



TESTIMONY OF

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Submitted to the:

**HUMAN SERVICES COMMITTEE
Tuesday, March 13, 2007**

SB 1383, An Act Concerning Medicaid Modernization

The Legislative Program Review and Investigations Committee Report Concerning the Funding of Hospital Care (December 18, 2006) clearly outlines why hospital rate setting in the Medicaid and SAGA programs needs to be revamped. In that report, the committee documented the mix of revenue sources hospitals rely on to fund services, the adequacy and equity of Medicaid and SAGA rate setting processes, and how those programs impact negatively the financial viability of Connecticut hospitals. The independence of that report lends both credibility and urgency to the need for rate relief for Connecticut hospitals.

In summary, the report concludes that the current system is broken, the current level of funding is inadequate and needs to be dramatically increased, and rates need to be maintained and updated with annual increases. The importance of this last point can't be understated. In fact, it has been our past failure to maintain and annually increase the rates that has largely created the crisis we are currently facing.

Twenty-five years ago, Medicaid rates were paid to hospitals based on the cost to provide services. However, since then, the combination of freezes, cuts, and repeals of future promises brought hospitals in Connecticut to the point where today we are losing \$250 million per year.

Each year we must consider how to cover these losses before we can hire new nurses, implement programs or invest in a quality initiative. Current law freezes existing rates forever. How can we possibly pay for the increases in drugs and equipment, labor and benefits under this scenario?

Finally, this year, there are many proposals regarding adopting a new payment system for hospitals for Medicaid and SAGA. Some of those proposals pay Medicare for inpatient and outpatient services, others for just inpatient, and others a percentage of Medicare such as 90%.

While all of these proposals go a long way to bringing the level of payment for those services closer than it has been in a quite awhile to cost, all of them unfortunately fall short of covering the full cost of these programs. Adopting a Medicare basis of payment is a complicated undertaking. It requires paying based on Diagnosis Related Groups (DRGs) for inpatient services and Ambulatory Patient Classifications (APCs) for outpatients. Annually, Medicare promulgates over a thousand pages of proposed rules regarding these systems.

When setting rates, one has to be constantly mindful of how those rates relate to the underlying cost of service. The last time we calibrated our Medicaid and SAGA rates equal to cost was over twenty-five years ago. Such a calibration is long overdue. SB 1383 addresses the problem of inadequate rates head-on by requiring the state to recalibrate rates equal to what it costs.

Hospitals need the legislature to recognize that its fiscal policies dramatically affect the ability of hospitals to succeed caring for the people of Connecticut.

Hospitals need you to decide that investing in their ability to care for Connecticut is a priority.

Paying hospitals what it costs to serve individuals enrolled in state programs is an investment that makes sense and is long overdue. Please adopt SB 1383.