

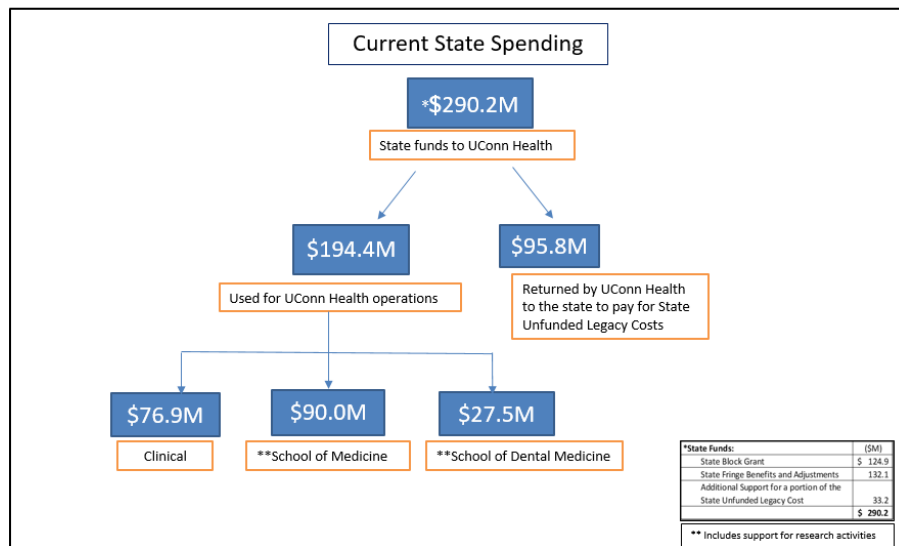
UConn Health Appropriations Budget Hearing – March 4, 2021

Executive Summary

UConn Health (UCH) is an incredibly vibrant, high-performing public asset for the state of Connecticut, as well as nationally and globally when it comes to research, teaching and patient care. Its fundamentals are strong and growing, experiencing nearly 60% increases in clinical revenues in 6 years, and in February 2020 prior to the pandemic, UConn Health was \$11.2 Million ahead of our budget and for the first time in recent memory projected to be favorable to breakeven by \$4.1 Million.

30% increases in class sizes since 2011, research awards expanding and caring for the most vulnerable in our state, often when other providers do not. UCH contributes \$2.2 Billion in overall economic impact to the State. It has an annual budget of \$1.2 Billion; and as a state entity, UCH receives 23% of its revenues from the state to support its public mission of education, research, and caring for the citizens of Connecticut, particularly the underserved. If not for the state's unfunded legacy costs (pension and healthcare liabilities) charged to UCH, the enterprise as a whole would have had a positive bottom line.

State Funds



State Budget Request: UConn Health requests block grant funding in the amount of \$133.7 million in FY22 and \$138.9 million in FY23. We are grateful the Governor's budget includes this level of funding. In addition to COVID-19 **clinical revenue losses**, the key and most significant driver of UConn Health's financial request for FY20 – FY23 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 costs that UConn Health itself has created or has any control over.

Appropriations Committee Testimony

Dr. Andrew Agwunobi

CEO of UConn Health

March 4, 2021

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, Andrea Keilty, Chief of Staff, Anne Horbatuck, Vice President, Ambulatory Services, Kim Metcalf, Associate Vice President, Pharmacy and Ancillary Services, and David Banach, Associate Professor and Hospital Epidemiologist.

I would like to start by thanking each of you for your leadership, dedication and support during these unprecedented times. I would also like to thank the Governor, Secretary McCaw and others in the administration who continue to work closely with UConn Health.

Attached to my testimony is a packet of information about UConn Health for your review – it will provide you information on who we are and our budget requests. At your convenience, I also encourage you to take a few minutes to view two videos showcasing UConn Health – [The Power of Possible](#) and the University's [robust research enterprise](#).

I think it is safe to say, the past twelve months have been challenging for all of us. At UConn Health, however, this challenge has really brought out the best in us. I am extremely proud of the way that our faculty, staff, learners and administrators have all risen to the test to prepare for and respond to this crisis. It has truly been a remarkable experience. And as the state's only public academic medical center, we have been able to leverage our expertise and resources in education, research, and clinical care - and to collaborate across the larger university and with other partners such as the Jackson Laboratory - to safely and effectively address the challenges that we, our patients and the state have faced this past year.

First and foremost, at UConn Health we treated COVID-positive patients with compassionate, high-quality care and have made the safety of our employees, patients, and others a priority. Like other health systems, we worked to secure PPE and testing supplies; stood up drive-through testing facilities; and developed and implemented entry screening protocols, masking policies, new cleaning regimens, and numerous other measures to keep our employees, patients and the public safe. We licensed the first triage site in the state to evaluate suspected COVID-19 patients, and worked with the State and National Guard to repurpose physical space in the hospital to provide surge capacity of over three times our regular bed count. We transformed UConn John Dempsey Hospital floors into dedicated biocontainment areas for COVID-19 positive patients to provide better care and to preserve precious PPE. We were one of the first providers statewide to stand up vaccine sites, and we continue to vaccinate as many eligible Connecticut citizens as we are able given our supply. Through today, we continue to be nimble and active, with all our teams meeting regularly to evaluate data and conditions in the hospital and our outpatient areas, as well as around the state and region, so we can evolve our policies and practices in response.

I am pleased to report that, like the state overall, we have been seeing lower COVID positivity and prevalence in our hospital and throughout our UConn Health community in recent weeks, though we are still not out of the woods.

Regarding the academic and research components of UConn Health, our Medical and Dental Schools created new virtual curricula to continue student learning during the pandemic; medical residents and fellows continue to work the frontlines throughout the pandemic, and most research labs continued to be active.

The schools and research enterprises, in addition, have undertaken extraordinary efforts during the pandemic to support our clinical operations – efforts that improve the safety of our healthcare workers and others that advance the ways we care for patients – and also contribute to the wider public health response of the State.

This collaboration and synergy among the clinical, research and academic units of UConn Health epitomize the benefits of a public academic medical center.

Just a few examples . . . Our medical faculty and researchers developed and manufactured face shields for our clinical providers when PPE was scarce; they also developed a new face mask frame that provides better fit and allows masks to be reusable. Our dental faculty researchers found that a diluted oral rinse of povidone-iodine is able to completely inactivate the coronavirus, a finding that they were able to implement in the dental clinics to improve safety for our dental providers. Our faculty created an interdisciplinary COVID-19 Think Tank to synthesize external and internal clinical information including the most current literature relating to COVID-19 for communication to clinical providers and potential application to clinical care at UConn Health; and to liaise with the research faculty to understand and communicate applicable research relating to potential therapies, cures, vaccines and innovations. These are just a few examples that demonstrate how the integration of our academic and research enterprise works collaboratively with our clinical enterprise to improve safety, patient care, and to evolve and develop knowledge and innovation.

As a public academic medical center, we have also supported the State's response through the pandemic. For example, UConn Medical and Dental students provided almost 5,000 community "touches" to underserved populations with COVID-19 during the height of the pandemic, including telephonic monitoring of symptoms and identifying basic needs gaps. We have worked collaboratively with the Department of Correction to provide them with algorithms to help assess when inmates with COVID symptoms require higher level care, and developed processes for direct communication and prompt ED or hospital admission when indicated; and we support the state's COVID-19 testing initiative by using our Epic system and its interface as a connector between hospitals/test centers and the processing labs such as Jackson Laboratory, Sema4 and Yale.

A more comprehensive list of UConn Health's COVID-19 response is included in the appended packet.

Now, for an overview of UConn Health, the state's only public academic medical center: I would like to emphasize that UConn Health 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. In addition to this economic impact in dollars, UConn Health contributes over 10,000 jobs to the state economy and is the single largest provider of physicians and dentists in the state.

Education: UConn Health ensures access to top-quality health care services for CT citizens by training the state's future physicians, dentists, and scientists. UConn Schools of Medicine and Dental Medicine are affordable top rated options for the sons and daughters of Connecticut. At 644 students, class sizes have grown 30% in the Schools of Medicine and Dental Medicine, with the classes of 2023 and 2024 being the largest in history. As ranked by US News and World Report, the School of Medicine is in the top 10 medical schools in the nation for its Health Career Opportunity Program that has resulted in diversity of its student body. The School of Dental Medicine has been recognized by the American Dental Education Association for achievements in the recruitment and matriculation of underrepresented minority students.

We have 789 Residents – these are medical and dental students who have graduated and are now in specialty training- providing patient care in local hospitals and 28 communities across the state. These programs also bring in over \$132 million in federal funds to the state (and area hospitals) to support their salaries and training.

We also have over 360 PhD and Masters students in our Graduate school - individuals who graduate and contribute to research, science, and the economy.

Research, Innovation and Small Start-Ups: The state, through *Bioscience Connecticut*, 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, UConn Health research awards are growing and its technology incubation space for small biotech start-up companies is at capacity. Research revenues have grown each year for the past 3 years and are at record levels of over \$100 million.

Our collaboration with Jackson Laboratory is strong with joint grant submissions that have resulted in \$42.5 million in awards with another \$62.7 million pending. Our biotechnology startup incubator in Farmington is at 91% of capacity with 34 companies that have raised \$364 million in debt and equity and other funding and have paid \$2 million in taxes.

Cutting Edge State of the Art Clinical Care: I urge anyone who has not seen and experienced care at UConn Health to visit us. Our clinical services are gaining national recognition for providing care with new approaches and technologies that other hospital facilities are not able to provide in the state or region. This is what academic medical centers do. Some examples include, in Pulmonary care, we were the first in New England to do robotic bronchoscopy, which diagnoses lung cancer at its infancy and allows us to move patients quickly onto surgical and other treatment plans. In Neurosurgery, patients from major centers from across the state (and beyond) are being flown here for our expertise in dealing with complex lesions; and we are one of two centers in CT listed by the American Brain Tumor Association that provides state-of-the-art care for brain tumors. Our award-winning Stroke team is developing novel stroke treatment methods using, among other things, our incredible biplane hybrid operating room

that allows us to offer next generation care for patients. We are also collaborating with medical giants like the Preston Tisch Brain Tumor Center at Duke, who for the first time in its history, is collaborating with another institution.

