good salary and many of them can add you know whatever separate money that they want to support their retirement. The other issue is the vetting. You know, you need ten years of vest, I'm sorry, vesting, not vetting but you need ten years to vest and many people that come into bioscience and even physicians aren't clear whether they're gonna stay for ten years so they have one day, the new rules are you have one day to decide on what your retirement is, that's orientation day. If you haven't reviewed that ahead of time, then you have to make your decision. We see the faculty going predominantly for the alternative retirement defined contribution plan.

SENATOR HWANG (28TH): Thank you, Dr. Claffey.
Thank you, Mr. Chair.

SENATOR HASKELL (26TH): Thank you, Senator Hwang.
Representative Ackert.

REP. ACKERT (8TH): Thank you, Mr. Chair. Thank you
for your testimony. I can't find it here in my
packet, I'm not sure why, but I can't find it online
either but I want to go back to a term that you had,
you mentioned 74 percent is what you're putting into
your grant proposals; is that correct?

KEVIN CLAFFEY: That's correct.

REP. ACKERT (8TH): With passage of this bill,
passage of this legislation, now I have it, passage
of this legislation, what does that number become?

KEVIN CLAFFEY: I don't know. I don't know the
exact number because that's, the way that number
becomes 74 percent as you heard is a pool of all the
employees and then a breakdown of you know your
Social Security, your, the healthcare plan, etc, all
those things. I don't know what it is. I'm praying
that if this occurs, that we'll be down to 55
percent. That would be fantastic for us but it
still is not really anywhere near where other
institutions are but compared to this kind of level
that we're at, it's quite good. You heard Mr.
Jordan from UConn has pooled together money and
supported their fringe rate for research, I believe
he said 59 percent but I don't remember. It may be
55. At UConn Health we only had the support going
up until this July so that's why all the grants that
I'm submitting now which would be in the next Fiscal
Year would get funded or at 74 percent unless
there's some other way to recover that cost.

REP. ACKERT (8TH): Thank you. So how will that new -- so let's say this is next year, this legislation passes, how will you know what that new number is? Someone's gonna provide that? That 74 percent, somebody provides that to you?

KEVIN CLAFFEY: That's correct. They make a prediction on what it's gonna be based upon what they believe the state support will be.

REP. ACKERT (8TH): Is anybody in this room here that gave you the number 74 percent or is there anybody that does that?

KEVIN CLAFFEY: That actually is calculated by our sponsored research or grant office. They say this is what the actual costs are gonna be unless we find, unless we get additional funds to defer that back so that's a calculated number that's negotiated with NIH for that money. What happened last year was we got additional support and they had to go to NIH and say can we drop the fringe rate, this certain percentage because we're gonna pay the other part of it and they allowed, NIH of course says yes, you can do that.

REP. ACKERT (8TH): It seems like it's a self-imposed number and the number is derived from your research department?

KEVIN CLAFFEY: No, it's derived from the entire institution by all the personnel that are there and adding up all their fringe costs and averaging it out.

REP. ACKERT (8TH): Okay. So more than one grant number, everyone's giving a different grant number that they're including so far today. That's why I'm trying to get a grasp whether it's 64 --

KEVIN CLAFFEY: Well UConn --

REP. ACKERT (8TH): Or 74 or 59, I'm just trying to get my head around this a little bit.

KEVIN CLAFFEY: So that's what's tricky. So the current, right now our fringe rate is 59 percent because we got additional support last year that was targeted just for research staff and that lowered it to 59 but the real number for that I believe was 65, somewhere in that range, 64, and so next year, we start at 64 and that's another 10 percent and the reasoning, as I told you and Mr. Barnes said, this unfunded liability curve is going like this and that has to do with you know how much they're trying to catch up and at what time. My feeling is it's sort of like you know my card is maxed out and I'm gaining interest every month and I'm only putting the minimum on and it just keeps going, like you don't catch up and I think that's what going on. If that could be flattened out at all I think that, you know that's what you normally try to do, pay down some of the principal, hopefully you don't have to pay as much in the next couple of years. One other, if I may, one other point, in 2022, it's clear that the state and our universities are going to have a major retirement pool that's going to go out and that's an area where strategically, if you're managing that workforce that you need to be able to decide what you're gonna do when that happens, and I think it's a serious opportunity in one sense but it's also a serious concern because you are going to be losing a number of people who have lots of histories with our higher education and how it operates, but it's certainly an area where you can try to determine where there's consolidation in

areas and how to most efficiently deal with the work pool that you have.

REP. ACKERT (8TH): Thank you, thank you. Oh, yes?

CINDY POLINSKY: Do you mind if I just jump in for a second on that percentage? So the rates you know for the grants in terms of the unfunded pension went down to 59 percent, but they are gonna spike back up and for our researchers who have grants that are three or four-year terms, it's really problematic so they need, in order to be able to plan their science, they need to be able to plan what the rates are and we're kind of at a desperate moment right now.

REP. ACKERT (8TH): Thank you both. Thank you, Mr. Chairman.

SENATOR HASKELL (26TH): Thank you, Representative. Yes, Representative Ziogas?

REP. ZIOGAS (79TH): Yes, just a point of clarification for me. If I'm a faculty member and I join ARP, am I being assessed the legacy rate for me?

KEVIN CLAFFEY: I don't believe so.

