



**TESTIMONY OF
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CONNECTICUT HOSPITAL ASSOCIATION
BEFORE THE
FINANCE, REVENUE AND BONDING COMMITTEE
Thursday, March 13, 2014
In Support of**

SB 368, An Act Phasing Out The Hospitals Tax

My name is Stephen Frayne. I am the Senior Vice President of Health Policy at the Connecticut Hospital Association (CHA). I am testifying today in support of **SB 368, *An Act Phasing Out the Hospitals Tax***.

First, it's important to detail the critical role hospitals play in the health and quality of life of our communities. All of our lives have, in some way, been touched by a hospital: through the birth of a child, a life saved by prompt action in an emergency room, or the compassionate end-of-life care for someone we love. Or perhaps our son, daughter, husband, wife, or friend works for, or is a volunteer at, a Connecticut hospital.

Hospitals treat everyone who comes through their doors 24 hours a day, regardless of ability to pay. In 2012, Connecticut hospitals provided nearly \$225 million in free services for those who could not afford to pay.

Connecticut hospitals are committed to initiatives that improve access to safe, equitable, high-quality care. They are ensuring that safety is reinforced as the most important focus—the foundation on which all hospital work is done. Connecticut hospitals launched the first statewide initiative in the country to become high reliability organizations, creating cultures with a relentless focus on safety and a goal to eliminate all preventable harm. This program is saving lives.

Providing culturally competent care, eliminating disparities, and achieving health equity are also priorities of Connecticut hospitals. The CHA Diversity Collaborative, a first-in-the-nation program to achieve these goals, has been recognized as a national model.

The benefits of hospitals extend well beyond their walls, as they strive to improve the health of our communities and play a vital role in our economy. Connecticut hospitals provide great jobs to more than 55,000 people who make sure we have access to the very best care whenever we need it. Every hospital job creates another job in our community. In total, Connecticut hospitals generate more than 110,000 jobs in our communities and contribute more than \$20 billion to the state and local economies.

We are working to improve the quality of care by redesigning the Medicaid program, with a keen focus on patients and improving the care they count on.

SB 368 proposes phasing out the hospital tax over a five-year period – the first step in that phase out would occur in state fiscal year 2015, and the last step would occur in state fiscal year 2018. The hospital tax was adopted in 2011 and began operating in state fiscal year 2012. Its original purpose was to provide a small amount of financial assistance to the hospitals – about \$50 million a year, and significant help to the state – about \$150 million a year. It worked 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 as a “subsidy” to the hospitals and \$150 million to the state, to balance the state 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. In December of 2012, the contours of the hospital tax—and who benefits—changed dramatically, and for the worse for hospitals. In 2013 hospitals paid about \$350 million in taxes and received back \$323 million. The hospital “subsidy” was more than zeroed-out as hospitals became net tax payers to the state, paying \$27 million more than they received back. In 2014, the tax on hospital patients grew to \$101 million – raising the cost of care by \$49 for every person who gets their health insurance coverage through work or privately. Beginning in July, the tax on hospital patients will more than double to \$235 million – raising the cost of care by \$114 for every person who gets their health coverage through work or privately or through Access Health CT. Hospitals have made difficult choices to absorb the tax as best they can, but already in the last year, more than 1,400 jobs have been eliminated, services have been reduced, and investments in technology and infrastructure have been put on hold. All this affects patient care.

In short, what started two years ago as a scheme to help balance the state budget with \$150 million in new federal revenue is now just a tax on hospital patients. The tax on hospital patients runs counter to and undermines all the other efforts Connecticut is pursuing to lower the cost of healthcare and the cost of doing business in this state.

Now is the time to act to preserve patient care, protect jobs, and reduce the cost of care in Connecticut. Support SB 368.

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