CONNECTICUT HOSPITAL ASSOCIATION

TESTIMONY OF
CONNECTICUT HOSPITAL ASSOCIATION
SUBMITTED TO THE
STATE TAX PANEL
WEDNESDAY, SEPTEMBER 16, 2015

The Connecticut Hospital Association (CHA) appreciates this opportunity to submit testimony to the State Tax Panel. We will address the present and potential impact of two taxes on hospitals in Connecticut – the hospital tax and the local property tax.

At the outset, it's important to point out that Connecticut hospitals treat everyone who comes through their doors 24 hours a day, regardless of ability to pay. Hospitals are committed to their communities and the people they serve. Unlike corporations, they cannot simply move to another state to offer healthcare services. Hospitals are here to stay.

Additionally, investing in hospitals improves the state economy. Connecticut hospitals employ more than 55,000 people, and every hospital job creates another job in its community. In total, Connecticut hospitals generate more than 110,000 jobs and contribute more than $21 billion to the state and local economies each year.

As providers, policymakers, and citizens, we have each been engaged for years in the national discussion about ways to improve access and reduce the cost of healthcare in this country, leading up to the enactment of the Affordable Care Act (ACA).

The ACA brought us to this time of unprecedented change in healthcare, and Connecticut hospitals are leading the journey to better care, better health, and lower costs. They are focused on providing safe, accessible, equitable, affordable, patient-centered care for all, and they are finding innovative solutions to integrate and coordinate care to better serve their patients and communities.

Taxing hospitals and healthcare increases cost, reduces access, hurts our state and local economies, and is inconsistent with the goals of healthcare reform. As you consider recommendations and solutions for inclusion in your report to the General Assembly, we ask you to please consider the potential impact of decisions to tax or not to tax hospitals and healthcare services.

<u>HOSPITAL TAX</u>: The hospital tax was adopted in 2011 and began operating in FY 2012. Its original purpose was to provide a small amount of financial assistance to the hospitals (approximately $50 million a year) and significant help to the state (approximately $150

million a year). It worked originally through the following mechanism: hospitals paid $350 million in taxes and received back $400 million in payments. The state claimed the $400 million in payments to hospitals as Medicaid payments and received $200 million from the federal government. The $200 million from the federal government was split: $50 million was provided as a "subsidy" to the hospitals and $150 million went to the state to balance its budget. In short, for every new federal dollar, a quarter went to help hospitals and three quarters went to reduce the state deficit.

Unfortunately that structure only lasted one year and, in December of 2012, the hospital tax began costing hospitals more and more. In short, hospitals were expected to keep paying the $350 million in taxes but the amount returned to hospitals kept dropping. In essence, the state moved away from the concept of maximizing the federal reimbursement, as was its original goal, and toward a model of direct taxation of hospitals.

In the 2015 budget, the amount of the tax paid by hospitals to the state was increased from $350 million to $556 million. Of that $556 million, only $242 million is being distributed back to hospitals. The balance of $314 million is being retained by the state. That's a direct tax on hospitals, ultimately impacting patient care, access, costs, and jobs.

Let's put the hospital tax into perspective relative to other Connecticut taxes. Simply stated, the effective tax rate for the hospital tax stands at 5 times the corporate tax rate. And hospitals must pay this tax regardless of their financial performance or condition, that is, whether or not their revenue exceeds their expenses, or, to use corporate terminology, whether they operate at a profit. And to make matters worse, hospitals are not eligible for any of the tax credits presently available to corporations and other organizations. They are only allowed to buy a portion of a credit that another entity earned. The impact of the tax on Connecticut hospitals could never have been intended by its architects. The hospital tax imposes a severe financial burden on hospitals, rather than providing a small measure of financial assistance. Its adverse impact on the economic health of our state is undeniable.

It is also important to point out that in 2015, the Legislature imposed a new tax on healthcare, applicable to ambulatory surgery centers. The tax burden being borne by healthcare providers in Connecticut has become heavier as a result of these actions.

<u>PROPERTY TAX</u>: Connecticut, like the rest of the nation, enacted the property tax exemption for hospitals many years ago in recognition of the unique and critically important role hospitals play in their communities. Not only do Connecticut hospitals care for the sick, but they also play a major and continually expanding role in improving community health. Working with their communities, Connecticut hospitals are identifying and addressing key health issues people are facing, so they can live healthier, better lives.

These efforts include outreach and support services for patients with cancer, diabetes, asthma, or other chronic conditions, mobile vans and clinics delivering primary and preventive care, healthy lifestyle education programs, services for the homeless, clinics for migrant farm workers, crisis intervention services, and many other programs targeted to meet specific community needs. The community benefit programs offered by hospitals improve the quality of life in our cities and towns. In 2013, Connecticut hospitals invested $1.5 billion in community benefit initiatives.

Connecticut hospitals epitomize the reason that the property tax exemption was created. They play a unique and critically important role in their communities. They are worthy of continued exemption from paying property tax.

Unfortunately, effective October 1, 2015, Connecticut will impose a local property tax on real property acquired by a health system if the property was subject to local property tax at the time of the acquisition, and including any personal property related to healthcare services to be delivered at the acquired property. The new tax applies to health systems that had for FY 2013 at least $1.5 billion in net patient revenue from facilities located in Connecticut. It excludes any real and personal property within a main hospital campus.

Connecticut hospitals cannot endure these taxes. The damage is evident. Since July, Connecticut hospitals have lost 530 jobs, according to a state Department of Labor report. Meanwhile, in that same time period, the federal Department of Labor reported that hospital employment increased nationally by 15,700 jobs. One cannot deny that hiking taxes on hospitals is a contributing factor. Connecticut is heading in the wrong direction when it comes to taxing hospitals and healthcare.

As for recommendations and solutions, we ask that this panel recommend to the General Assembly that taxing healthcare services, whether by the state hospital tax, local property tax, or by any other means, is bad policy and is no solution for balancing state or local budgets and that these taxes be eliminated.

Thank you for the opportunity to comment, and for considering the unique and special position occupied by hospitals. We trust that your recommendations will serve the best interests of the people of Connecticut by helping us preserve and enhance access to patient care, protect important and valuable healthcare jobs, and reduce the cost of healthcare in our state.

Thank you for your consideration of our position. For additional information, contact CHA Government Relations at (203) 294-7310.