REP. ZIOGAS (79TH): Okay. So the more people that you enroll or enroll in the ARP program is to your benefit in terms of the research costs or the costs you have to account for research?

KEVIN CLAFFEY: I think well it really, I don't know the answer to that cause I'm not sure how that's done but I think the number of pool, of people that you have that are in the SERS plan or the pension plan, even the hybrid plan, those are all assigned that and because they're assigned it as individuals,

those are averaged out over everybody. If they weren't, it would be quite significant. I'll give you an example. I have a staff person, that individual person's actual fringe with the retirement plan and the healthcare is 105 percent so when we average it out across the board for all researchers and that person's 70 percent, that's why they do this averaging so you're not over impacted by [crosstalk].

REP. ZIOGAS (79TH): No, I understand that part of it but I was just concerned or confused about the ARP's portion. So you're not, the legacy costs don't get attached to the ARP program?

KEVIN CLAFFEY: No.

REP. ZIOGAS (79TH): In your example of a researcher, what would be the income range that we're talking about?

KEVIN CLAFFEY: Income range for an associate professor is about \$120.

REP. ZIOGAS (79TH): Okay. So that would be close to the cost that UConn identified when they gave us an example of \$100,000 dollars of income and they said their numbers were just under 60 percent so that would be close enough. I understand. Okay. And the other thing would be how much mobility do you experience in terms of people coming into your programs, doing research, three, four years leaving? What's the turnover rate?

KEVIN CLAFFEY: It depends on what type of employee you are or what type of faculty so we have two types of faculty call in-residence faculty or tenured track or tenured. The in-residence faculty are essentially soft money faculty. They have to earn

their total cost including their fringe cost by their grants or their research money or the money that they're allocated, their time they're allocated for teaching and education so they're basically you know from the institution perspective, they're free. They either pay for themselves or they're not there. The other tenured track are very few positions that are, you're allowed so much time to develop your research, it's extremely competitive and those people are usually very successful and gain grants, etc, etc.

REP. ZIOGAS (79TH): Proportionately how do they balance?

KEVIN CLAFFEY: So generally somebody is around, even an in-residence faculty researcher, they're generally there six, seven years.

REP. ZIOGAS (79TH): So I mean my, I guess what I would conclude then, they're better off in the ARP program because they can take the money with them when they leave the state.

KEVIN CLAFFEY: So definitely, those people that come in under that category, they definitely do.

REP. ZIOGAS (79TH): Okay. All right. Thank you.

SENATOR HASKELL (26TH): Thank you, Representative Ziogas. Representative Doucette.

REP. DOUCETTE (13TH): Thank you. Yeah, I know. [laughter] I wonder if you could walk me through the grant application process a little bit from the beginning. So when, with the NIH for example, when you are applying for a grant or a faculty member is coming through, is it for a dollar amount or is it

for a specific project that's based on a budget that's developed by that faculty member?

KEVIN CLAFFEY: Okay. So generally the applications are put in for a project, there are specific goals that you have, and there's two different ways to budget that. One is called a modular budget which you get \$250,000 direct cost per year over four or five years, depends on the institute, and then the institution gets an indirect cost out of that and our current indirect cost is 57 percent of that. Now usually even those modular grants, they'll get cut and by the way, that number has not changed since 1990, that modular grant number. The alternative is to put in a defined budget over the four or five years and that's what we have to do when we have our 74 percent fringe rate because we're, if you have two people you're over 250 so you have to, so when most grants are going in and they're like a modular grant, I'm a grant reviewer, I do a checkoff. I don't even look at the budget. It's a modular budget but if it comes in and it says \$340,000 dollars which is our equivalent cost to that \$250,000-dollar grant, then you have to scrutinize the budget and figure out where it is and why is it that they need \$340,000 dollars when everybody else is at \$250,000 dollars.

REP. DOUCETTE (13TH): Okay. So that was gonna be my next question. So within that budget the fringe is identified specifically.

KEVIN CLAFFEY: It's direct cost, yes.

REP. DOUCETTE (13TH): Okay. So I guess my question would be there's very little ability for you to compensate somewhere else or to reallocate cost within the budget to make that more competitive,

that application sort of more competitive or have a higher chance of getting approved for that faculty member.

KEVIN CLAFFEY: Right and it makes it worse because that added cost, it reduces the amount of money that you have to actually do the research, I mean to buy reagents or do the models. Everything that we do is, now you reduce your ability sort of like having a nice car but not enough money to buy gas. You're just stuck.

REP. DOUCETTE (13TH): And is that a number, you said 340, is that, what's the size of would you say average? I'm sure it varies based on [crosstalk].

KEVIN CLAFFEY: You, there's a, there is a rule that when you do those budgets for a five-year grant, you can't be over \$500,000 dollars per year but those are usually multiple investigator type grants. There are two or three investigators that go up to that high.

REP. DOUCETTE (13TH): So again, and there's not other, as part of the package, let's say you're doing it to sort of recruit or there's faculty or a professor that's looking into weighing different places to land, if they were, is there anything else that UConn for instance could offer as an incentive to sweeten that given the fact that you know we're going to be so not competitive on the fringe rate.

