

Higher Education and Employment Advancement Committee

JOINT FAVORABLE REPORT

Bill No.: HB-6375

AN ACT CONCERNING THE UNFUNDED PENSION LIABILITY PORTION OF THE FRINGE BENEFIT COST FOR EMPLOYEES OF THE CONSTITUENT

Title: UNITS OF THE STATE SYSTEM OF HIGHER EDUCATION.

Vote Date: 3/22/2021

Vote Action: Joint Favorable Substitute

PH Date: 3/9/2021

File No.:

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SPONSORS OF BILL:

The Higher Education and Employment Advancement Committee

REASONS FOR BILL:

The state pays 100% of salaries, fringe and unfunded pension liability costs for employees paid for by the General Fund. It does not cover the costs of the salaries, fringe and state unfunded pension liability costs for employees of the constituent units of the state system of higher education not compensated by the General Fund. These costs result in increased cost of tuition for students, less competitive grant proposals for researchers who have to pay more for unfunded pension costs than on research and more costs to provide patient care as compared to other clinical providers. This bill requires the Comptroller to fund the unfunded pension liability charged to the constituent units of higher education for employees not paid for by the General Fund.

RESPONSE FROM ADMINISTRATION/AGENCY:

[Scott Jordan, Executive Vice President for Administration and Chief Financial Officer \(UConn\):](#)

Submitted written and oral testimony in support with substitute language. Unlike most other state agencies, "UConn, CSU, and the Community Colleges have to fully fund the salaries and fringe costs for the majority of their employees through tuition and fees, clinical and federal research grant revenue (non-state funds)." Mr. Jordan explains "The Problem":

"While the state covers 100% of the salary and fringe costs for most other state agencies' employees, UConn, CSU, and the Community Colleges have to fully fund the salaries and fringe costs for the majority of their employees through tuition and fees, clinical and federal

research grant revenue (non-state funds). Primarily due to the state's legacy unfunded pension and healthcare liabilities for current retirees, fringe costs have been increasing at alarming and unsustainable rates. These are not costs that we created or have any control over. It is estimated that UConn and UConn Health will have to pay a combined total of \$88.3M in FY21, \$95.4M in FY22, and \$99.7M in FY23 to cover these legacy costs. We are asking the state to stop requiring these legacy costs be paid by the institutions of higher education."

Mr. Jordan explains in detail the impact of this problem, as well as its background, to both the UConn and UConn Health. He says that UConn provides significant public services and economic activity to the state, and that this bill will allow UConn to continue to deliver them.

UConn Proposed Language Change:

Section 1. (NEW) (*Effective July 1, 2021*) For the fiscal year ending June 30, ~~2022~~, **2021** and for each fiscal year thereafter, the Comptroller shall fund, from resources appropriated for the State Comptroller-Fringe Benefits, the unfunded pension **and healthcare** liability portion of the fringe benefit costs of the constituent units of the state system of higher education for employees compensated through resources other than the General Fund. Nothing in this section shall change the funding by the Comptroller of the fringe benefit costs of the constituent units of the state system of higher education for employees compensated through the General Fund from resources appropriated for the State Comptroller-Fringe Benefits.

NATURE AND SOURCES OF SUPPORT:

Maureen Chalmers, President, Congress of Connecticut Community Colleges (4Cs):

Submitted written testimony in support. Ms. Chalmers says, "We strongly support this legislation. This would lessen the impact that COVID-19 has had on our colleges and universities."

Gregg Crerar, President of the SUOAF/AFSCME Bargaining Unit:

Submitted written testimony in support. Mr. Crerar says, "the CSCU unfunded liability creates a burden on students and faculty," that would be alleviated by the bill. He highlights the fiscal challenges and tough decisions faced by the CSCU system, but says, "The CSCU system has many obligations to the students of CT, and the faculty and staff who are dedicated to their success. We are your constituents and we know that much of the fringe cost is due to inadequate funding over decades. We did not cause the unfunded liability and it should no longer be passed along to students."

Mary Ellen Junda, Professor of Music, UConn, President of the UConn Chapter of the American Association of University Professors (UConn-AAUP):

Submitted written testimony in support. Dr. Junda urges the Committee to support moving unfunded legacies from state agencies to the state. She explains that while the state reimburses UConn for fringe benefits for employees funded through the block grant, this doesn't apply to most employees.

"More than half of UConn's employees are paid from other sources -- chiefly tuition, clinical revenue, and research grants -- which must then be tapped to pay not only for the

employee's fringe benefit but also for a portion of the State's accrued unfunded legacy. This creates artificially-inflated fringe benefit rates for those employees in State Employee Retirement System (SERS) at 98.8% of salary (with over 50% going to paying down the unfunded liability for SERS and the retiree health care program) when the actual cost of these benefits is 7.28% of salary."

This system harms UConn's competitiveness for research grants.

"President Katsouleas was able to redirect funds to remove these costs from federal grant applications for one year and the results were remarkable: UConn faculty secured over \$19 million dollars, or about *17% more* in grant funding for a total of \$286 million, the highest amount of annual research dollars in UConn's history. However, this was a one-time deal and, given our current financial situation, is not sustainable for future years."

Faculty, staff, and coaches have accepted pay freezes for 6 of the last 11 years. Despite this, UConn's Office of Institutional Research reports an annual economic impact of \$485 million. She says, "Just imagine what that number could become if the unfunded liability costs are removed from the benefit side of higher education employees so that faculty can be more competitive for federal grant funding."

John Malfettone, Chairman, UConn Proud:

Submitted written testimony in support. Mr. Malfettone says this bill is, "perhaps the single most important budget issue facing the University and the Health Center in 2021 and beyond." Unfunded legacy costs are a burden to students and hurt UConn's ability to compete for grants. He explains that these costs make UConn an outlier, as they are 20% higher than comparable schools. This results in fewer dollars brought into the state economy and lost opportunities "to incubate and commercialize ideas into businesses that can help the Connecticut economy."

Colena Sesanker, PhD, Assistant Professor of Philosophy, Gateway CC:

Submitted written testimony in support. Dr. Sesanker says that our current system unfairly penalizes those in whom we should invest.

"Our increased reliance on tuition coupled with the way we cover unfunded pension liability means that we don't just pass more of our current costs on to students these days, we pass along the cost of our past unfulfilled promises. Our students, who are largely of the demographic who bear the heaviest tax burden in our state, are not only underserved by our institutions, but are then effectively taxed again by us when they bear the cost of those enjoying the fruits of the lives to which they aspire. They are taxed yet more when research at our institutions is impeded by the burden of building in the cost of this liability, thereby reducing, again, what is made available to them. There is a need to find a way of lifting this burden for all of public higher ed, including the UConn Medical Center."

NATURE AND SOURCES OF OPPOSITION:

None expressed.

Reported by: Jeremy Salyer

Date: 03/30/2021