Public Mission: As the state's only public academic medical center, part of UConn Health's responsibility and mission is to leverage our workforce, research, and clinical knowledge to be a key resource to the state when needed.

UConn Health offers the highest quality care to all our citizens including the indigent, underinsured, and uninsured. Regardless of a person's financial situation they get the same beautiful facilities, wonderful patient experience, and high-quality care that more affluent patients receive. As a result, we have patients from every city and town in the state. Of these patients, one in four are Medicaid recipients. We are the single largest provider of dental care to the uninsured and underinsured in the state, and we provide much needed mental health care and other specialty services for both inpatient and outpatient at levels not supported by most other private entities.

Strong Fiscal Stewardship: Often an overlooked point, UConn Health's business fundamentals are strong. With extensive cost reductions, revenue enhancements and strategic growth initiatives, UConn Health has not requested deficit funding from the state in over 10 years prior to the COVID-19 pandemic. In addition revenues have been increasing by an average of 10% year after year for the last 6 years and in FY 2020 UConn Health was \$11.2 million ahead of our budget and for the first time in recent memory projected to be favorable to breakeven by \$4.1 million.

State Budget Request:

Where does UConn Health's funding come from? UConn Health receives 23% of its \$1.2 billion annual budget from the state; 49% from patient care revenues; 8% from research revenues and the remainder from other sources including tuition.

Block Grant: UConn Health requests block grant funding in the amount of \$133.7 million in FY22 and \$138.9 million in FY23. We are grateful the Governor's budget includes this level of funding.

Shortfall Drivers & Mitigation Efforts: From FY20-FY23, UConn Health faces budget shortfalls comprised of two major cost drivers – COVID-19 clinical revenue losses and the state's unfunded legacy costs charged to UConn Health.

The projected shortfall for FY 21 was initially \$114 million but as a result of mitigation and other efforts UConn Health has revised this projected shortfall to \$53.8 million (this is further reduced to \$22.7 million when applying the \$31.1 million allocation of relief provided in the Governor's proposed budget).

- *Mitigation Efforts:* To address the \$114 million shortfall in FY 21, we have begun our own \$61.2 million mitigation efforts and are pursuing a number of strategies including:

- 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 FY2020 with an \$18.9 million shortfall and is requesting this support from the state.**
- *State Unfunded Legacy Costs:* In addition to COVID-19 clinical revenue losses, the key and most significant driver of UConn Health's financial request for FY20 – FY23 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 costs 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 FY20, the General Assembly recognized and provided \$33.2 million to cover a portion of the unfunded legacy costs. **For FY21, the amount of these legacy costs reach**

\$53.8 million, \$58.7 million in FY22 and \$60.7 million in FY23. UConn Health is requesting the state cover these costs.

We are heartened the Governor's proposed budget recognizes the value of UConn Health to the state. The budget proposal includes \$50 million in the FY21 Deficiency Bill. 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 unfunded legacy costs in FY 21. In FY 22, the Governor has allocated an additional \$40 million for operations. UConn Health will apply these funds to the \$58.7 million owed in unfunded legacy costs, leaving us with a gap of \$18.7 million. We look forward to continuing to have discussions with the legislature and the administration regarding the remaining \$18.7 million in unfunded legacy costs requested and required for FY22 and \$70.5 million in FY23.

We remain focused on financial recovery from COVID-19's impact and discussions with the General Assembly and State regarding unfunded legacy costs.

Switching to the topic of capital: While we understand this is not the committee of cognizance for bonding, we did want to let you know that in order to address these legacy costs over the past few years and balance our budget, we have had to utilize funding from our capital funds for critical deferred maintenance and capital purchases– severely limiting our ability to ensure we adequately maintain our assets – the very ones that the state has invested so much in. Because of this, we will also be making a capital request for FY 2022 and FY 2023 for crucial deferred maintenance, IT, and equipment.

In conclusion, UConn Health supports the Governor, OPM, and legislature's efforts to address the daunting financial challenges of the state as we recover from the economic devastation caused by COVID-19. As a state agency, we have focused on addressing our COVID losses this fiscal year and are on track to achieve over \$60 million in savings through a rigorous financial improvement project, driven largely by our efficient and safe return to regular services. We are working hard to do our part to be good stewards of taxpayer funds, while satisfying our public mission to the state and the state's desire to drive economic development.

For all these reasons and more UConn Health is an organization that the state can be proud of.

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.

State's Unfunded Legacy Costs

**Impact on
UConn and UConn Health**

Higher Education Subcommittee Work Session

March 10, 2021

State's Unfunded Legacy Costs - Key Issues

High fringe benefit costs impact UConn and UConn Health's budgets, students and their families, and competitiveness. The largest portion of the State's retirement rate is attributable to the **State's unfunded liabilities**, which are passed on to higher ed.

- **Budget Impact** – UConn and UConn Health must pay ~\$88M of its non-state funds to cover the State's unfunded liabilities in FY21. We estimate this cost will rise to almost \$100M in FY23. Without these costs, UConn and UConn Health would not have deficit budgets.
- **Students and Their Families** - In addition to impacting our budgets, the State's unfunded legacy costs cause an undue burden, especially on our students and their families. We have to fund some of these costs with tuition and fee dollars. \$27M is not going to their education, but to a prior unfunded retiree liability. This translates into \$850 per student.
- **Research Competitiveness** – UConn and UConn Health research fringe rate is an outlier, ~ 20% higher than peers. This results in less research grant dollars, innovation, commercialization and federal dollars to the State's economy.
- **Clinical Competitiveness** – The current State fringe rates for UCH's clinical operations are ~40% higher than other hospitals and providers across the state; resulting in over \$112M in more costs for UConn Health to provide clinical care.

Fringe Benefit Rate Components - SERS

The State Comptroller develops the fringe benefit rates and the University is charged those rates for each employee.

Below is an example showing the components of the fringe rate for an employee who is a member of the State Employees Retirement System (SERS)** with an annual salary of \$100K.

FY21 State Fringe Benefit Rate Components

State Retirement (SERS) **	64.14%
FICA SS	6.20%
FICA Medicare	1.45%
Unemployment Compensation	0.05%
Group Life Insurance*	~0.31%
Health Insurance*	~30.00%
	102.04%

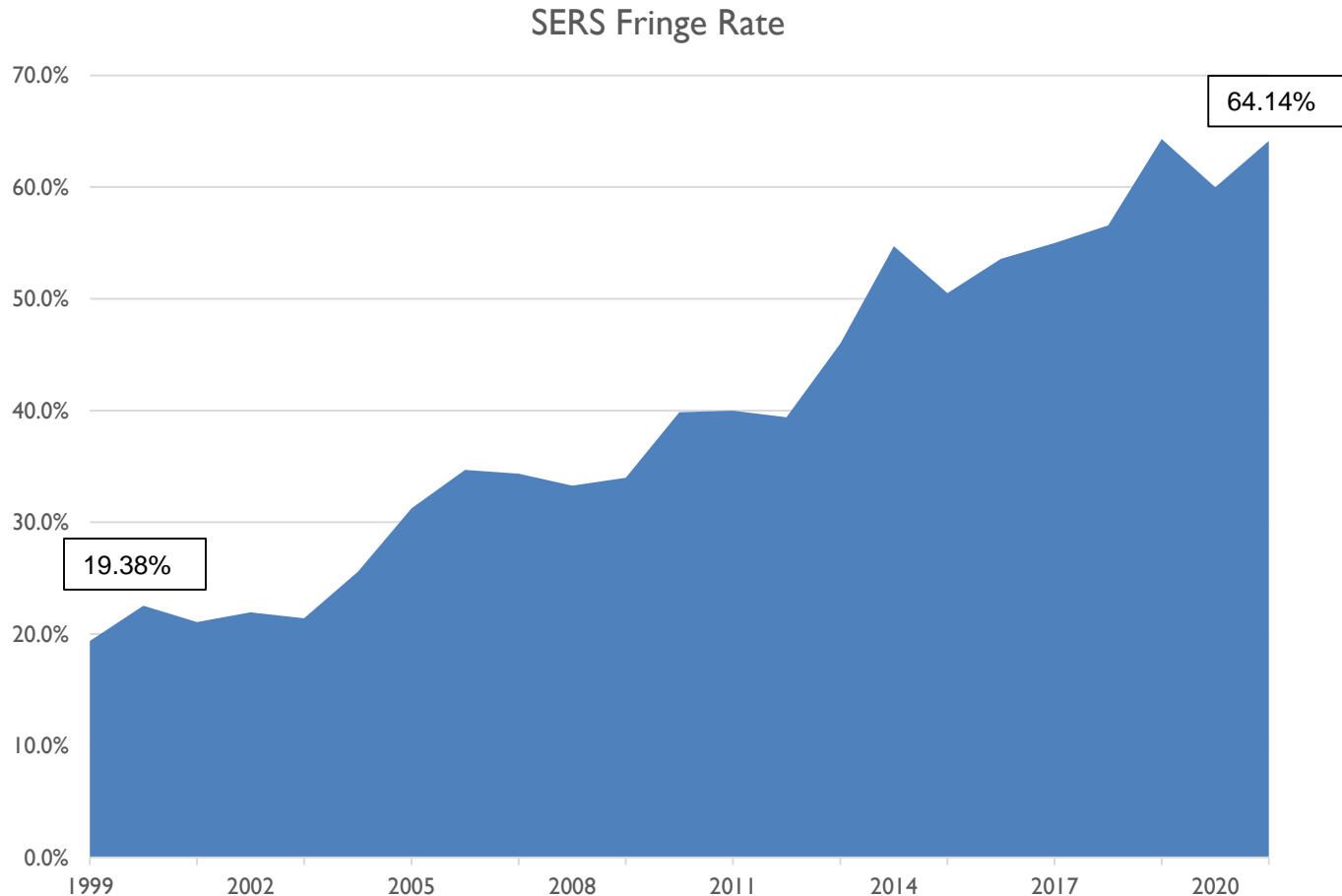
*Rates vary according to coverage selected

Unfunded Pension Liability	39.58%
Retiree Health	21.02%
Roll-forward/Adjustments	-3.94
Normal/Current Retire. Costs	4.58%
Other Post Employ. Benefit Costs (OPEB)	2.49%
Administrative Costs	.41%
	64.14%

**Other retirement options are available for non-classified employees (Alternate Retirement Plan (ARP) Rate at 14.82%). About 35% of our current employees are on the ARP and 65% are on the SERS State plan.

