

# UConn HEALTH

## Appropriations Committee Testimony

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CEO of UConn Health

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Madam Chairs, Ranking Members, and committee members, I am Dr. Andrew Agwunobi, the Chief Executive Officer and Executive Vice President of Health Affairs of UConn Health. Joining me today is Jeff Geoghegan, our Chief Financial Officer. Thank you for the opportunity to talk with you about our strong support for **HB 6438 An Act Making Deficiency Appropriations for the Fiscal Year ending June 30, 2021.**

UConn Health, the state's only public academic medical center, is a vibrant, high-performing public asset for the state of Connecticut. Thanks in large part to your leadership and investment, UConn Health generates \$2.2 billion in overall economic benefit to the state, contributes over 10,000 jobs to the state economy and is the single largest provider of physicians and dentists in the state. The state through the Bioscience Connecticut Initiative made strategic investments in UConn Health and the region to generate long term sustainable economic growth based on bioscience research, innovation, entrepreneurship, and commercialization. As a result, our research awards are growing and the technology incubation space for small biotech start-up companies is at capacity. UConn Health offers the highest quality care to all our citizens including the indigent, under and uninsured. The School of Dental Medicine is the single largest provider of dental care in the state, and we provide much needed mental healthcare and other specialty services, both inpatient and outpatient, at levels not supported by most other private entities.

Often an overlooked point, is that aside from the unfunded legacy costs and the effects of the pandemic UConn Health's business fundamentals are strong. With extensive cost reductions, revenue enhancements and strategic growth initiatives, revenues have been increasing by an average of 10% year after year for the last 6 years and in FY 20, with some state support to cover a portion of the state's unfunded legacy costs and prior to COVID, UConn Health was running ahead of budget and projecting a breakeven or favorable bottom line.

**It has been over 10 years since UConn Health has had to come before this committee asking for deficit relief. We are now compelled to do so due to the Unfunded Legacy Costs for FY 21 of \$53.8 Million as well as COVID-19 clinical revenue losses for FY 20 of \$18.9 Million**

**REQUEST:** We are heartened that the Governor's proposed budget recognizes the value of UConn Health to the state. This Deficiency bill includes \$50 million for UConn Health. Attributing \$18.9 million of this amount to cover the COVID -19 clinical revenue losses in FY 20, the remaining \$31.1 million would be applied to address the \$53.8 million state unfunded legacy costs charged to UConn Health in FY 21; leaving us with an additional request of \$22.7 million in unfunded legacy cost relief.

**What we have done to address the shortfalls:** UConn Health's projected shortfall for FY 21 was initially \$114 million comprised of \$61.2 million in COVID related losses and \$53.8 million in unfunded legacy costs. Fortunately, as a result of mitigation and other efforts UConn Health has address the COVID related losses for FY 21, leaving a revised projected shortfall of \$53.8 million related to unfunded legacy costs.

- *Mitigation Efforts:* To address the \$114 million shortfall in FY 21, we instituted an internal \$61.2 million mitigation effort which includes the following strategies:
  - Deferring capital needs (about \$5 million),
  - Implementing management furloughs (about \$1.2 million),
  - Optimizing available federal funding opportunities (\$10 million), and
  - Engaging in an aggressive (\$45 million) financial improvement plan to cut costs and enhance revenues.
- *COVID -19 Clinical Revenue Losses:* **Prior to COVID-19, UConn Health was projected to end FY 2020 ahead of budget.** Our clinical revenues and volumes were seeing unprecedented growth. Driven in part by the state's Bioscience Connecticut investment, focused business development, marketing efforts and of course the hard work of our talented physicians, faculty and other employees, revenues have increased 60% over the past six years. However, like all other hospitals across the state, in March 2020, with the cancellation of elective surgeries and procedures, our bottom line was impacted. For us this was nearly \$1 million in losses per day at the height of our emergency response. With these COVID-19 clinical revenue losses, the institution **ended FY 2020 with an \$18.9 million shortfall and is requesting this support from the state.**
- *State Unfunded Legacy Costs:* The key and most significant driver of UConn Health's financial request for relief in FY 21 relates to the state's unfunded legacy costs charged to UConn Health. These are costs that are unrelated to the normal cost of fringe benefits for current UConn Health employees and are charged to us from the state to help cover unfunded retiree liabilities (retirement and healthcare) that have been accruing for decades. These are not costing that UConn Health itself has created or has any control over.

While the state covers 100% of the salary and fringe costs (including the costs of the state's unfunded liabilities) for most other state agencies' employees, UConn Health is required to fully fund the salaries and fringe costs for the majority of its employees through other non-state funds such as tuition and fees, and clinical and federal research grant revenue.

Primarily due to the state's unfunded legacy costs, the fringe benefits for our employees have been increasing at unsustainable rates. In fact, UConn Health's fringe benefit rates are over 65.2% versus an average of approximately 26% compared to other area hospitals, with the majority of the difference being attributable to these state unfunded legacy costs.

These charges are impacting our students and families through tuition and fees and affect our research and clinical competitiveness. UConn Health has historically managed to pay these costs without asking for relief from the state but as the costs have increased, they have outstripped our growth in revenue and our ability to fund them.

We are grateful that in FY 20, the General Assembly recognized and provided \$33.2 million to cover a portion of the unfunded legacy costs. **For FY 21, the amount of these legacy costs reaches \$53.8 million, \$58.7 million in FY 22 and \$60.7 million in FY 23. UConn Health is requesting the state cover these costs.**

Thank you very much for your consideration of my testimony today and your leadership on these important issues. I am happy to answer any questions you may have.