TESTIMONY
OF
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PRESIDENT
CENTRAL CONNECTICUT HEALTH ALLIANCE
FINANCE, REVENUE AND BONDING COMMITTEE
APRIL 3, 2003

HB 6666, An Act Concerning The Repeal Of The Sales Tax On Patient Care Services and sections 9 and 10 of SB 1037, An Act Concerning Revenue Changes To Implement The Biennial Budget

My name is Laurence A. Tanner. I am President of the Central Connecticut Health Alliance consisting of Bradley Memorial Hospital in Southington and New Britain General Hospital in New Britain, Connecticut. I appreciate the opportunity to testify in support of **HB 6666, An Act Concerning The Repeal Of The Sales Tax On Patient Care Services and sections 9 and 10 of SB 1037, An Act Concerning Revenue Changes To Implement The Biennial Budget**. Both bills propose to permanently repeal the hospital sales tax on patient care services.

I and the CEOs of Connecticut's 30 other acute care hospitals are united in our support for the permanent repeal of the hospital sales tax.

Connecticut hospitals are facing a series of daunting fiscal challenges, including staggering reductions in the Medicare program, a severe shortage of healthcare workers, escalating pharmaceutical costs, unprecedented blood and blood product price increases, and skyrocketing medical and general liability premiums. In addition, in this era of heightened need for Homeland Security, we continue to expend our limited resources on disaster and emergency planning at unprecedented levels. These pressures have put Connecticut's hospitals in a financially tenuous position. In 2002, 27 of the state's 31 acute care hospitals ended the year unable to collect enough funds from patients to cover the cost of care delivered to those patients.

The recent deficit reduction plan passed by the General Assembly and signed by the Governor will significantly increase the financial pressures on Connecticut's hospitals. This plan reduced hospital funding from the uncompensated care program by 5 million dollars; General Assistance/Department of Mental Health and Addition Services programs by $1 million; Community KidCare by $.4 million; the HUSKY program by $21.9 million and $26.3 million, for SFY 04 and 05, respectively (by eliminating medical coverage for 27,000 parents of children enrolled in the HUSKY program); and the Medicaid program by $4.4 million and $10.3 million, for SFY 04 and 05, respectively (by eliminating presumptive eligibility and restructuring benefits). These cuts will only exacerbate the serious financial situation facing every Connecticut hospital.

The last time the sales tax was in force, in 2001, the negative impact on Connecticut's hospitals was more than $110 million. The Connecticut Hospital Association estimates that if the tax is reinstated in 2003 it will cost hospitals approximately $128 million. Hospitals simply cannot absorb a financial hit of this magnitude. It is important to remember that if you permanently repeal the sales tax on patient care services, you will not be providing hospitals with a new tax break. Instead, you will be maintaining a significant and integral component of the current structure of hospital financing. In fact, the failure to repeal the tax would be a critical setback for hospitals, reversing the progress that has been made toward creating a more equitable system for state reimbursement to hospitals.

The hospital sales tax is not imposed like a typical sales tax. It is a tax based on non-government hospital revenue. Because of contractual agreements with most payors, the tax cannot be added to the cost of services rendered; it must be paid by the hospital out of the contracted amount received. Therefore, hospitals have no real ability to pass the tax through to payors. This severely limits - and often eliminates - hospitals' ability to recoup the impact of the tax.

The passage of this bill is particularly important to both our hospitals. As you are aware, the hospitals in Connecticut have on average some of the lowest operating margins in the country -- well below 1% last year. Our two hospitals, treating a disproportionate population of elderly and underinsured both lost substantial revenue last year and expect an even worse situation this year. The reinstatement of the sales tax will take an additional $4.5 million from New Britain and $700,000 from Southington if reinstated. Managed Care companies plan not to pay for the reinstated tax and private patients can ill afford the extra cost. We hope that the committee and the legislature will insure that the tax on hospitals will be permanently repealed. We thank you in advance for you support and action.

For the good of all Connecticut’s hospitals, please support HB 6666 and sections 9 and 10 of SB 1037.

Thank you for your consideration of my comments.

New Britain General Hospital and
Bradley Memorial Hospital and Health Center
Projected Impact of the State Budget Changes
for the Fiscal Years

	Income Statement Impact			
	NBGH		BMH	
	FY 03	FY 04	FY 03	FY 04
Net Increases/(Reductions)				
Uncompensated Care Pool Payments (UCP/DSH)	(153,000)	(4,000)	-	-
Sales Tax Expense	(1,151,600)	(4,506,000)	(176,500)	(706,000)
Reduction to the Husky Plan Payments				
Plan A		(958,235)		(50,033)
Plan B		(193,742)		(10,116)
Imposition of Medicaid co-payment of $ 1 for outpatient services	(48,435)	(193,742)	(2,530)	(10,116)
Elimination of SAGA Program and appropriate $ 58.3 million to the UCP/DSH		(281,303)		(65,887)
Eliminate other Medicaid eligibility coverage		(125,670)		(169,092)
Total additional expenses/reduction in reimbursement	(1,353,035)	(6,262,692)	(179,030)	(1,011,244)