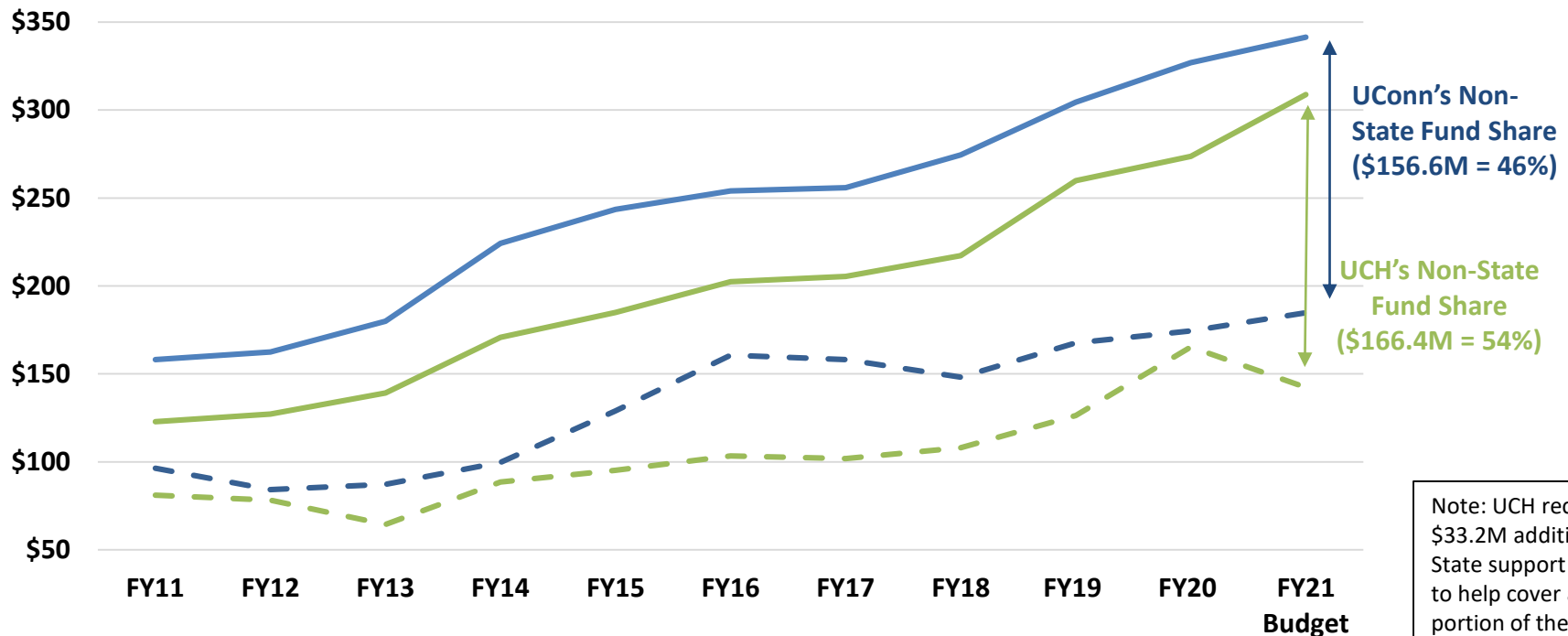
Fringe Benefit Rate Components - SERS

The SERS fringe rate has risen dramatically over the last 20 years, with large increases in FY14, FY19.



Fringe Costs are Rising

Total fringe costs, primarily due to the state's unfunded legacy pension liabilities and healthcare costs, have risen drastically over the last 10 years. While the State reimburses UConn & UCH for some of these costs, a significant amount must be covered by tuition, clinical revenues, grant funds and other UConn/UCH non-state funds.



Note: UCH received \$33.2M additional State support in FY20 to help cover a portion of the unfunded pension liability and retiree health costs.

FY20 – FY23 SERS Unfunded Legacy Costs

The portion of the fringe costs associated with the State's unfunded pension liabilities are significant. While the State reimburses UConn/UCH for some of those costs, UConn's other non-State funds still pay a large share of that liability, plus retiree health costs, for a **combined total of \$88M in FY21**.

Projected Unfunded Legacy Costs / SERS Pension and Retiree Health (\$M)				
UConn - Storrs & Regionals				
Fund Type	FY20 Actuals	FY21	FY22	FY23
Tuition/Fees/Other*	\$31.4	\$27.4	\$29.3	\$31.3
Research	\$6.8	\$7.1	\$7.5	\$7.7
Non-State Funds/Liability	\$38.2	\$34.5	\$36.7	\$38.9
UConn Health***				
Fund Type	FY20 Actuals	FY21	FY22	FY23
Clinical	\$20.5	\$29.8	\$32.9	\$34.0
SOM/SODM Academic Units**	\$23.4	\$15.9	\$16.6	\$17.2
Research Fund	\$7.6	\$8.1	\$9.2	\$9.5
Initial Non-State Funds/Liability	\$51.6	\$53.8	\$58.7	\$60.7
Additional State support for legacy costs	\$33.2			
Final Non-State Funds/Liability	\$18.4	\$53.8	\$58.7	\$60.7
Non-State Funds/Liability Combined UConn/UCH	\$56.6	\$88.3	\$95.4	\$99.7

The unfunded legacy costs are UConn's best estimate at this time.

Amounts could materially change when the actual rates are published by the Comptroller.

*Other includes outside educational revenue, indirect cost return from grants, etc.

**Includes tuition, contracts, interns, residents etc.

***The legislature approved \$33.2M in funding to UConn Health in FY20 to address a portion of the state's unfunded legacy costs charged to it. In FY21, the state's unfunded legacy costs are expected to reach \$53.8M toward that cost.

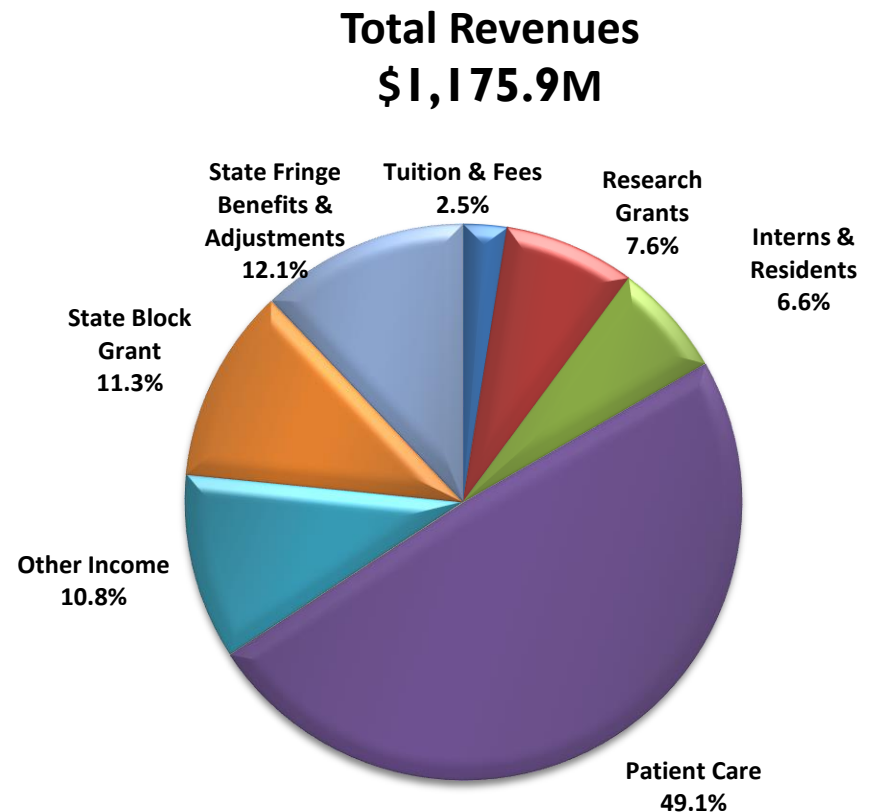
UConn Health – FY21 Revenues by Category

UConn Health's greatest revenue source is Patient Revenue, covering >49%. State support (Block Grant and In-kind Fringe) covers 23% of total revenues.

The Block Grant is used only for salaries of UConn Health employees - it (and the associated fringe benefit reimbursement received) only covers about 40% of our employees.