KEVIN CLAFFEY: Well we don't, we do very well at recruiting. You heard Mr. Jordan but we recruit quite well. What happens is when people realize oh I've got a modular grant and then they realize they can't even maintain the personnel to do that grant and they're here for two or three years and they're

tenured track and we've already invested in them, got a startup package, helped them start their laboratory, they have to decide do I stay here and that's a serious, we had a person who gave testimony last year, he will be getting two grants this year. When you get two grants, it's like free agency.

CINDY POLINSKY: Yeah, I'd like to actually read a little excerpt from his testimony. Patrick Murphy, he is a scientist who came to UConn Health from MIT and you'll have his testimony. He said, "As I testified last year, the effect of the unsupported pension liability is particularly important to me. I rely on my personnel to give life to my ideas. The high fringe benefits for professional staff has hamstrung me." That's the unfunded pension liability portion. "Compared to colleagues from my time at MIT, now at Albany Medical, University of North Carolina and University of Illinois, I am paying more than \$40,000 dollars more per year in fringe for a technician. I can afford to hire only one technician, and I have not considered a post-doctoral fellow. As a result, I also turned down a very talented computational MD/PhD student. Although he would have been a tremendous benefit to my lab, I could not cover the salary for my technician and ensure enough funds for this student. Both he and I were disappointed. I had received a highly competitive NIH K99 transition award at MIT, and supplied NIH funds during my first three years at UCONN Health, and that award ended this year. In the past year, my lab won three American Heart Association awards, an Innovative Project Award and two awards to my students. We have also submitted for three long-term \$2 to \$3 million dollar NIH awards, which we expect will be very competitive in

areas of cardiovascular disease and neurodegeneration. However, when only two in ten NIH grants are funded, every competitive disadvantage hurts. Steadily increasing fringe rates from a reasonable 40 percent in 2013 to the current more than 70 percent can only hurt my future productivity." And he's you know a young scientist. We want to keep him here right.

Annabelle Rodriguez-Oquendo also testified last year and she said, "As a followup to my testimony last year, my research lab will be closing by the end of May this year. The supplement we received last summer" which was when some of the unfunded pension liability rate were paid down to 59 percent, "provided me with an extra \$10,000 dollars, which helped me support one of my technicians for approximately six weeks. The fringe is currently at 59.5 percent and still too high. My postdoc will be leaving the end of February and my remaining technician will leave by the end of May." And then she goes on --

REP. DOUCETTE (13TH): Ma'am?

CINDY POLINSKY: A little bit and she says "I plan on submitting an application by April 10, so we'll see if this strategy works for me."

REP. DOUCETTE (13TH): Okay. That's helpful. I saw that in here. Last question though, so the funding source, in your case the NIH in your discipline, do they have an equation when evaluating an application so say one of your faculty members who's already at UConn and is submitting it and shows that, would they, do they have, is that part of their criteria? Would they look at the fringe rate and say we're not getting a good enough return on our investment on

this grant and does that in and of itself make us less competitive to receive those grant dollars in the first place?

KEVIN CLAFFEY: Well let me tell, yeah, let me tell you how that works. So the review Committee reviews the science first and those are all criteria, science and compliance so human subjects, animal, that's all reviewed first separately and so the Committee gives it a score, finds out where it is. Then they go are there additional concerns and so if the budget is excessive, the Committee can make recommendations so if they're spending money on something that seems a little outrageous or they have too much money for certain region, you can reduce those by 25,000 modules so this is where that discussion comes up about the fringe. Now if these are close, the program Committee, the program officers that are there or read the transcripts of that discussion, they then have to decide which ones do we fund. So if there are two grants, the same score but this one's gonna cost an extra you know \$300,000 dollars over the five years, it may not get funded because they're trying to fund as many grants as possible. Interestingly though, you don't always see you don't see commentary to it. You just don't get it.

CINDY POLINSKY: Anecdotally we've heard people saying this is a problem and it's been flagged you know so I think it's going to be an increasing problem.

REP. DOUCETTE (13TH): All right. Thank you.

SENATOR HASKELL (26TH): Thank you very much, Representative Doucette. Representative Arora.

REP. ARORA (151ST): Well you know I'm going to follow up with what Representative Ackert was discussing which is this number seems to be a management number for you. As a matter of fact, you've got two different problems once I listen to all of these testimonies. One is that because of the increased legacy amounts, you need more money, the system needs money for higher allocation. Understood. But the challenge which you have which is the assumption of a rate which is decided internally by some management process or even externally imposed by us. It's got nothing to do with the fact that the legacy benefits are going up. Nothing, right? So the whole idea that an incremental researcher, we know that you're spending 25 percent or 30 percent in fringe benefits. That's what Mr. Barnes said. It's a very tight ARP, it's only 3 percent or 4 percent so you're actual cost, the additional actual cost which you're gonna spend, the state is gonna spend is in the order of 20 to 30 percent. We all know that, right? And so the question is you're assuming 74 percent either because you have a management system that says that or we are telling you to assume that. Either way, that's a bad thing or not a right thing so the whole idea is there are two things which we are talking about here, totally disconnected. One is our legacy benefits or costs are going up, some of that being allocated to you, to your system, not to you specifically, and Mr. Barnes or Mr. Jordan are correctly asking hey listen, that's nothing to do with us. Give us some more money to defray that. You know that's a different thing and my question on that is please find some more efficiency to defray that internally but that's a different question. Your problem has got nothing to do with that. Your

problem has got to do with the assumption of a rate which is either done most likely internally. First question, is it being done internally or is it being imposed by us or the state comptroller's office? Number two, if it's imposed internally, I think you need to change it. You don't need to come to us. Just change that to 25 percent and what I would recommend is, you should change it to the exact cost it really entails because as we heard, if 30 percent I the actual fringe cost for new employees, you should put that number at 30 percent, but you have a right to choose it. Why you're choosing 74 is beyond me. If it's being imposed, well you got to talk to the comptroller's office to change it. Again, we are not involved. How is higher ed involved in that? The comptroller's office should put it at a competitive number to reflect the actual cost. This is basic economics and finance. There's nothing too complicated about it. So I think that from a higher ed perspective, this is just not an issue for us to handle. It's basically how you fix your internal numbers and it can be resolved fairly quickly.

