



**Testimony of Martin J. Gavin, President and CEO, Connecticut Children's Medical Center
Regarding HB 6350, An Act Eliminating Exemptions From The Sales And Use Tax And
Lowering The Rate Of Such Tax**

February 9, 2009

Senator Daily, Representative Staples, members of the Finance, Revenue and Bonding Committee, my name is Martin Gavin. I am the President and CEO of Connecticut Children's Medical Center. I am testifying today in opposition to **HB 6350, An Act Eliminating Exemptions From The Sales And Use Tax and Lowering The Rate Of Such Tax.**

HB 6350 would eliminate most exemptions to the sales tax and lower the rate of the tax to five percent. The elimination of the exemption for both hospital purchases as well as the provision of patient care services would badly hurt Connecticut Children's Medical Center and our ability to provide quality care.

All children should have the health care they need to grow and learn. Connecticut Children's provides your constituents with a unique set of critical resources. We are our state's only hospital devoted exclusively to the care of children and 2008 was our busiest year ever. Connecticut Children's offers the full spectrum of pediatric care to children from each of Connecticut's 169 cities and towns. Each year, Connecticut Children's provides:

- 30,000 primary care visits (78% for HUSKY kids)
- 43,000 emergency care visits (62% for HUSKY kids)
- 95,000 physician specialty care visits (40% for HUSKY kids)
- 33,000 inpatient hospital days (49% for HUSKY kids)
- 8,500 surgical procedures (35% for HUSKY kids)

Every moment of every day, we touch the lives of Connecticut children by providing high quality healthcare services. This bill would impose a sales tax on every one of those services.

Hospitals like Connecticut Children's also make vital contributions to the state's economy. Connecticut's hospitals are both the economic bedrock and engine in their communities. They are major employers, offering jobs at all skill and salary levels in a growing employment sector. Connecticut hospitals won't move out of Connecticut in search of a more favorable business climate – Connecticut hospitals are here to stay. Hospital purchases provide important secondary income and job benefits to the local economy. Hospitals serve as a magnet for other healthcare business and serve as a stimulus for economic development, attracting other businesses into the community, such as retail shops, banks, grocery stores, and family restaurants. This year, the Connecticut Hospital Association (CHA) conducted an analysis of the economic impact of Connecticut hospitals that shows Connecticut hospitals and health systems:

- Generate nearly **\$12.8 billion** per year for the state and local economies;
- Provide **97,000** jobs in our communities generating approximately **\$7.0** billion in annual local economy payroll; and
- Purchase goods and services generating approximately **\$5.8** billion annually in local economic activity.

During the last four years, there has been a 31% increase in hospital contributions to Connecticut's economy—from \$9.8 billion in 2004 to \$12.8 billion in 2007.

Governor Rell, in 2007, established the *Hospital System Strategic Task Force*, chaired by Secretary of the Office of Policy and Management Robert Genuario and Commissioner of the Office of Health Care Access Cristine Vogel. Its members included state legislators, state agencies, professional nurse and physician associations, representatives of Connecticut hospitals and other healthcare experts, as well as business leaders. I served as a member of the Task Force Financial Structure Subcommittee. The report is final and has been submitted to the Governor. I urge you to review the report's findings and recommendations. One of the topics extensively discussed by the task force was "cost shifting" of losses from underfunded government programs to employer-sponsored insurance. The report concludes cost shifting is one of the leading drivers of the financial instability of Connecticut hospitals, is unsustainable, and is eroding the employer-sponsored insurance system hospitals rely on to make ends meet. CHA believes that one of the most important ways to stabilize Connecticut hospitals, recognized in the task force report, is to increase Medicaid funding in the state budget so that hospitals receive the full cost of providing care to patients who are covered by government-funded programs, such as Medicaid and SAGA.

The competing pressures of government funding cuts, the need to attract and maintain a superior workforce, rising input costs, and the continuous effort to improve the care given have put Connecticut Children's in a financially tenuous position. Connecticut Children's and the State of Connecticut need each other. With half of our inpatient care devoted to children who rely on Connecticut's HUSKY program, Connecticut Children's is projected to lose more than \$22 million on Medicaid this year. This deficit robs Connecticut Children's of the dollars needed for investment in facilities and acquiring modern technology.

Imposing a five percent sales tax would cost hospitals approximately \$493 million a year, including approximately \$363 million from taxing the delivery of patient care services and another \$130 million from taxing hospital purchases. This massive diversion of hospital funds from patient care to the General Fund will do nothing to help hospitals meet the healthcare needs of the communities they serve.

The elimination of the sales tax exemption on health care services will significantly increase the cost of health care for all Connecticut residents. Such increased costs due to a governmental change would clearly run against public sentiment given the economic hardship that many Connecticut families are currently facing. Therefore, I ask you to vote against **HB 6350, An Act Eliminating Exemptions From The Sales And Use Tax And Lowering The Rate Of Such Tax.**

Thank you for your consideration.