TESTIMONY OF
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BEFORE THE
APPROPRIATIONS COMMITTEE
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Governor M. Jodi Rell's November 24, 2009 Deficit Mitigation Plan For Fiscal Year 2010

My name is Larry Tanner, I am President for the Hospital of Central Connecticut. I am testifying today on **Governor M. Jodi Rell's November 24, 2009 Deficit Mitigation Plan For Fiscal Year 2010.**

Thank you for the opportunity to testify today. While we appreciate the difficult task facing Governor Rell and the legislature in addressing the state's budget deficit, we are deeply concerned about the devastating payment reductions to hospitals included in the Governor's deficit mitigation plan. According to the Connecticut Hospital Association, the proposed reductions to Medicaid and other programs total approximately $77 million for hospitals statewide.

For The Hospital of Central Connecticut, the proposed reductions will mean an annual cut of at least $2.7 million, creating a significant budget challenge that will be difficult to meet. In the face of the prolonged recession, as unemployment has soared and record numbers of people have found themselves uninsured or on Medicaid, we continue to provide care to all 24 hours a day, 7 days a week, regardless of patients' ability to pay. The Hospital of Central Connecticut is the largest employer in our area and its continued viability is intrinsic to the well-being of our community. In the midst of the most difficult financial environment that we have seen, we feel it is counter-productive to weaken our ability to meet the needs of our already challenged community.

Our primary concern regarding these cuts is the impact to our ability to continue to provide services to the most vulnerable members of our community and our ability to generate sufficient financial margin to fund the extraordinarly large capital expenditures that we face, both now and into the future. According to the Moody's rating firm, hospitals need to sustain an operating margin of at least 3.5% and total margin of 6 % to meet their ongoing capital needs (i.e. infrastructure, IT systems, etc.). In Connecticut, where the average age of plant is older than the nation as a whole, even these benchmarks are probably not sufficient. For instance, the average age of plant at our hospital is 13.6 yrs while the national benchmark is 8.8 yrs. Our current budget called for a operating margin of 1%. If these cuts are enacted, our ability to fortify our financial position and move towards these national benchmarks, and even to meet our existing (modest) budget goals will be severely compromised.

As I know you are all aware, our Medicaid rates in Connecticut are far below cost already. According to the last (2008) Office of Health Care Access report on hospitals, our hospital is paid at 79% of cost. Adjusting for expense increases over the past couple years, we estimate that Medicaid rates are at least 30% below cost now. Our hospital's Medicaid rate is well below the state average while at the same time we have seen dramatic increases over the past several years in our Medicaid patient volume. The Hospital of Central Connecticut has a proportionally high Medicaid load. In our emergency room for instance, 44% (almost half) of the patients are Medicaid (up from 29% in 2001). On the inpatient side, our Medicaid load has grown from 15% in 2001 to 21% in 2009.

Impending health reform will certainly expand Medicaid further. The absolute and proportional growth in Medicaid volume in Connecticut hospitals coupled with the current payment shortfalls create a daunting financial challenge. Further cuts seem unthinkable.

It simply makes no sense to cut Medicaid payments and disproportionate share payments at a time when Congress has given unprecedented Medicaid funding increases to states. Under the stimulus bill, Connecticut will get more than $1.4 billion in increased federal funds to provide care for our most vulnerable populations. This infusion should be used to maintain eligibility and coverage, and help bring provider rates closer to covering the actual cost of care.

In addition, earlier this year, the Rell Administration agreed to pursue a SAGA waiver that would convert the SAGA program to Medicaid. This waiver will remove the cap on SAGA funding, increase SAGA payments to providers, and save the state approximately $28 million per year. The state should implement the SAGA waiver immediately – each day we delay implementing this waiver the state fails to maximize available federal revenue.

We strongly urge rejection of the proposed cuts and immediate implementation of the SAGA waiver.