Revenue (\$M)	
State Block Grant	132.9
State Fringe Benefits & Adjustments	142.4
Total State Support	\$ 275.3
Tuition & Fees	29.7
Research Grants	89.4
Interns & Residents	77.7
Patient Care	576.9
Other Income*	126.8
Total Revenues	\$ 1,175.9

* Other Income includes auxiliary services, gifts/endowments, external contract revenue and internal income (offset by internal expense)

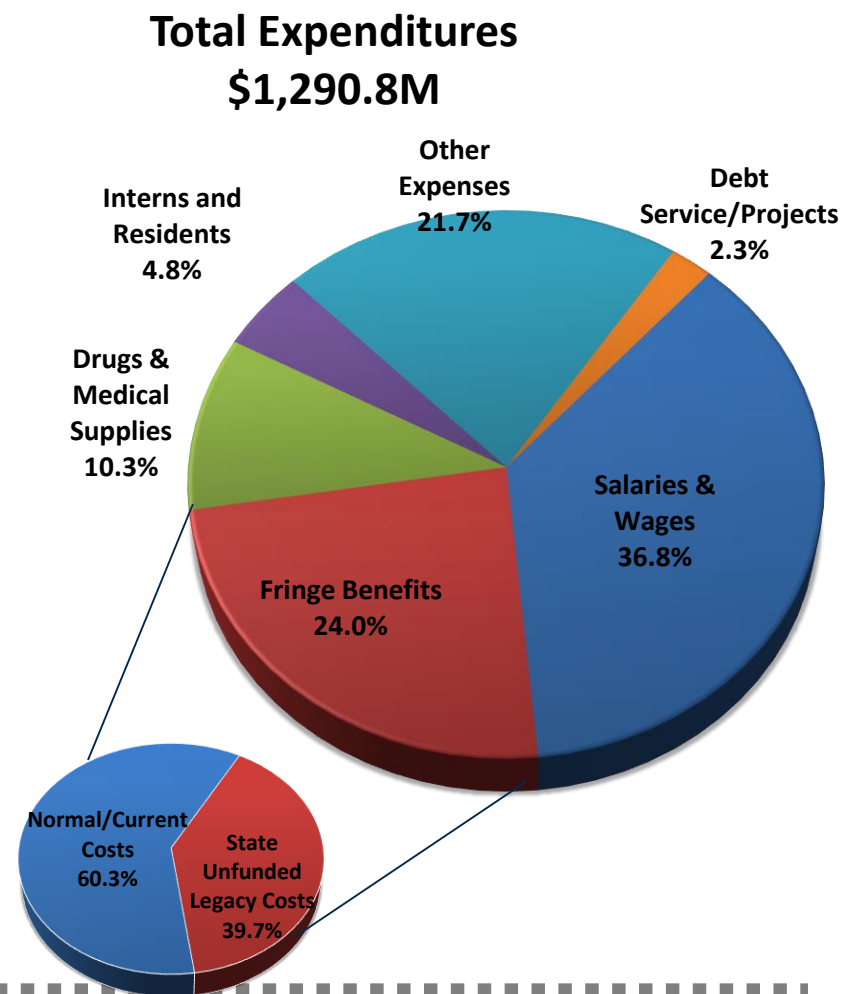


UConn Health – FY21 Expenditures by Category

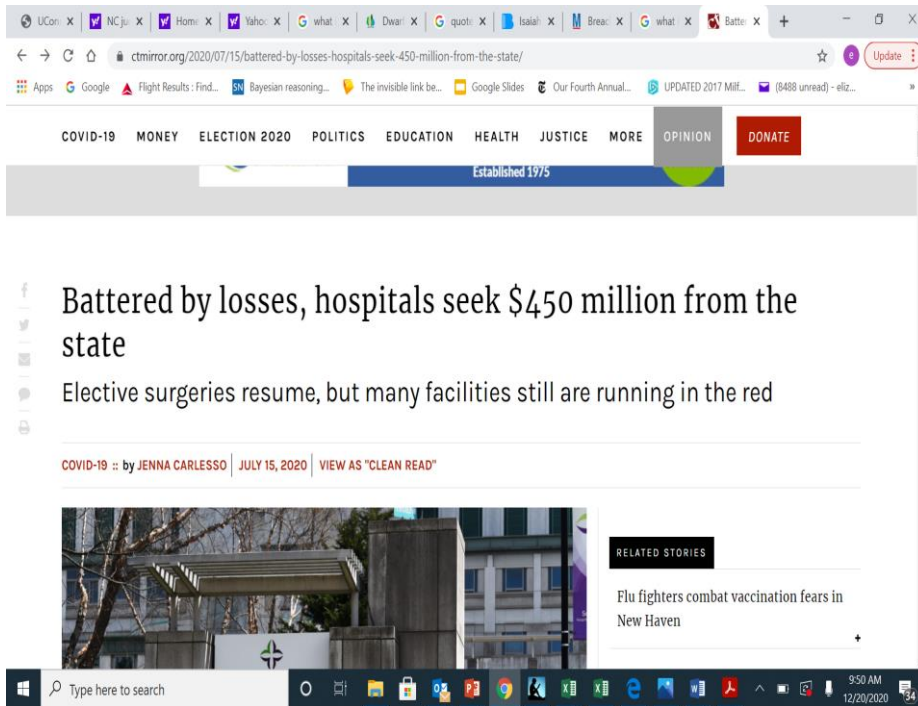
61% of UConn Health expenses are for employee salary and fringe costs.

Expenditures (\$M)	
Salaries & Wages	475.3
Fringe Benefits	309.9
Drugs & Medical Supplies	133.4
Interns and Residents	61.8
Other Expenses*	280.3
Debt Service/Projects	30.0
Total Expenditures	\$ 1,290.8

*Other Expenses includes items such as Medical Contractual Support, Utilities, Insurance and Repairs/Maintenance

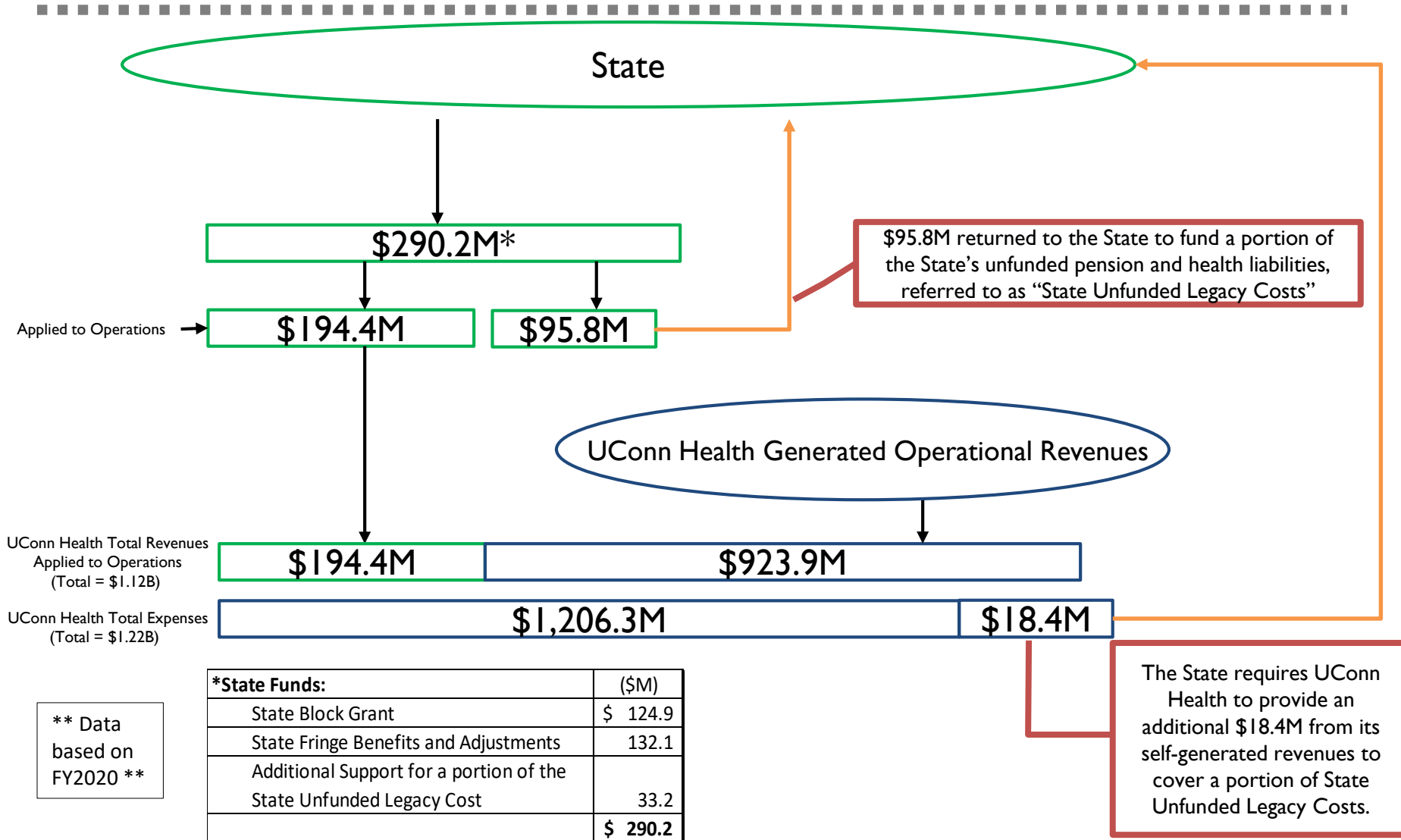


UConn Health's Current State Request for FY 20 and FY 21: (\$53.8M legacy costs + \$18.9M COVID-related deficit = Total of \$72.7M)



	FY 21 Year End Forecast
	(in Millions)
Unfunded Legacy Costs	(53.8)
COVID-19 Related Losses	(61.1)
Deficit	(114.9)
Mitigation plans:	
Capital deferral	4.9
Financial Improvement Plan (FIP)	45.0
Furlough - management	1.2
Federal Funds	10.0
	61.1
FY 21 Deficiency	(53.8)
<i>Unfunded Legacy Cost Support*</i>	(53.8)
FY 20 Deficiency	(18.9)
<i>COVID Losses</i>	(18.9)
State Request	(72.7)
* The legislature approved \$33.2 million in funding to UConn Health in FY20 to address a portion of the state's unfunded legacy costs charged to UConn Health. In FY21, the state's unfunded legacy costs are expected to reach \$53.8 million.	