KEVIN CLAFFEY: My understanding is it is the comptroller that makes the, that asks for that reimbursement that includes those individuals that have the pension plan that they have underfunded and they don't have enough money. They're playing catchup from those individuals and it's from our revenues that they're playing catchup. It's not from anything else.

REP. ARORA (151ST): It does not, your hiring does not increase that. What you're saying is you're gonna get allocated more. That's what you're saying. Somebody else gets allocated less so the

formula for allocation which the comptroller has needs to reflect the fact that listen, the legacy costs should not be borne by new researchers or new employees you are gonna get. I think maybe other departments also have that issue that the legacy formula should be based upon folks who are already there and new hires should be exempt from that because the new hires are gonna consume 25 percent anyway. They're not gonna be requiring 74 percent so this is all about you know dollar here, dollar there between the system and reality is that what is very sad is that we are losing competitiveness in the review system to hire good people from out of state or get more federal grants because we can't get our comptroller system for what you call cost allocation, internal cost allocation is not fair because in reality, by hiring somebody else who we are going to give 25 percent fringe benefit, you're not going to incur more 70 percent. You're saying because I'm gonna hire somebody with 25 percent fringe benefit, your comptroller, our comptroller is making you pay 70 percent for it. Well that's just wrong and I don't know whether we have even the jurisdiction over it about what the comptroller does.

SENATOR HASKELL (26TH): Was that the --

REP. ARORA (151ST): Yes. Thank you.

SENATOR HASKELL (26TH): I would ask Committee members just to you know out of respect for members of the public make sure that we're asking questions during the public hearing portion but are there any other questions from Committee members? Seeing none, thank you both for your testimony. Thank you for being here and up next is my colleague. Thank

you for being so patient, Representative Liz Linehan.

REP. LIZ LINEHAN: Hi. Thank you so much for having me. Good afternoon, Committee Chairman Representative Haddad, Senator Haskell, Vice Chairs, Ranking Members, esteemed members of the Higher Education and Employment Committee. I appreciate the opportunity to come before you to testify in support of Senate Bill 102, An Act Concerning the Learn Here, Live Here Program.

I've been a huge proponent of this legislation and this program since its original passage in what I think was 2012. But as I don't have to tell you fine folks, both nationally and in Connecticut, student debt is skyrocketing often making the American dream of owning a home almost impossible until later in life. I believe the Learn Here, Live Here program is a creative way to help solve those concerns for Connecticut's middle-class families.

I applaud the recent successes born out of this Committee including the Connecticut Community Free Tuition Program, as this will allow more students to attend college than ever before. That program helps low-income individuals attend college debt-free, but middle-class families are still faced with the crushing debt associated with college tuition loans. My family and those in my district will not be eligible for free community college, but the Learn Here Live Here program will be beneficial to families like mine who want to be educated in Connecticut, stay in Connecticut, work in Connecticut, and yes, retire here in Connecticut. I would love to be able to send all three of my children to school debt-free, but the reality is, I

can't afford that and neither can many of your constituents. Children of middle-class families have to take out loans which often take almost a lifetime to pay back. If we want our kids to have a real chance at success post-graduation, this must include helping middle class students drowning in debt. The Learn Here, Live Here program specifically helps those Connecticut families allowing more of their salary to be put towards paying off that debt and still be able to put down roots in our fine state.

Another benefit of Learn Here, Live Here is that it won't just benefit middle class families. As legislators, we've spoken for years about Connecticut's "Brain Drain" and here we have a program which directly helps to alleviate that problem. More than just an issue which recent graduates face, this is an issue which affects our municipalities, small businesses and corporations as well. Not being able to afford a home in Connecticut may lessen the pool of quality applicants for businesses and corporations, and it could also stagnate growth in local grand lists and in Connecticut's income tax revenue. Those graduating from medical school often face the highest amount of debt, which experts believe is leading to a shortage of doctors in areas with elevated home prices like Connecticut. In Eastern Connecticut, for instance, many residents must drive an hour or more into Hartford to see a specialist. A program like this may help a physician stay in Connecticut and reside in those areas with doctor shortages, thereby continuing that positive ripple effect.

I would like to point out some concerns, however, that I have with the current draft and respectfully ask that you consider these points for final passage out of Committee. First, the language in the bill does require payback of funds if a participant leaves the state, and I absolutely agree with that; however, it does not give specific permission for the state to place a lien on a property purchased with a down payment from Learn Here, Live Here program. The addition of that language will actually help facilitate the state's reimbursement of it is warranted.

