CONNECTICUT HOSPITAL ASSOCIATION

TESTIMONY OF
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CONNECTICUT HOSPITAL ASSOCIATION
BEFORE THE
FINANCE, REVENUE AND BONDING COMMITTEE
Monday, February 9, 2009

HB 6350, An Act Eliminating Exemptions From The Sales And Use Tax And Lowering The Rate Of Such Tax

My name is Stephen Frayne. I am the Senior Vice President, Health Policy, of the Connecticut Hospital Association (CHA). I am testifying today in opposition to **HB 6350, An Act Eliminating Exemption 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 hospitals and their ability to provide quality care.

Providing patients and communities with the finest quality healthcare services is the highest priority for Connecticut's not-for-profit hospitals. Hospitals fulfill a vital role, caring for Connecticut residents 24 hours a day, seven days a week, and they make enormous contributions to the health and quality of life for millions of Connecticut residents. Last year, Connecticut hospitals provided 2.1 million days of inpatient care. In addition, hospitals provide a tremendous amount of outpatient care. Last year, Connecticut hospitals provided more than 4 million outpatient visits, including: 1.5 million emergency department visits; 179,000 ambulatory surgery visits; 31,000 cardiac procedures; 94,000 cardiac rehab visits; 153,000 gastroenterology procedures; 46,000 chemotherapy visits; 192,000 radiation therapy visits; 804,000 outpatient rehabilitation visits; 332,000 psychiatric care visits; and 623,000 primary care visits. Every moment of every day, hospitals touch the lives of Connecticut residents by providing high quality healthcare services. This bill would impose a sales tax on every one of those services.

Hospitals 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, 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.

But the ability of Connecticut hospitals to continue to make such contributions is constantly threatened. Payments for individuals enrolled in state and federal programs always fall short of the amount needed to cover the cost of care. These deficits rob Connecticut hospitals of the dollars needed for investment in facilities and acquiring modern technology. As of today, it would take $1.1 billion in investment by Connecticut hospitals to catch up to the nation in average age of physical plant.

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. 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's hospitals in a financially tenuous position. In 2008, 23 of the state's 27 not-for-profit acute care hospitals ended the year unable to collect enough patient revenue to cover the cost of care delivered to those patients.

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 and will significantly increase the cost of healthcare. Therefore, we 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 of our position.

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