

**TESTIMONY OF  
ALFRED A. LERZ  
PRESIDENT AND CEO OF JOHNSON HEALTH NETWORK  
BEFORE THE  
PUBLIC HEALTH COMMITTEE  
Thursday, 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 ALFRED A. LERZ, AND I AM PRESIDENT AND CEO OF JOHNSON HEALTH NETWORK, WHICH IS LOCATED IN STAFFORD SPRINGS, CT. IN ADDITION TO OUR 90-BED HOSPITAL, WE HAVE A 150-BED NURSING HOME; A VISITING NURSE AND HOME CARE ASSOCIATION; AN AMBULATORY SURGERY CENTER, AN OCCUPATIONAL MEDICINE CENTER; AND A BEHAVIORAL HEALTH PHYSICIAN PRACTICE. THE PRIMARY AREAS WE SERVE ARE: ENFIELD, SOMERS, STAFFORD, SUFFIELD, UNION, AND PARTS OF WILLINGTON, TOLLAND AND EAST WINDSOR. TODAY, I AM REPRESENTING JOHNSON MEMORIAL HOSPITAL, AND 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.**

**AS YOU KNOW, THE PREVIOUS UNCOMPENSATED CARE POOL, WHICH WAS INSTITUTED BY THE STATE IN 1994, CONSISTED OF A GROSS EARNINGS TAX, ALONG WITH A SALES TAX, WHICH**

**EQUATED TO 17%. TAX COLLECTED FROM HOSPITALS WAS DISBURSED BACK TO HOSPITALS IN A DISPROPORTIONATE MANNER. THE ORIGINAL INTENT OF THE PROGRAM WAS THAT NO HOSPITAL WOULD BE HURT, AND THE NET EFFECT WOULD BE AS CLOSE TO ZERO AS POSSIBLE. DOLLARS WERE TO BE RETURNED DISPROPORTIONATELY, AND THE STATE WOULD RECEIVE PARTIAL MATCHING FEDERAL FUNDS. AFTER THE FIRST YEAR, THE FEDERAL GOVERNMENT DECIDED NOT TO RECOGNIZE MEDICARE REIMBURSEMENT SHORTFALLS IN THE FORMULAS. AS A RESULT OF THIS ACTION, JOHNSON MEMORIAL HOSPITAL RECEIVED BACK ONLY 40 TO 50% OF WHAT WAS PAID IN DURING THE 1994 –1999 TIMEFRAME.**

**OVER A SIX-YEAR PERIOD, JOHNSON MEMORIAL HOSPITAL PAID IN APPROXIMATELY \$14.8 MILLION, AND RECEIVED BACK APPROXIMATELY \$8.6 MILLION. THIS RESULTED IN A NET SHORTFALL OF APPROXIMATELY \$6.2 MILLION! TO ABSORB THIS SHORTFALL, THE HOSPITAL HAD TO REDUCE STAFF, MODIFY EMPLOYEE BENEFITS, SUSPEND THE INTRODUCTION OF NEW SERVICES AND EQUIPMENT, AND POSTPONE REPAIRS TO ITS PHYSICAL PLANT.**

**AS A RESULT OF THIS SHORTFALL, JOHNSON MEMORIAL HOSPITAL WAS IDENTIFIED AS ONE OF 14 MODERATELY OR SIGNIFICANTLY DISTRESSED INSTITUTIONS IN THE JANUARY 7,**

**2003 REPORT OF THE COMMISSION ON THE FUTURE OF HOSPITAL CARE IN CONNECTICUT, WHICH WAS CHAIRED BY SENATOR TONI N. HARP AND REPRESENTATIVE MARY EBERLE.**

**OVER THE PAST TWO YEARS, THE HOSPITAL HAS HAD A MODEST OPERATING MARGIN, PRIMARILY DUE TO THE TWO-YEAR DEFERRAL OF THE STATE SALES TAX PROGRAM. IN ADDITION TO THE FINANCIAL SHORTFALLS, THE HOSPITAL ALSO HAD TO:**

- **ABSORB INADEQUATE LEVELS OF REIMBURSEMENT FROM MEDICARE AND MEDICAID PROGRAMS, AS WELL AS FROM MANAGED CARE PAYERS. ALL HAVE NOT KEPT PACE WITH HEALTHCARE INFLATION, AND THERE HAVE BEEN INCREASED PAYER DENIALS AND DELAYS IN PAYMENT.**
- **COMPETE WITH NON-HOSPITAL PROVIDERS NOT REGULATED AND GOVERNED BY THE SAME RULES AS HOSPITAL PROVIDERS**
- **ABSORB INVESTMENT LOSSES, DUE TO THE STOCK MARKET DECLINE**
- **DEAL WITH LABOR INFLATION AND WORKFORCE SHORTAGES**
- **OFFSET INCREASED FRINGE BENEFITS: PENSION, HEALTH, DENTAL, LIFE, DISABILITY, AND WORKERS COMPENSATION COSTS**
- **ABSORB HIGHER THAN INFLATION INCREASED COSTS FOR PROFESSIONAL AND GENERAL LIABILITY INSURANCE, PHARMACEUTICALS, BLOOD, UTILITIES, ETC.**

- **ABSORB NEW COSTS ASSOCIATED WITH BIO-TERRORISM PLANNING, FOR WHICH NO HOSPITAL IS PREPARED**

**JOHNSON HEALTH NETWORK EMPLOYS 1200 PEOPLE AND IS THE LARGEST EMPLOYER IN THE REGION. THE HOSPITAL EMPLOYS APPROXIMATELY 800 PEOPLE . WE SPEND APPROXIMATELY \$30 - \$40 MILLION A YEAR IN THE LOCAL ECONOMY, AND EMPLOYEES' SPENDING FURTHER INCREASES THAT AMOUNT. THE HOSPITAL HAS BEEN PROVIDING SERVICES TO NORTH CENTRAL CONNECTICUT FOR OVER 90 YEARS.**

**WE URGE YOU TO SUPPORT THIS BILL. WITH MINIMAL OPERATING MARGINS, AS A RESULT OF ALL OF THE ABOVE EXTERNAL FACTORS, ADDITIONAL TAXES WILL THREATEN THE SHORT-TERM VIABILITY OF OUR HOSPITAL.**

**I AND THE CEOs OF CONNECTICUT'S 30 OTHER ACTUE CARE HOSITALS ARE UNITED IN OUR SUPPORT FOR THE PERMANENT REPEAL OF THE HOSPITAL SALES TAX.**

**THANK YOU.**