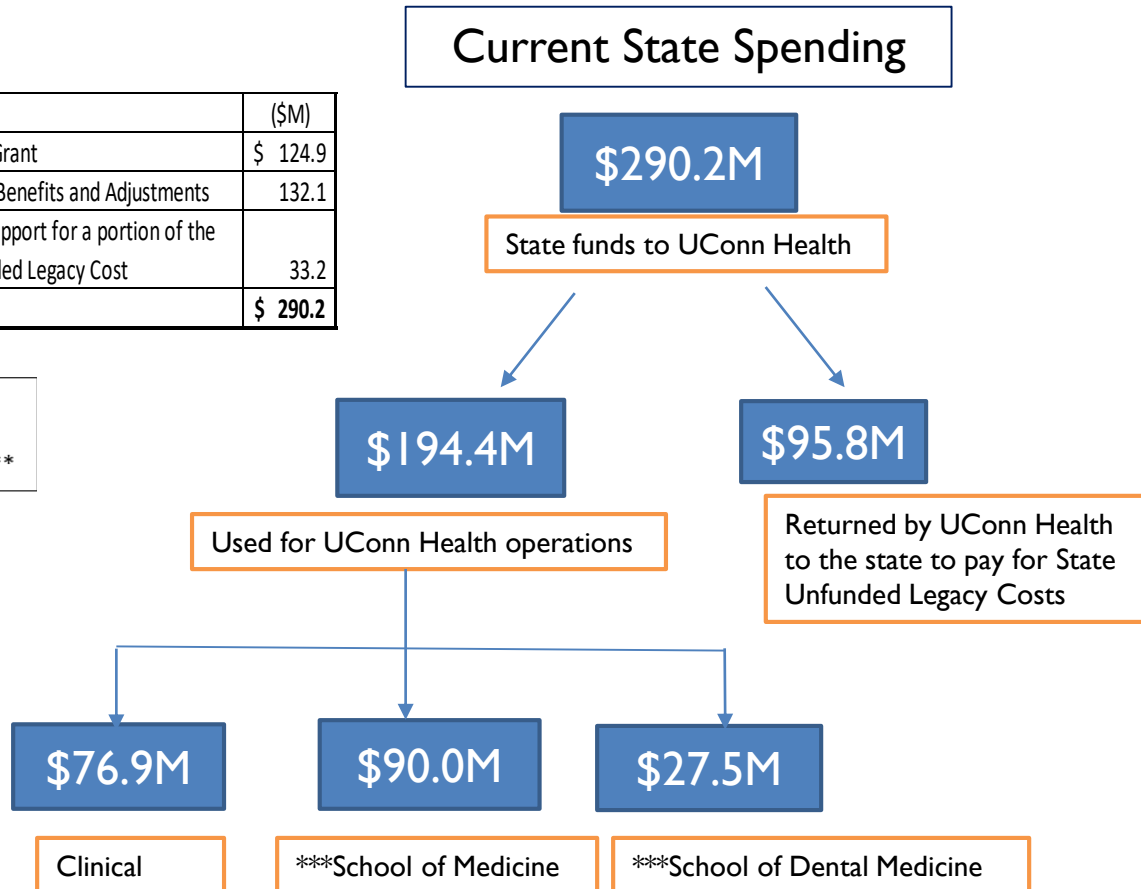
How State Funds Flow to UConn Health



State Funds

*State Funds:	(\$M)
State Block Grant	\$ 124.9
State Fringe Benefits and Adjustments	132.1
Additional Support for a portion of the State Unfunded Legacy Cost	33.2
	\$ 290.2

** Data
based on
FY2020 **



*** Includes support for research activities

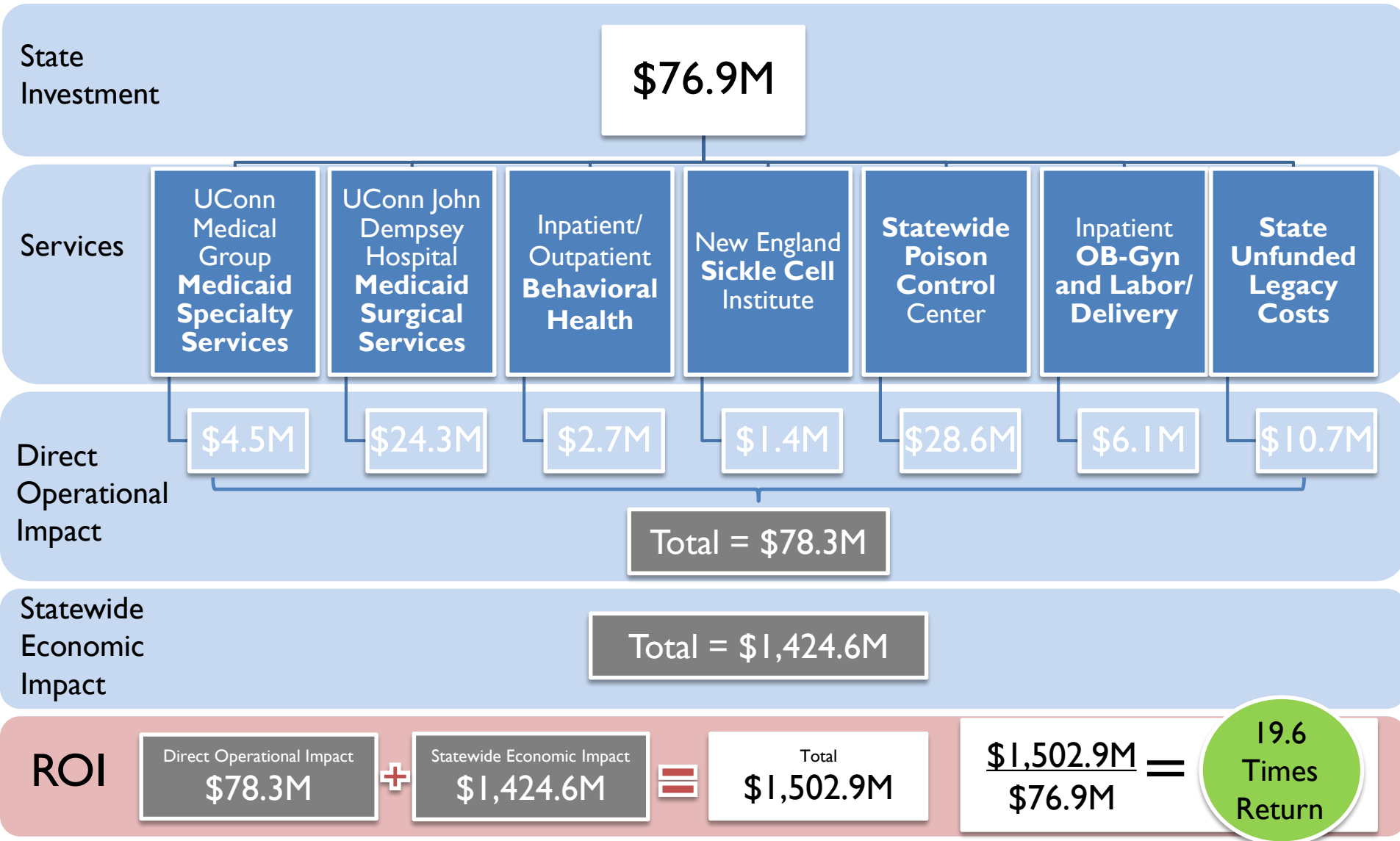
State Request

UConn Health Request	FY20	FY21	FY22	FY23
COVID Revenue Losses/Deficiency	18.9			
Unfunded Legacy Cost		53.8	58.7	60.7
Appropriation (Oper Exp, AHEC and Bioscience)	127.6	135.8	133.7	138.9
Totals	146.5	189.6	192.4	199.6
Governor's Budget Proposal				
COVID Revenue Losses/Deficiency	18.9			
Unfunded Legacy Cost	-	31.1	40.0	-
Appropriation (Oper Exp, AHEC and Bioscience)	127.6	135.8	133.7	133.8
Totals	146.5	166.9	173.7	133.8
Shortfall from UConn Health request vs Governor's proposal				
COVID Revenue Losses/Deficiency	-	-	-	-
Unfunded Legacy Cost	-	(22.7)	(18.7)	(60.7)
Appropriation (Oper Exp, AHEC and Bioscience) - related to 27th Payroll	-	-	-	(5.1)
Total	-	(22.7)	(18.7)	(65.8)
In-kind Fringe related to 27th Payroll	-	-	-	(4.7)
Total Remaining Request	-	(22.7)	(18.7)	(70.5)

- The Legislature approved \$33.2 million in funding to UConn Health in FY20 to address a portion of the state's unfunded legacy costs charged to UConn Health. In FY21, the state's unfunded legacy costs are expected to reach \$53.8 million.
- FY21 includes an increase of \$50M (reflected in the Deficiency bill). The above chart allocates \$18.9M for FY20 for COVID clinical revenue losses and \$31.1M to FY21 for the unfunded legacy costs.
- In FY22, the Governor's budget proposal includes \$40M for temporary operating support. The above chart allocates the \$40M to the Unfunded Legacy costs. The request for unfunded legacy costs is \$58.7M in FY22 and \$60.7M in FY23. The above amounts have been updated to best estimates at this time. Amounts could materially change when the actual rates are published by the Comptroller.