And finally, I understand there were concerns in previous iterations of this legislation about income limits, which I am glad to see are not currently in this draft. I would like to caution the Committee on the unintended consequences of such limits. First, income levels do not actually represent debt-to-income ratio, so if any limits are indeed placed, the Committee must consider the amount of debt of an applicant, as well. Also, by limiting income, you limit the positive effects both on local grand lists, state income tax revenue, the proliferation of talent for the high-paying jobs uniquely positioned for our well-educated workforce and by pricing out Connecticut's middle class. Thank you. I appreciate your time and attention and your consideration of this bill.

SENATOR HASKELL (26TH): Thank you very much, Representative Linehan. I appreciate your comments. I will start with Representative Smith.

REP. B. SMITH (48TH): Thank you. Thank you, Representative, for your testimony. I have a question and since you mentioned that you have been

a supporter of this bill since it was initially put together, maybe you can answer it for me.

REP. LIZ LINEHAN: Let's hope.

REP. B. SMITH (48TH): So it seems to me that the intent of the bill is for people who go to school in Connecticut whether it's higher education or technical school, etc, and graduate will be able to you know put aside money and purchase a house and that's what it --

REP. LIZ LINEHAN: Right, to put down roots so that they stay in Connecticut because we're spending so much money to educate children and young adults but we're not actually doing anything to keep them here after they graduate.

REP. B. SMITH (48TH): Right and the current version, the amended version of the bill that we're looking at now would sort of just make it mandatory, not permissive to put the program in place and then it also sort of expands the definition of higher education and the institutions involved there and it always says people going to school in Connecticut except when you look at lines 9 and 10 and 59, it goes on to say or of a technical education or career school, not in Connecticut so can you tell me what the original intention to, in addition to instead people who go to higher educational institutions in Connecticut to put down roots and stay here, was part of the intention of bringing sort of like you know people from technical schools and other schools into the state and have them put down roots or was it intended just for those institutions, technical institutions, etc [crosstalk].

REP. LIZ LINEHAN: Well I was not in the legislature in 2012 when this was originally written; however, I will say I do believe the intent would be for technical schools and let me explain why. If you go to an advanced manufacturing program and you graduate from there, realistically you can have a job that makes \$60,000 to \$70,000 dollars a year with overtime and those are the kind of people, and that's in your first year, right, and so these are the kind of people that we want to keep here in Connecticut. We'd like everyone to stay in Connecticut but especially when we're talking about the Learn Here, Live Here Program and offering this program for reimbursement for tax purposes so the income tax that they pay in order to put a down-payment on a home, we want to keep those high-paying jobs here in Connecticut and we want to keep the people making them here in Connecticut so whether that means that it would be from a four-year-degree college or from a technical program, I think that it makes sense when we look at the income levels associated with those graduates.

REP. B. SMITH (48TH): Thank you. So I think that, Mr. Chair, the point I'm trying to make is I think that the language isn't specific as to whether or not the technical portion of that incentivisation should be for people who study here in Connecticut only as opposed to from outside the state and that we might want to correct it. Thank you.

SENATOR HASKELL (26TH): Thank you, Representative Smith. That's a valuable point. Senator Hwang, did you have a question?

SENATOR HWANG (28TH): Yes. Thank you, Mr. Chair. Thank you, Representative Linehan. Thank you for

your support and you're right, it was in 2012 and when you talk about language and what we do in this building it's truly remarkable that since 2012, one word, one single word has prevented the program from being implemented

REP. LIZ LINEHAN: It's the word that affects us all.

SENATOR HWANG (28TH): Well [laughs] I was thinking of another word then.

REP. LIZ LINEHAN: Oh, [laughs] I thought we were talking may versus shall.

SENATOR HWANG (28TH): Yes, that is exactly what I was thinking.

REP. LIZ LINEHAN: Yes, that is the word that affects us all.

SENATOR HWANG (28TH): But saying that, I appreciate the input and I want to compliment Representative Smith's focus on vocational and technical schools because we as a Committee have really focused on the apprenticeship arena so that's a nice addition to that. To ask you about the income limit, we have a cap of a million and the previous iterations had, I'm just throwing out a number, of \$120,000 dollars as a cap versus some of the amendment to \$75,000 dollars and I know your preference is not to have a limit from your testimony from a standpoint, I don't know if you were here earlier, a non-traditional student, a master's potential graduate from the social school at UConn talked about being a non-traditional parent, a single parent, being able to utilize the dollar limits and as a social worker she's not making a lot and when you look at the \$75,000 dollar limit, she would actually benefit

from it. Would you be receptive to a lower dollar limit of \$75,000 dollars to expand the pool of people that you would be able to make available to the program? I know your initial comments relates to being able to keep all segments of skill sets into the population but if you had push to shove taking a look at a plan that becomes shall instead of may because prior to all of that, not a single individual benefited from it, but if we could be able to begin the program, would you be receptive to a lower income level to expand the pie but at least to get the program in place?

