Testimony in Support of SB-1079, An Act Concerning Competitiveness and Labor Costs at the Connecticut Airport Authority

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Joint Committee on Appropriations
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Dear Senator Osten, Representative Walker, Senator Miner, Representative France, and distinguished members of the Appropriations Committee,

My name is Kevin Dillon, and I am the Executive Director of the Connecticut Airport Authority (CAA). **I am submitting this testimony in support of SB-1079, An Act Concerning Competitiveness and Labor Costs at the Connecticut Airport Authority.**

The CAA would like to thank the committee for acknowledging this important issue. The COVID-19 pandemic has been debilitating for the entire aviation industry, including airports like Bradley International Airport. In April 2020, Bradley Airport passenger volume dropped 97% year-over-year, and, despite slight upticks in recent weeks, most industry analysts expect that it will take years before passenger volume reaches pre-pandemic levels. Due to the corresponding decrease in airline landing fee revenues, fewer passengers parking and utilizing concessionaires, and various tenants seeking lease term relief, Bradley Airport finances have been tenuous. FY20 Q4 revenues finished $10 million under budget, which represented 50% of the budgeted target. The CAA quickly employed massive, across-the-board budget cuts, a hiring freeze, and deferred nearly $23 million worth of capital projects, but these measures were never intended to be permanent solutions. These temporary measures were critical in helping the CAA survive the worst of the pandemic, but we have already started loosening the hiring freeze for operational positions and we will need to advance some of the deferred capital projects in the near future.

Furthermore, the airline industry is in a state of flux. In our discussions with the air carriers throughout the pandemic, all have conveyed that they will emerge from the pandemic as much smaller companies. They will have fewer employees, they will be parking aircraft (in some cases, possibly permanently), and, accordingly, they will fly fewer routes. The competitive environment amongst airports to attract airline service was already fierce prior to COVID-19. After the pandemic subsides, airports will be competing against each other to attract airlines and regain the services that have been lost over the past year, and that competition will take place in the context of a shrinking pool of airline assets. Given the financial pain that has been experienced across the industry, the ability to attract airlines will increasingly hinge on presenting the best possible business case to our partners in the airline industry. Failure to control costs and offer competitive rates and charges will set back the recovery of Bradley International Airport, and those impacts could ripple over many years if we are not able to set a strong foundation now for our post-pandemic route structure.

For years, the airlines have drawn attention to the high fringe benefit costs that are applied to employees at CAA airports. **<u>Let me be very clear – the high fringe benefit costs at the Airport Authority are not indicative of extravagant employee benefits. These rates are driven primarily by state legacy costs, which have accrued after decades of prior administrations, both Democrat and Republican, underfunding the state retirement system.</u>** Our non-hazardous duty employees hold a benefit rate of approximately 95% of base salary, and our hazardous duty employees hold a benefit rate of approximately 120% of base salary. Roughly 2/3 of those figures are related solely to the state retirement system. It is important to emphasize that our employees do not even experience the benefit of these high rates. The rates are annually derived by taking the total system costs (including annual unfunded liability pay-down requirements) for all state employees and calculating the fringe benefit rate that must be applied to all employees equally to bring in the funding necessary to meet that annual need. Ironically, these high rates have been driven higher by the responsible decisions that state leaders, including members of this committee, have made over the past decade. These rates initially rose to current levels because of a desire on the part of the state to stabilize the pension system and appropriately pay down these unfunded liabilities over time. Furthermore, as the state has tried to cut personnel costs and reduce the overall workforce, it has reduced the pool of current employees paying into the system, driving rates higher. And although the legislature has made major strides in recent years with the creation of Tier IV and the movement towards a hybrid defined benefit/defined contribution model for newer employees, the gravity of the system's legacy costs will continue to ensure very high benefit rates into the future until the system's unfunded liability is more under control.

For other state and quasi-public agencies whose cost structures do not have competitive implications, the rise of fringe benefit costs may not be as severe of a problem. Bradley International Airport is a separate enterprise fund that lives and dies by its own revenues, and we take no assistance from the general fund. Accordingly, the airlines operating at BDL fund the majority of our expenses here through the rates and charges that are applied to their landings and leases. The higher our personnel costs rise, the more burden that falls on our airline partners. While we have been able to mitigate these high fringe costs by deferring major capital projects, this will only stave off the problem for so long. At some point, that too will detract from the attractiveness of Bradley Airport. If we are not able to maintain and develop efficient, customer-friendly facilities over time, the airlines will notice this and it will impede our growth.

This is not an abstract issue. Airlines for America and the National Air Carrier Association, two of the most prominent airline industry associations in the country who jointly represent almost all of the airlines at Bradley Airport, recently wrote to Transportation Committee leadership to flag this as a major competitive problem. They made it clear that the "excessive" fringe benefit rates are impeding the CAA's ability to moderate its costs, and that Bradley Airport's recovery has already lagged the national average. This is a real issue that is already starting to result in stunted recovery. If the airlines begin to view Bradley Airport as a high-cost location that is not willing to moderate its out-of-step fringe rates, the airport, all of our stakeholders, the regional economy, and the communities who rely on us will suffer as a result.

The CAA has advocated for the ability to offer our current, unclassified employees the ability to opt out of the state retirement system and to ensure that all future, unclassified CAA employees be automatically enrolled into a separate, CAA-established, 401(a)-type plan. As we strive to keep our costs in-line with surrounding airports, the burden of the state retirement system's high fringe rates ensures that our payroll costs are always much higher than our competitors. Assuming an 8% employer contribution in a non-union employee's 401 plan, the CAA could save up to $1.25 million in the first year alone. The Authority strongly believes that some of its newer, existing non-union employees would seriously consider opting out because they would likely benefit more from the 8% employer contribution than they would from their respective Tier level in the existing state retirement system. As the entire non-union workforce is transferred into this 401(a) system over time through attrition, the CAA would eventually save up to $3 million annually. It is important to note that the CAA only seeks to make this adjustment for its approximately 30 non-union employees. However, you can see that making this change just for our non-union staff can be a real difference-maker for us here at the airport.

<u>This is not the only potential solution</u>. The CAA has proposed this solution in past years because it would allow us to escape being assessed fringe rates linked to the state's legacy costs for all applicable non-union employees. We also sincerely believe that a 401(a) system with an 8% employer contribution could provide a greater benefit to many of our non-union employees as compared to Tier III and Tier IV benefit levels. **<u>However, if the committee prefers another approach, such as maintaining the current retirement/group welfare benefit system at the CAA and simply subsidizing the legacy cost component of our fringe rates, we are very open to that option as well</u>.** The CAA does not view this as a partisan issue, and we do not want to drive divisions in the debate of this issue. Our sole focus is maintaining a competitive cost structure to demonstrate to our airline partners that we are doing everything possible to make Bradley Airport attractive for their future growth. Mitigating the impact of the state's legacy costs on the CAA is the single most important thing that we can do to maintain a competitive environment for airline service at Bradley Airport.

I believe that solving this issue is crucial to the recovery of Bradley Airport. I support passage of SB-1079, whether in its current form or in any other iteration that addresses the issue of maintaining competitive fringe costs, and I urge all committee members to vote in favor of this important bill. I look forward to answering any questions you may have. You can also always feel free to contact me at (860) 292-2054 if you have any questions or concerns.

Sincerely,

Kevin A. Dillon

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Connecticut Airport Authority