



**TESTIMONY OF
STEPHEN A. FRAYNE
SENIOR VICE PRESIDENT, HEALTH POLICY
CONNECTICUT HOSPITAL ASSOCIATION
BEFORE THE
FINANCE, REVENUE AND BONDING COMMITTEE
Thursday, March 9, 2017**

SB 787, An Act Concerning Revenue Items To Implement The Governor's Budget

Good afternoon. My name is Stephen A. Frayne, and I am the Senior Vice President, Health Policy, Connecticut Hospital Association (CHA). I am here today to testify in opposition of **SB 787, An Act Concerning Revenue Items To Implement The Governor's Budget**.

Before commenting on the bill, it's important to point out that Connecticut hospitals provide high quality care for everyone, regardless of ability to pay. Connecticut hospitals are finding innovative solutions to integrate and coordinate care to better serve patients and communities, as well as achieve health equity. These dynamic, complex organizations are working to build a healthier Connecticut. That means building a healthy economy, community, and healthcare system. By investing in the future of Connecticut's healthcare and hospitals, rather than continuing to cut away at them, we will strengthen our economy, put communities to work, and deliver affordable care that Connecticut families deserve.

Sections 42 thru 60 of the bill essentially repeal the current provider tax rules and institute new rules effective July 1, 2017. The changes are numerous and problematic. While I will focus my comments on five issues, these revisions should be rejected in their entirety.

First, these sections, as they relate to hospitals, impose a gross receipts tax; however, in Section 42, gross receipts are defined as money "received or receivable." Under the expressed terms of this definition, hospitals would have to pay tax on funds they haven't actually received.

Second, the definitions of inpatient and outpatient hospital services fail to define adequately what is includable as a hospital service. For example, a hospital is not licensed to provide physician services but does arrange to have physician services provided – arranging to have it provided does not convert it from a physician service to a hospital service, because only a physician can provide physician services. These definitions need to be modified to exclude from the tax non-hospital services defined in 42 CFR §§ 440.30 through 440.185.

Third, section 43(a)(1) changes the hospital tax from a fixed amount based on 2013 to a tax that is rebased every quarter and applied to the most recent quarter's activity. In October 2017, the first tax due will be based on receipts received and receivable during July 1, 2017 to September 30, 2017. The tax base will then advance to the next most current quarter each and every quarter thereafter. The result of this updated base will be a substantial increase in the hospital tax – in SFY 2018, the hospital tax will increase by about \$76.4 million.

The administration has indicated it was unaware that the rebase would increase the hospital tax and added that if the tax was increasing, it is because the hospitals are more profitable and equity demands more tax be paid. Let me set the record straight. The hospital tax is not a tax on hospital profit. Rather, it is a tax on all revenue and does not operate like the corporate tax. If hospitals were subject to the corporate tax, the amount owed annually would be about \$32 million, not \$623 million. Conversely, if corporations were subject to the hospital tax, the corporate tax would produce about \$26 billion in revenue per year – an amount large enough to eliminate all other taxes, forego all federal revenue, pay for all funds, and leave a several billion dollar surplus per year.

Fourth, Section 45 eliminates the ability of hospitals to purchase and use the Urban and Industrial Site Reinvestment (UISR) Tax Credit to satisfy a portion of their tax liability. Frankly, we can't think of a good policy reason why hospitals and ambulatory surgery centers would be the only entities precluded from purchasing these credits, particularly given the stimulative effect such purchases have on the larger Connecticut economy.

Fifth and finally, Section 48 (c) would eliminate our ability to seek redress for taxes that violate the United States and State constitutions, do not comply with federal rules, and fail to have required regulations.

The problems with SB 787 are too numerous to count, and we ask you reject the hospital tax changes. Thank you for your consideration of our position. For additional information, contact CHA Government Relations at (203) 294-7310.