REP. LIZ LINEHAN: I would be amenable to that with a few thoughts. I think it's important that we get this program started and I think it could really help a lot of people and it could benefit the State of Connecticut as a whole, but I want to point out that when we look at the value of what this program is, we're talking about there's a pool of X number of dollars, that's really just the money that on one end of the whole spectrum. We have to look at things on the net value, right? So if we are limiting our income and I think it's great to open it to more people who may need extra help, but the truth of the matter is, if we're going to keep this program in existence for many years to come, then we need to have some of the higher wage people coming in and look at the debt-to-income ratio. So if I graduate from school and I have \$130,000 in debt because I went to med school, right, and then I had to continue to pay that off, well I am excluded when, just because I make a lot of money. That doesn't mean that I have free money to spend everywhere. I still don't have the money to put down on a house. It's a debt-to-income ratio so I'd

like the Committee to consider that. Ultimately, I will support anything coming out because I think we do need to start the program, but whether that means talking about sun-setting that provision or having it come back to your Committee in a certain amount of time to look at the expansion of it, my concern is that if we're only looking at lower-income individuals, we're pricing the middle class people out of a very helpful program again, and we're also not expanding grand lists in municipalities. We're not looking at additional tax revenue to help the State of Connecticut. So those are my concerns. Ultimately, would I support it? Let's start the program. Let's get it going but I'd like you to all consider those points, that the ripple effects are just as important as the program itself.

SENATOR HWANG (28TH): I appreciate your willingness and I appreciate the dynamic that you just shared in that and I think you and I share the common theme of this which is let's get the program rolling, let's get people to benefit from it and let's put out a good initiative that says you're welcome and let's stay in this state so I want to thank you for your initiative. Thank you, Mr. Chair.

REP. LIZ LINEHAN: Thank you. I appreciate that. Just to reiterate one last time that I believe this is a program that should be aimed squarely at the middle class.

SENATOR HASKELL (26TH): Thank you, Senator Hwang. Representative Hall.

REP. HALL (59TH): Welcome. Glad to see you here. I just want to say I agree with you 100 percent. So I think the program is a great program. I think it's the direction that we need to move forward

with; however, I differ a little bit with the good Senator because I think you're putting, the talk has been to put a cap at \$70,000 or \$75,000 dollars. I think the whole purpose here that we want to look at, you talk to is the Brain Drain and quite frankly, being in the line of work for people looking for homes and that kind of thing, there are an enormous amount of first-time home buyer programs that hit that \$75,000 and under, almost 100 percent financing quite honestly for those kind folks so I think by putting a low cap or a very, you know some would say a medium to low cap on the program, you're eliminating, in my opinion a huge part of some of the sectors you talked about. Quite honestly, coming out of Sacred Heart, you have physical therapists that come out with as much debt as a doctor because it's now a doctorate program so I mean you're talking about hundreds of thousands of dollars. I know my son-in-law walked away with his degree and he owed \$120,000 dollars in student debt and their income you know starting out just like a physician or a physical therapist or a master's in social work should obviously be higher than \$70,000 dollars so I think you know there's that sector that you're missing out on that this whole program in my opinion is targeted at.

REP. LIZ LINEHAN: It's made for them. Representative, thank you very much for underscoring that and especially with your personal experience. I think it's important to note that we have been paying a lot of attention recently to I believe they're called Alice families, right? These are the upper, middle to upper income residents in the State of Connecticut who are still, who use food pantries. I mean we're having paying our bills. The middle

class here in Connecticut is strikingly different than the middle class around the country and we need to keep that in mind. So by simply talking about only an income cap, we are pricing the middle class out of this program and continually the middle class is priced out of many things. And so I believe this legislation can help those families, families like mine, families like my constituents, and families like yours.

REP. HALL (59TH): I agree so thank you for coming today. I appreciate your feedback and hopefully it gives some of our members a new perspective of what this program could be so thank you.

SENATOR HASKELL (26TH): Thank you, Representative. Yes, Representative Turco.

REP. TURCO (27TH): Thank you, Mr. Chairman. It's really good to see here, Representative.

REP. LIZ LINEHAN: It's weird not being next to you.

REP. TURCO (27TH): Yes, yes.

REP. LIZ LINEHAN: He's on my Committee.

REP. TURCO (27TH): There's good things in the Children's Committee today. So thank you for coming and testifying on this bill and I think it would be really great if this was a universal program that all of our educated youth could take advantage of, be able to purchase their first home with some assistance and build roots here in Connecticut, reverse the Brain Drain, right?

REP. LIZ LINEHAN: Yes.

REP. TURCO (27TH): But there's discussion because of fiscal constraints that there's a cap on the

bill. The bill we passed out of Committee last year had a \$1-million-dollar cap. I think the original bill maybe in 2012 had a \$1-million-dollar cap so that's being discussed again. With only \$1 million dollars that limits the amount of young people that will be able to apply and participate in the program unfortunately. I've never liked the idea of just a first come, first serve type of program. You happen to hear about it, you apply, you get in. Do you have any thoughts or suggestions on how through the Department of Economic and Community Development who are supposed to implement this, what can we do with an application process that really gets to what we're trying to do here? Keep these educated people that would have left the state within Connecticut. Is it a lottery? Is there a scoring system using debt-to-income ratio? Any thoughts on that? s

REP. LIZ LINEHAN: I think that's the key. I think the debt-to-income ratio is a key. So instead of a salary cap, a debt-to-income ratio guideline and then you can look at in in terms of need. There can be a formula. A lot of things we do here especially with education is done in formulas. It might sound complicated as we being the process, but I think it's important to note that the debt-to-income ratio and I'll say this 100,000 times until someone tells me not to, the debt-to-income ratio is the important benchmark here because I could make \$100,000 dollars but if I'm \$200,000 dollars in debt, I'm not going to be able to stay here in Connecticut.