Clinical Service ROI

\$76.9M State Investment Produces 19.6 Times Return



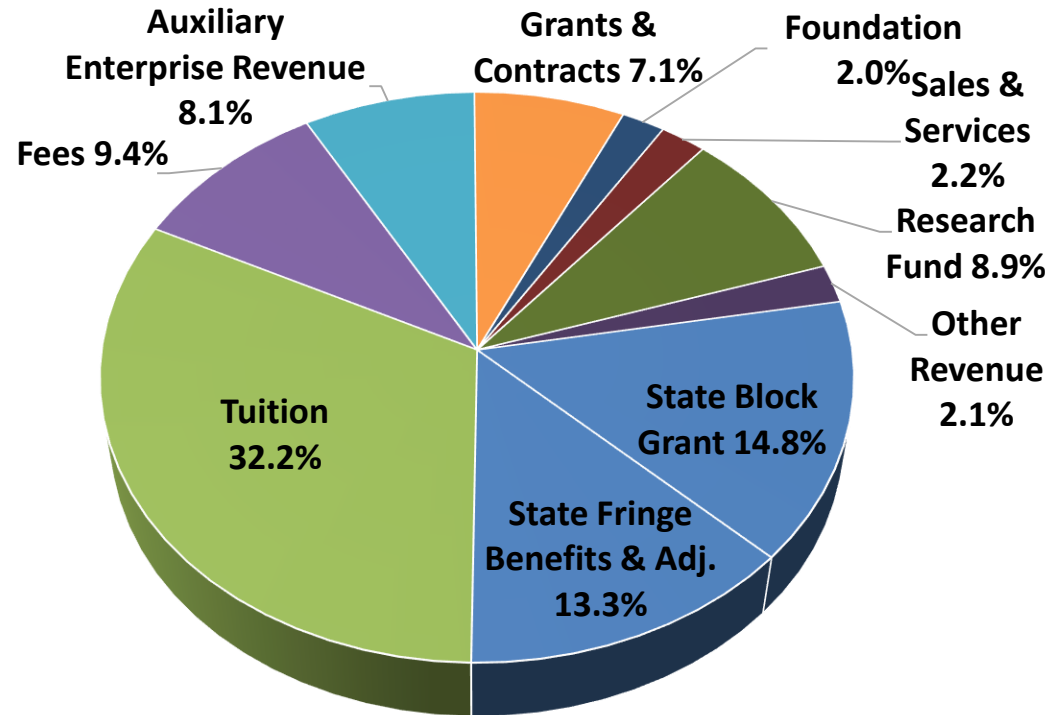
UConn – FY21 Revenues by Category

The University relies more on tuition than any other revenue source at 32%. State support in the form of the block grant is only 14.8% of total revenues, and when combined with the State fringe reimbursement, only accounts for 28% from the State.

FY21 Budget

Revenues (\$M)

State Block Grant	208.8
Fringe Benefits & Adjustments	187.8
Total State Support	\$ 396.5
Tuition	454.8
Fees	133.6
Grants & Contracts	100.5
Foundation/Endowment	28.9
Sales & Services	30.9
Auxiliary Enterprise Revenue	114.4
Other Revenue	30.4
Total Operating Fund	\$ 1290.1
Research Fund	124.3
Total Revenues	\$ 1414.4



UConn – FY21 Expenditures by Category

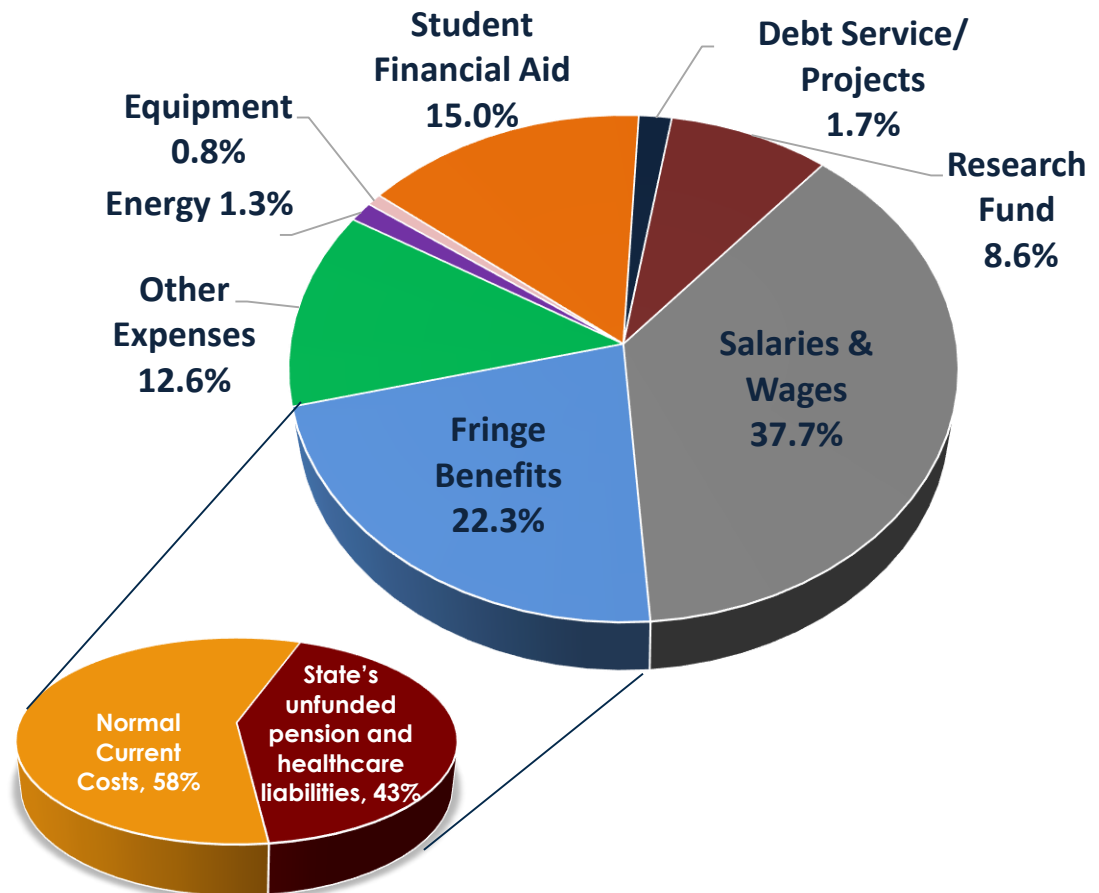
Salary and fringe benefit costs are growing at a significant pace and account for about 60% of the University's operating budget

FY21 Budget

Expenditures (\$M)

Salaries & Wages	\$	543.9
Fringe Benefits		320.8
Equipment		11.3
Energy		18.7
Other Expenses		182.2
Student Financial Aid		216.6
Debt Service/Projects		25.2
Total Operating Fund	\$	1318.6
Research Fund		123.3
Total Expenditures	\$	1441.9

Other Expenses includes dining services food and labor, lab supplies, janitorial services, facilities contracts, dues and memberships, travel, etc.



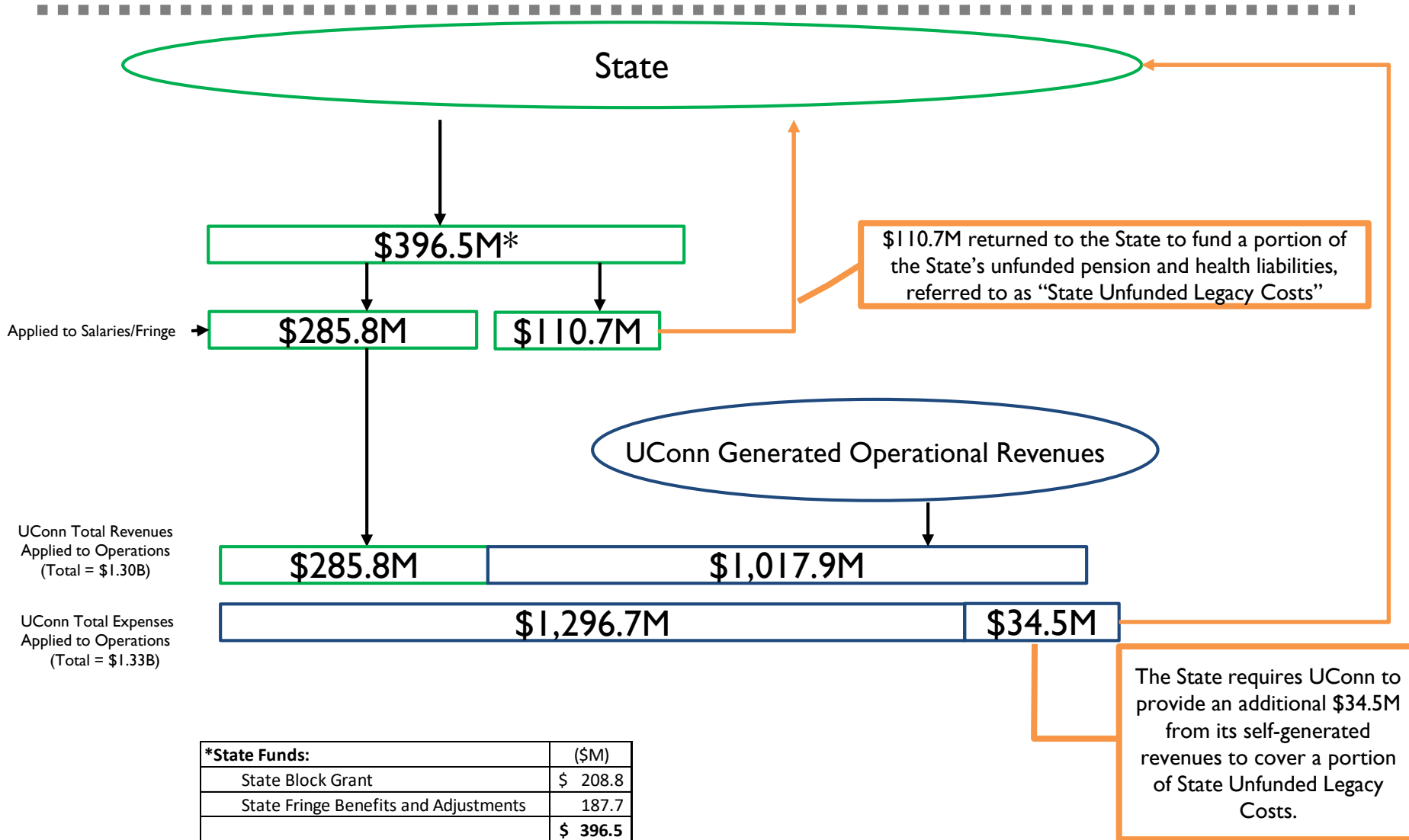
FY21 Budget Tracker – Mitigation

Of a \$76M projected deficit, \$48M in mitigation has been realized, \$20M was received from the State via the Coronavirus Relief Fund and \$8M was received in additional federal relief, bringing the deficit to \$0.

