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Showdown expected over Malloy's plans for hospitals

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HARTFORD — The trade group representing Connecticut's 29 acute-care hospitals vowed Friday to fight Gov. Dannel P. Malloy's plans to raise $266 million through a hospital provider tax while simultaneously eliminating $83.3 million in payments to hospitals for their care of the poor and uninsured.

Meanwhile, a top official at Eastern Connecticut Health Network, which owns and operates Manchester Memorial Hospital and Rockville General Hospital, suggested that the tax proposed by the governor would cost the corporation $4.2 million and effectively eradicate nearly its entire operating margin.

Malloy's proposals have set the stage for a potentially fractious showdown in the General Assembly, since the boards of directors at the not-for-profit institutions often include business leaders and other local elites close to politicians.

The governor's top budget adviser, Office of Policy and Management Secretary Benjamin Barnes, said immediately before Malloy laid out his two-year spending plan to state lawmakers this week that the new administration would seek to reinstate the hospital tax that was instituted in 1994 but eliminated in 2000.

Barnes said the proposed levy, which would initially be set at 5.5 percent but jump to 5.71 percent in September, would be consistent with similar taxes imposed by 29 other states, including all others in New England.

It would allow Connecticut to claim additional revenue of $134.5 million in the 2012-13 fiscal year, he said, adding that the tax was "the most significant" proposal in the governor's budget from the financial perspective of the hospitals.

Barnes said Malloy also was seeking to cut the $83.3 million in uncompensated care grants for hospitals, but that they would be "offset" by $160 million because of an increase in payments under the Medicaid Low Income Adult program.

That program, which was instituted here last summer to maintain federal revenue, made about 45,000 individuals who had been enrolled in the state's General Assistance program eligible for Medicaid. But the program has since experienced a costly 33 percent caseload increase and "higher-than anticipated utilization," creating "significant shortfalls," according to a summary prepared by the governor's office.

Connecticut Hospital Association President and Chief Executive Officer Jennifer Jackson said after Malloy issued his spending plan that hospitals were familiar with tough choices and recognized that the state faced an unprecedented budget deficit. But she said cutting funding and imposing taxes on hospitals would "severely weaken" the state's safety net, to the lasting detriment of the health of residents.

Jackson said the proposals "couldn't come at a worse time," when "the number of patients without insurance and those dependent on government programs has been rising at the same time that payments from all sources have been dwindling."

The Connecticut Hospital Association's senior vice president for health policy, Stephen Frayne, was more direct Friday, objecting, for example, to the use of money from the proposed tax to balance the state budget rather helping patients and improving the quality of care.

The official also questioned whether the hospitals' loss of uncompensated care grants really would be offset as Barnes had suggested.

"Obviously, we're going to have to get to the bottom of their understanding of this," he said.

"The combination of these two things will essentially mean, if it becomes law, about $84 million less for the year to provide services than when we started it," Frayne said. "That's a huge problem.

"In the aggregate, that amount of money is about 1 percent of our payments, a fairly large reduction in funding, particularly at a time when we're not out of the financial crisis that we've been experiencing," he said. "The demand for services is not subsiding, but the needs for these funds really is continuing, if not growing."

Frayne called the proposed tax a "threat" and said that when the similar levy was imposed, hospitals experienced an "extremely devastating" period, including "about four years when the amount wasn't fully returned."

He also said he was chagrined by the proposed elimination of the uncompensated care grants, explaining it would come less than a year after the hospitals worked hard with the previous administration to move General Assistance recipients into the Medicaid program, under which the federal government matches state expenditures.

"What's happened is that from April 2010, when there were about 45,000 on General Assistance, now they're saying that has grown to about 59,000 and, 'Gee, more people are using more services and costing us more,"' he said.

Finally, Frayne said, some hospitals would be hurt more than others by the proposed provider tax, because under federal law "there has to be losers and winners."

"Some will get back more than they put in and some will get less than they put in," he said, adding that while hospitals collectively could be "made whole," it still would be a "significant problem" for a network like ECHN.

Dennis McConville, a senior vice president at the Manchester-based corporation, said Friday that the proposed tax "would erase our entire margin, which is minimal at between 1.5 percent and 2 percent.

"We are two of the lowest-cost hospitals in the state because we have aggressively managed our expenses," he said of Manchester Memorial and Rockville General. "In light of continued Medicare reimbursement reductions with health care reform and significant accelerated retirement pension funding requirements, the tax will make it even more difficult to manage our mission."