REP. TURCO (27TH): Right. I think that's a really great suggestion. We want this program to help the people that really need it.

REP. LIZ LINEHAN: Correct.

REP. TURCO (27TH): Do you think we should limit it on any certain industries? You know if we have a real demand for nurses here for an example in Connecticut, should we have the program geared more towards those professions?

REP. LIZ LINEHAN: That's a really great question and I don't believe that that would be something that would be smart to put in statute because you don't want to limit yourself. Too many times you know we tie our own hands. I would hate to see that happen because what is important now and the holes that we look, we're looking to fill now might change in ten years and my hope is that this program will go on for a long time; however, there could be certain spots, I mean, you can get creative. It would be really great to look at the way you accept grant proposals and maybe there's something in there that could explain the best way to do that. I think that just doing a straight lottery, you know, that's just blind luck and if you're really looking at helping people who need it the most, that's probably not the best way to go although it would always be fair because a lottery is a lottery. There's a lot of questions surrounding how to implement it and I would be more than happy to sit down with everyone and hash that out because I think that there could be many different ways that we can go but I would say, I'm going to say it again, the debt-to-income ratio I think is the most important.

REP. TURCO (27TH): Thank you, Representative.

REP. LIZ LINEHAN: Thank you very much, Representative.

SENATOR HASKELL (26TH): Any questions or comments from Committee members? Seeing, Representative

Linehan, thank you for your patience today and your years of advocacy for this bill.

REP. LIZ LINEHAN: Thank you.

SENATOR HASKELL (26TH): Next we have Shannon King. Thanks for being here today.

SHANNON KING: Hi. Thanks for having me. Good evening. So I'm Shannon King and I'm from the Connecticut Business and Industry Association and today I'm testifying in support of SB 102 and HB 5111. So as Representative Linehan just alluded to, SB 102 would be a very critical piece of legislation to get passed finally or put into enactment for students graduating from universities in Connecticut to set aside money to put a down payment towards a home.

So recent data tells us that an average down payment on an average price for a home in Connecticut is close to \$50,000 so this would absolutely help put that money aside for students to create roots in Connecticut, to stay here, to retain workers here in Connecticut because of this Brain Drain that we've been experiencing.

And then also House Bill 5111 is similar substance abuse a workforce retention bill because it's going to study different ways that the state and businesses can collaborate and create a comprehensive workforce development program for in-demand sectors. So the only thing that we would ask the Committee to consider would be to include small and mid-size businesses either on the task force or in consultation with the task force to be a part of that discussion. A lot of our members, particularly small and mid-size businesses have been very

innovative in ways that they are recruiting and retaining workers so that would be our only suggestion for the Committee to consider and I'm open to any questions you may have.

SENATOR HASKELL (26TH): Thank you for your testimony and for the CBIA's advocacy on behalf of this legislation. It's much appreciated. Are there questions or comments from Committee members?
Senator Hwang.

SENATOR HWANG (28TH): Thank you, Mr. Chair and thank you for your testimony. Related to 102, what are your thoughts on the potential income limit qualifications from \$75,000 to range of \$120,000 would you have?

SHANNON KING: So certainly that might potentially overcomplicate the bill and it would discriminate for you know younger workers who make less than \$70,000 or \$75,000, whatever the limit may be as they're just starting out, as they can take advantage of this program for ten years so if you start, you go into this program as soon as you graduate for ten years, the thought is you are going to hopefully make more money as you continue through your career so I would advise, you know not against it, but maybe just be careful in weighing that limit, as it could potentially overcomplicate the bill and it could you know leave out some individuals who are making less than that cap.

SENATOR HWANG (28TH): Thank you. You bring up an interesting consideration. So you would say even if we had a \$75,000-dollar entry limit, that there should be some consideration for a grandfather clause over a ten-year period to allow that

individual to stay in the program as they make career and salary progressions?

SHANNON KING: Sure. I mean that certainly needs to be a consideration as people move up in their careers, if they get promotions quickly, if they move up in the company they're with or move companies, that should be a consideration.

SENATOR HWANG (28TH): So from your context as we shared earlier, since 2012 this program has existed on the books save for one word from shall to may. In just hindsight, would CBI look at this as having a program that makes that change in language and put it into effect to able to contribute and help support some Connecticut graduates and residents versus at this current time period, none? Would you be supportive of at least getting some form of this legislation passed to be able to put it into effect to be able to help residents and Connecticut graduates?

SHANNON KING: Yeah, absolutely.

SENATOR HWANG (28TH): Thank you. Thank you, Mr. Chair.

SENATOR HASKELL (26TH): Thank you very much, Senator Hwang. Any additional questions or comments from Committee members? Seeing none, thank you so much.

SHANNON KING: Thank you.

SENATOR HASKELL (26TH): Next is Thomas Bontly from UConn AAUP.

THOMAS BONTLY: Good evening. My name's Tom Bontly. I'm a faculty member in the Philosophy Department at UConn and President of UConn AAUP. First of all,

thank you esteemed chairs, co-chairs, ranking members and members for this opportunity to address the Committee and thank you all for your support for higher education and especially for your efforts with the unfunded liability problem which has been afflicting the state's colleges and universities. We strongly support HB 5115 and the relief it would provide. I submitted written testimony to this effect this afternoon. I don't know if I got it in in time for it to be in front of you so let me just summarize. I don't need to -- you've been hearing a lot of numbers. I don't know I need to repeat them all.