	Current Estimate
State Block Grant lapse/cut (incl fringe)	(4,643,460)
Net Loss of housing/dining/other fees	(66,893,629)
Net program revenues/expenses	(3,984,121)
Deficit	(75,521,210)
Mitigation plans identified	
Departmental expense savings	24,100,000
Capital reallocation	9,000,000
University-wide program cuts	13,000,000
Furlough - management	1,900,000
	48,000,000
State Request / Deficit*	(27,521,210)
Coronavirus Relief Fund (CRF) from OPM	20,000,000
Estimated Additional Federal Relief Funding (CRRSA)	7,521,210
Remaining Deficit	\$0

*If this were to include the State unfunded legacy costs at \$34.5M, the request would total \$62M

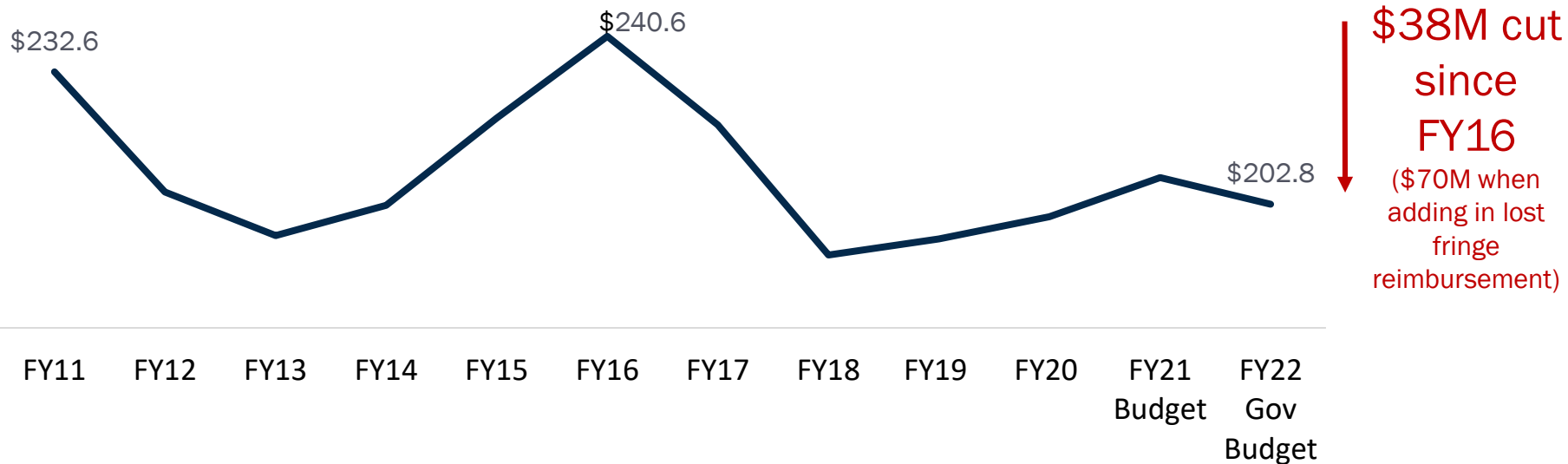
How State Funds Flow to UConn



State Block Grant - Allotment

The State Block Grant is only used for salaries of University employees and only covers 47% of our employees

- Since FY10, the State Block Grant has averaged ~\$212M per year.
- The remaining **53% of employees are funded by non-State revenue** sources including tuition and fees, auxiliary enterprises, research, grants and contracts, Foundation, and sales and services



State Support FY21-FY23

Requests for FY22 and FY23 include additional support for annualized FY21 collective bargaining increases, new building operations, and a 27th payroll.

The Governor's proposed budget leaves us short by \$14.3M in FY22 and \$23.6M in FY23, before adding on our additional need for unfunded legacy cost support.

UConn Storrs & Regionals Request	FY20	FY21	FY22	FY23
Unfunded Legacy Cost	38.2	34.5	36.7	38.9
Appropriation (Operating Exp)	197.1	206.5	210.3	220.1
Totals	235.3	241.0	247.0	259.0
Governor's Budget Proposal				
Unfunded Legacy Cost				
Appropriation (Operating Exp)	197.1	206.5	202.8	207.8
Totals	197.1	206.5	202.8	207.8
Shortfall from request vs Governor's proposal				
Appropriation (Operating Exp)			(7.5)	(12.3)
Equivalent Fringe Reimbursement			(6.8)	(11.3)
Totals			(14.3)	(23.6)
Unfunded Legacy Cost			(36.7)	(38.9)
Total Remaining Request	-	-	(51.0)	(62.5)

Appendix

Impact of High Fringe Rates on Research

UConn's high fringe rates negatively effect our ability to recruit and retain researchers and grow research.

- UConn's high fringe rates have been noted by grant reviewers
- Grants are not pursued because our high fringe cost make the budget unworkable
- Portions of projects are being outsourced because of the high cost of research
- High rates are driving decisions by several well-funded faculty to leave UConn for positions at other institutions (with lower fringe rates), taking grant dollars with them.

Fringe Rate Comparison

High fringe rates are impacting UConn's competitiveness for research grants.

	Faculty rate	Professional rate
UConn	61%*	68%*
Georgia	43	43
Michigan State	40	40
Illinois	47	47
Rutgers	46	46
Penn State	35	35
Average of Peer Institutions	34	39
Wisconsin	35	35
Texas	30	30
Maryland	29	35

* To mitigate the impact of the State's unfunded legacy costs, the University is temporarily subsidizing fringe benefit rates to allow researchers to be more competitive by reducing the full rate to 43% for faculty and professional staff. The University is still required to pay the full rate to the State Comptroller.

Comparison of Research Fringe Rates

In FY21, UConn Storrs was 27.0% points above its peers in the faculty rate and UCH was 13.6% points higher in the professional rate.

* To mitigate the impact of the State's unfunded legacy costs, the University is temporarily subsidizing fringe benefit rates to allow researchers to be more competitive by reducing the full rate to 43% for faculty and professional staff. The University is still required to pay the full rate to the State Comptroller.

	Faculty	Professional	Special Payroll
UConn (Storrs & Regionals)	60.7%*	67.7%*	27.5%
UConn Health	47.3%*	76.8%*	15.0%
Peer Institutions:			
Michigan State University	40.1	40.1	7.7
University of Georgia	43.0	43.0	26.0
Indiana University	39.1	39.1	27.4
University of Delaware	38.8	38.8	6.7
University of Utah	34.0	62.0	34.0/10.0
University of Kansas	37.0/43.0/9.0 b	37.0/43.0/9.0 b	15.0 d
Purdue University	22.6	33.1/28.4/54.0 e	4.0 d
University of Kentucky a	14.7	14.8	8.8 d
Average of Peer Institutions	33.7%	38.5%	17.8%

Aspirant Institutions:	Faculty	Professional	Special Payroll	Other Institutions:	Faculty	Professional	Special Payroll
Penn State University	34.9	34.9	12.4	University of Vermont	47.2	47.2	10.4
University of Illinois - UC	46.9	46.9	7.7 d	Rutgers State University	46.2	46.2	46.2
University of Wisconsin-Madison	35.0	35.0	16.2	University of New Hampshire	43.8	43.8	8.1
University of California - Davis	38.4	53.1	10.3	UConn Health Center			
University of Florida	29.7	39.1	10.5/5.2 c	UMASS-Amherst	39.1	39.1	1.7
University of Maryland	29.3	35.4	8.4	Yale University	29.5	29.5	29.5
Ohio State - Main campus	23.4	31.5	13.9/11.5 c	Brown University	30.2	30.2	30.2
University of Texas - Austin a	30.1	30.1	5.7	New York University	42.0	42.0	15.5
Average of Aspirant Institutions	33.5%	38.3%	13.5%	Temple University	28.8	28.8	27.5 d
a Does not include health insurance, which is charged at actual cost				MIT	26.7	26.7	8.6 d
b Rate varies based on FTE (.9-1.0/.5-.89/.49 or less)				University of Rhode Island a	21.9	21.9	21.9
c Separate rates for Faculty and Graduate summer salary				Harvard University	23.2	30.8	19.2 d
d Graduate student rate; Faculty summer pay at regular faculty rate				University of Virginia	28.3	38.1	6.3
e Rate varies depending on retirement plan				Average of Other Institutions	33.9%	35.4%	18.8%

Impact of High Fringe Rates on Research

.....
UConn's high fringe rates negatively affect our ability to grow research.

- **UConn's high fringe rates have been noted by grant reviewers, impacting our competitiveness**

Grant not funded; \$2.9M (PIs: S. King, E. Eipper)

NIH R01 "*Peptide Amidation in Ciliogenesis*"

From a NIH grant proposal review:

"The budget is excessive for the experiments proposed. Reduce effort / salary for co-PI and technician by ½... Fringe for some positions (nearly 70% of salaries) seems inordinately high..."

