

**TESTIMONY OF
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EASTERN CONNECTICUT HEALTH NETWORK
FINANCE, REVENUE AND BONDING COMMITTEE
April 3, 2003**

**HB 6666, An Act Concerning The Repeal of The Sales Tax on Patient Care Services
Sections 9&10 of SB 1037, An Act Concerning Revenue Changes To Implement the
Biennial Budget**

Thank you for this opportunity to submit testimony 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. Each of these bills calls for the permanent repeal of the hospital sales tax on patient care services.

As the President and CEO of Eastern Connecticut Health Network, I represent the interests of two not-for-profit acute care, community hospitals, Manchester Memorial and Rockville General, each of which would be negatively impacted should the sales tax not be permanently repealed.

Both Manchester Memorial Hospital and Rockville General Hospital are facing financial challenges unprecedented in our 80+ year histories. We are experiencing dramatic increases in liability and malpractice premiums, rising employee benefit costs, reductions in federal Medicare reimbursements, escalating labor costs exacerbated by a severe shortage of healthcare workers and a significant growth in pharmaceutical costs. We are also expending considerable resources on emergency and disaster preparations, in light of the increased concern regarding national security and bioterrorism. In addition, the deficit reduction plan that was passed by the General Assembly and signed by the Governor earlier this year reduces hospital funding from the HUSKY, Community KidCare and Medicaid. programs.

We estimate that for the current hospital fiscal year, which ends on September 30, 2003, the resumption of the sales tax would increase expenses at both hospitals by over \$1.1

million. For FY 04, resumption of the sales tax would have a negative impact of over \$4.4 million on both hospitals. With all of the financial pressures Manchester Memorial Hospital and Rockville General Hospital are facing this year, there is no way we could absorb a financial hit to our budget.

As you may have read in the media, ECHN was recently forced to implement a series of cost-reduction measures to compensate for reduced revenues. In addition to a postponement of pay increases for senior executives and managers, we also implemented a reduction in force of approximately 26 management personnel. This was a difficult decision for us to make, but one that was necessary if we are to be able to maintain the level, scope and caliber of health care services that our patients need. We do not know how we could accommodate the resumption of the hospital sales tax without seriously jeopardizing access and availability.

Unfortunately, the hospital sales tax was not imposed as a typical sales tax on goods and services. First, it was a tax based on non-governmental (non-Medicare and Medicaid) revenue. Second, it was not a tax that could be passed on to payors. Due to contractual agreements with third-party payors, the tax cannot be added to the cost of services rendered. We were forced to pay the tax from the revenue received under the terms of the contract, which further reduced revenue available to provide patient services.

The temporary elimination of the hospital sales tax during the past two years was helpful to ECHN, as it enabled our two community hospitals to return to a firmer financial footing. However, resumption of the sales tax in light of decreasing reimbursements and increased operating costs at ECHN and at many other hospitals in the state would be detrimental not only to the fiscal viability of our institutions, but to the quality of health in our communities.

I urge the Committee to support the passage of HB 6666 and sections 9 and 10 of SB 1037. Thank you for your consideration.