So we all know that Connecticut has a significant problem with accrued unfunded liability. This debt is the legacy of decades of underfunding the pension and retiree health plans. The cost is covering problems across state government but nowhere more than in higher education. So currently the fringe rate as set by the controller's office for people in the SERS plan is 98.8 percent of salary. More than half of that is going to pay down the unfunded liability. This tells you right away that it has nothing to do with our current pension plans. That's not the problem that we're facing in funding state government. They're not overly generous. Indeed, as Ben Barnes pointed out just a little while ago, tier IV isn't very generous at all. It's hardly competitive. So reforming our current pension plans won't help. Nor is CBAC really the problem. SERS tier I was negotiated before we had collective bargaining for state employees. It's existed since I think about 1920. So changing the CBAC structure wouldn't really help. In fact, CBAC 2017 agreement saved the state I think \$25 billion

dollars. Each state employee gave back something like \$40,000 dollars over five years so CBAC is your willing partner in addressing these problems.

So for the state's colleges and universities, the problem is first of all it is driving up the cost of educating our students. We have fewer dollars to spend to hire instructors and that means either we raise tuition or class sizes get bigger or students don't get the classes that they need and it takes longer for them to graduate. The second problem as you've been hearing is that the inflated fringe rates are driving up the cost of doing research making UConn's researchers less productive and less competitive for federal grant money. As you know, grants are generally capped so they don't increase it because of the state's high fringe. It just means that the researcher has less money to spend mainly on personnel which means generally less science gets done, fewer discoveries are made, fewer inventions, fewer business start-ups come out of it, fewer publications and fewer grant applications in the future.

I don't know exactly how much this is costing the state, but it is not a very efficient of doing it. President Katsouleas, when he testified to the Appropriations Committee two days ago, pointed out that there are at least 16 faculty members we've been able to identify who've left the university in the last couple of years because of these high fringe rates. They took with them some \$20 million dollars in grant funding and since they've gone, they've received another \$20 million dollars so there's about a \$40-million-dollar loss from this problem just from 16 individuals we've been able to identify and I'm out of time. Thank you.

SENATOR HASKELL (26TH): Thank you very much for your testimony and for your patience today. It's greatly appreciated. Are there questions or comments from Committee members? Seeing none, thank you very much, sir.

THOMAS BONTLY: Thank you.

SENATOR HASKELL (26TH): Next is Stephen Adair.

STEPHEN ADAIR: Hello, my name is Stephen Adair. Senator Haskell, Representative Haddad, Senator Hwang, Representative Hall and Members of the Committee, I am a Professor of Sociology at Central Connecticut State University and I recently completed five years of service as the Faculty Representative on the Board of Regents. I recommend passage of House Bill 5116, which calls for a study of public higher education in the state. I also recommend that the study be focused on the structure of the BOR system.

It has been nine years since the merger of the community colleges and the state universities. Since 2011, roughly \$400 million dollars has been spent in the system office administration. I do not need to recount for you the missteps, the millions wasted on outside consultants, and the problems of leadership that have plagued and continue to plague the system administration since the merger. Last year, faculty and staff at ten of the community colleges voted no confidence in the board and in the President, and there is deep dissension now in the current consolidation plan at the community colleges. The repeated waste of resources, time, and effort no longer appears as a coincidence of misjudgments, but suggests a structural problem.

Under the BOR, the relationship and communication between the board and the 17 institutions that educate students has been broken. With 17 institutions, the board relies on the system office to mediate the relationship, such that all information flows from a single source. Institution presidents no longer have a direct channel of influence or even communication with the board. Having exclusive access, the system President is seemingly empowered to direct all change; however, that person is not well positioned to direct faculty and staff whose daily routines are oriented toward meeting the instructional and functional requirements of their home institutions.

Prior to the merger, this was not the case. The members of the Board of Trustees for the Connecticut State University, for example, rigorously evaluated each of the University Presidents each year. Trustees would organize forums on campuses once or twice a year to hear directly from faculty and staff. Lines of communication and influence were more open and overlapped. Going back to the way things were before the merger is one option, but there are many examples in other states of differing forms of higher education administration. The BOR could be expanded with dedicated subcommittees given direct responsibilities for overseeing four of five institutions. Lesser boards could also be created for individual institutions or groups of institutions that then report to a statewide Board with delineated responsibilities. Under such arrangements, regional service serving could be designed under consortia arrangements led by institution presidents to realize efficiencies, and the state could forego much of the cost of the

system office. The state has an interest in getting this right. I urge adoption of HB 5116 and I'll simply note, I'm also a tier IIA employee who was once a member of ARP and several years ago, I bought service into SERS.

SENATOR HASKELL (26TH): Thank you very much, Professor, for your advocacy. I want to let you know that going forward, there's a variety of bills that the Committee will be considering concerning transparency and oversight of the Board of Regents so I invite you to weigh in on those matters as well. I look forward to seeing you then. Are there any questions from Committee members? Seeing none, thank you very much for your testimony.

STEPHEN ADAIR: Thank you.

SENATOR HASKELL (26TH): All right. Are there any members of the public who would like to testify today? Are there any other members of the public who would like to testify? Seeing none, I will adjourn this meeting of the Higher Education and Employment Advancement Committee.