- **Grants are not pursued because our high fringe cost make the budget unworkable**

Grant not submitted; \$320K (PI: K. Gans)

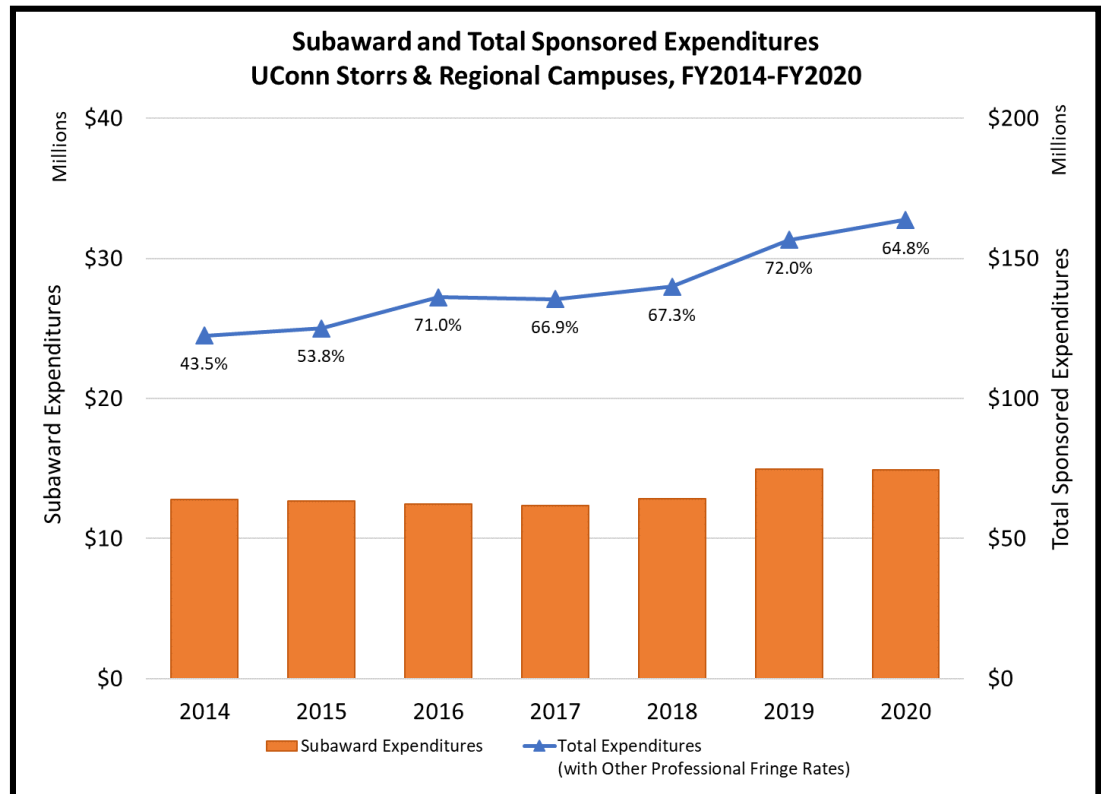
PI feedback regarding Robert Wood Johnson Foundation HER grant proposal:

"After submitting a concept paper... I was invited to submit a full proposal (only 41 out of 250 submitted were chosen). I had planned to submit the full proposal (due October 2) but unfortunately, I cannot make the budget work with the high fringe rates that UConn currently has."

Trend Towards Outsourcing Research

Portions of projects are being outsourced because of the high cost of research at UConn.

- After remaining flat in previous years, spending on Subawards from UConn to other entities grew by 17% from FY18 to FY19 and maintained that increase in FY20
- Two of our top grant funded investigators moved a large amount of their research to a non-UConn organization beginning in Spring 2019
 - This move shifted ~\$700K per year in expenditures from UConn to another organization



Impact on Research Faculty Retention

Selection of research active faculty who have left UConn due in part to institutional barriers of doing research at UConn.

Former UConn/UConn Health Faculty	New Institution	Total Amount Transferred (Relinquished)	Active Federal Award Portfolio*
Ramamurthy Ramprasad	Georgia Institute of Technology	\$3,226,135	\$3,729,683
Mohammad Tehranipoor	University of Florida	\$3,019,165	\$6,125,019
Reinhard Laubenbacher	University of Florida	\$3,713,691	\$7,725,620
Fudong Liu	University of Texas Health Science Center	\$2,893,720	\$3,335,854
Doug Adams	University of Colorado	\$1,417,010	\$1,934,536
Peng Zhang	Stony Brook University	\$1,189,519	\$3,889,519
Kate Whitaker Tease	UMass-Amherst	\$1,091,289	\$762,679
Kyle Baumbauer	University of Kansas	\$583,579	\$424,669
Lauren Sansing	Yale University	\$582,140	\$5,468,415

* *Source:* Active federal award portfolio includes awards active in FY2019-FY2020 from Academic Analytics, which obtains lists of grants from thirteen federal agencies (including all DHHS, NSF, EPA, and US ED; only select divisions are included for USDA, DOC, DOE, DOD, and others) via online search engines and through Freedom of Information Act (FOIA) requests.

Clinical Service ROI

\$76.9M State Investment Produces 19.6 Times Return

$(\$1,502.9M \div \$76.9M \text{ (State Investment)}) = 19.6$

State investment of \$76.9M provides:

UConn Medical Group Medicaid Specialty Services	UCH currently provides 114,700 office visits per year to Medicaid patients. To maintain timely access for this patient population, private providers would likely require rate increases closer to Medicare reimbursement rates. Approximately \$39 per visit would cost the State an additional \$4.5 million.	\$4.5M
UConn John Dempsey Hospital Medicaid Surgical Services	UCH currently provides over 6,800 surgical procedures per year to Medicaid patients. To maintain timely access for this patient population, private providers would likely require rate increases. Using all payers a blended rate increase of \$3,573 for inpatient and outpatient cases would cost the State an additional \$24.3 million.	\$24.3M
Inpatient/Outpatient Behavioral Health	UCH currently provides 8,300 behavioral health visits per year to Medicaid patients. To maintain access for this patient population, an estimated rate increase to move toward Medicare rates would be needed. All for inpatient and outpatient current services would cost \$2.7 million.	\$2.7M
New England Sickle Cell Institute	UCH currently provides 1,300 office visits per year to patients with sickle cell disease. Hartford area hospitals could see an increase in Medicaid patient ED visits and could cost the State an additional \$1.4 million.	\$1.4M
Statewide Poison Control Center	30,000 calls a year generated healthcare savings by avoiding unnecessary emergency department visits = \$28.6 million	\$28.6M
Inpatient OB-Gyn and Labor/Delivery	UCH currently provides 624 inpatient visits per year to Medicaid patients. To maintain access for this patient population, an estimated rate increase to move toward commercial rates would be needed. This would cost the State an additional \$6.1 million.	\$6.1M
State Unfunded Legacy Costs	Amount of UCH self-generated revenue that is sent to the State to cover State Unfunded Legacy Costs.	\$10.7M
TOTAL	DIRECT OPERATIONAL IMPACT	\$78.3M
TOTAL	STATEWIDE ECONOMIC IMPACT	\$1,424.6M
Return on Investment	<div> <div> (Direct Operational Impact of \$73.8M + Statewide Economic Impact of \$1,424.6M) State Investment of \$76.9M </div> <div>= 19.6 Times Return</div> </div>	

State Budget Request

UConn Health					
		FY20	FY21	FY22	FY23
UConn Health Request					
COVID Revenue Losses/Deficiency		18.9			
Unfunded Legacy Cost			53.8	58.7	60.7
Appropriation (Oper Exp, AHEC and Bioscience)		127.6	135.8	133.7	138.9
Totals		146.5	189.6	192.4	199.6
Governor's Budget Proposal					
COVID Revenue Losses/Deficiency		18.9			
Unfunded Legacy Cost		-	31.1	40.0	-
Appropriation (Oper Exp, AHEC and Bioscience)		127.6	135.8	133.7	133.8
Totals		146.5	166.9	173.7	133.8
Shortfall from UConn Health request vs Governor's proposal					
COVID Revenue Losses/Deficiency		-	-	-	-
Unfunded Legacy Cost		-	(22.7)	(18.7)	(60.7)
Appropriation (Oper Exp, AHEC and Bioscience) - related to 27th Payroll		-	-	-	(5.1)
Totals		-	(22.7)	(18.7)	(65.8)
In-kind Fringe related to 27th Payroll		-	-	-	(4.7)
Total Remaining Request		-	(22.7)	(18.7)	(70.5)

Shortfall Drivers:

- COVID-19 Clinical Revenue losses
 - FY 20 COVID 19 clinical revenue losses are \$18.9 million
- State's unfunded legacy costs charged to UCH:
 - FY 21 legacy costs are \$53.8 million
 - FY 22 legacy costs are \$58.7 million
 - FY 23 legacy costs are \$60.7 million

Mitigation Efforts:

- The projected shortfall for FY 21 was initially \$114M but as a result of mitigation and other efforts this projected shortfall is \$53.8M (this is reduced to \$22.7M when applying the \$31.1M relief provided in the Governor's proposed budget)

Fiscal Year 2021 Budget Summary

	Current Estimate
State Unfunded Legacy Costs	(53,800,000)
Net Loss due to COVID	(61,136,995)
Deficit	(114,936,995)
Mitigation Plans Identified	
Capital deferral	4,936,995
Furlough - management	1,166,667
Federal Funds	10,000,000
Financial Improvement Plan (FIP)	45,033,333
	61,136,995
Current Deficit = State Request for Unfunded Legacy Costs	(53,800,000)
Allocation of Governor Proposed additional State Funding	31,106,344
Remaining Deficit	(22,693,656)