

Higher Education Appropriations Subcommittee Testimony
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Senator Maynard, Representative Willis, Senator Markley, Representative Wood, and members of the Higher Education Appropriations Subcommittee. I appreciate the opportunity to speak this morning about the University of Connecticut Health Center.

As you well know, the Health Center is the State of Connecticut's only public academic medical center. It is our State's primary source of new physicians and dentists, a key provider of vital health services to some of our most vulnerable citizens, and an engine of economic growth. Our mission as an "integrated academic medical center"—improving the health of Connecticut's people through the innovative integration of education, research, and clinical care—is one that I know all of you support.

This year we celebrate the 50th Anniversary of the UConn Health Center. The Health Center was first chartered in 1961. We have been successful because of the farsighted wisdom and investments of the State over the years. I want to take this opportunity to thank the legislature for all it has done in the past to make the UConn Health Center great. I will speak to you today about continuation of these investments in these very challenging times.

By way of background for those of you new to this Committee, the UConn Health Center is comprised of the Schools of Medicine (SOM) and Dental Medicine (SDM) as well as the Graduate School in Biomedical Sciences with more than 850 students across all schools. The UConn Health Center operates John Dempsey Hospital (JDH), the only public tertiary care hospital in the State; the UConn Medical Group, the region's largest multi-specialty practice group; and the UConn Health Center Dental Clinics. Collectively, our clinical faculty and staff provide care for over 950,000 patient visits each year. In addition, approximately 46,000 dental patient visits occur annually through a well-established partnership with a statewide network of affiliated community clinics, including federally qualified health centers.

The UConn Health Center's graduates represent a major source of physicians and dentists who practice in the state. In addition, the UConn Health Center sponsors nearly 700 residents (medical and dental) annually, who work primarily in the greater Hartford region. Not only do Hartford area hospitals rely on our residents to deliver quality patient care at their institutions, but each year these hospitals also obtain important graduate direct and indirect medical education funds from the federal government, which in FY09, totaled \$74.1 million.

Of great importance to the State and its economic development, UConn Health Center faculty clinicians and researchers earn more than \$100 million in biomedical research support annually, most of it brought in from outside the state. We have renowned individuals with expertise in such areas as musculoskeletal science, genetics, cardiology and stem cell research. When combined with our clinical services, the UConn Health Center's activities generate nearly \$1 billion in Gross State Product each year.

An important part of our public mission is to provide clinical services to the under- and uninsured. The UConn Health Center is the largest single provider of dental care to this population. In FY 10, 68.2% of our dental visits were Medicaid patients. That service resulted in a \$2.9 million financial loss to the

Health Center, but it is a key responsibility and one that we wish to continue. We are also the mainstay of dental services to adult citizens with developmental disabilities.

And while Connecticut's private physician practices typically accept a minimal amount of Medicaid patients, Medicaid patients comprised 14.9% of our University Medical Group patient visits in FY 2010. In addition, clinical care provided to Correctional Managed Health Care patients accounted for 2.5 percent of the University Medical Group patient visits and is also reimbursed at Medicaid rates. If services to these patients were reimbursed at Medicare levels, that would have resulted in \$3 million of additional revenue. In addition, our hospital ranks among the top four hospitals in the state in Medicaid inpatient days as a percentage of total inpatient days.

In fulfilling our public service mission, UConn Health Center clinicians and faculty collaborate with numerous state agencies, including the Departments of Public Health, Correction, Mental Health and Addiction Services, Veterans Affairs (in Rocky Hill and West Haven), and Developmental Services. Our medical students examine and provide care to patients at the South Park Inn Medical Clinic in Hartford, Covenant House in Willimantic and our students and faculty provide care to Connecticut's seasonal migrant farm workers. In other words, the Health Center touches multiple branches of State government and citizens all across Connecticut.

Because of the expenses and lost revenues associated with our public service mission, and because John Dempsey Hospital and the University Medical Group have operated in a rapidly changing market environment for more than a decade, well in advance of the State's present fiscal crisis, we—and you—realized that it was imperative to optimize revenues and limit expenses, while maintaining the quality of education programs and clinical care. I would remind the Committee that the Health Center receives just 22.9% of its budget from the State. The remaining 77.1% is generated from clinical revenues, research grants, tuition & fees, and philanthropy. So with guidance provided by PricewaterhouseCoopers (PwC), the Health Center has implemented operating expense reductions and revenue enhancements. The most recent initiatives in FY09 and FY10 resulted in cost reductions and revenue enhancements of approximately \$12 million. The majority of the enhancements were attributed to renegotiating more favorable third party payor reimbursements. Despite these ongoing efforts, they do not remedy the root causes of the Health Center's basic fiscal problem or obviate the need for continuing State support. We understood, and PwC confirmed, that what was needed were solutions to JDH's long-term, structural deficiencies. Moreover, in the wake of nearly a decade of flat funding from the State, the consequences of our financial constraints became evident not only in operating deficits, but also in DPH's decision to place JDH on probation in 2008 and in the assessment last year by our Medical School's accrediting agency, the LCME which issued a warning to us.

Over the past four years we have explained in great detail the structural causes of the financial challenges facing the Health Center and why it was experiencing annual deficits. For those of you who are new to the legislature, The UConn Health Center's financial challenges are directly and primarily attributable to John Dempsey Hospital's structural deficiencies, which are compounded by our public service and teaching missions.

These deficiencies include John Dempsey Hospitals:

- Outdated physical plant
- Relatively small bed capacity (the 2nd smallest academic health center hospital in the country)

- Too few medical/surgical beds, located largely in double bedded rooms (only 119 of our 224 beds are medical surgical beds)
- A disproportionately high percentage of low reimbursement and public mission beds and Medicaid clients (105 beds are attributed to these services and John Dempsey Hospital's is among the top 4 hospitals in the state in Medicaid inpatient days as a percentage of total inpatient days at 25%)
- A fringe benefit rate significantly higher than that of any other hospital in Connecticut, due to John Dempsey Hospital's status as a State institution.

For several years, while we were unsuccessful in building a consensus among key partners around a long term solution to John Dempsey Hospital's structural financial deficiencies, the Health Center requested additional State support to cover its annual deficits. We remain grateful for the financial assistance which you provided in certain key areas. I particularly note two specific actions recently taken by the General Assembly:

- For the first time, in FY2009, John Dempsey Hospital's fringe benefit cost differential was partially acknowledged and fully acknowledged and addressed in FY2010 and FY2011. The fringe benefit differential is the difference between the state fringe benefit rate for John Dempsey Hospital's employees and the average rate for private Connecticut Hospitals. In the current fiscal year, \$13.5 million in the Comptroller's fringe benefit account covers the differential for JDH employees.
- And in recognition of the extended period during which the UConn Health Center's block grant remained flat funded, the General Assembly approved increases in our block grant. With this support and management action taken to improve revenues and control expenses, UConn Health Center ended the FY10 fiscal year with a modest operating margin and is on track to break even this year.

But it was this past year that State government, the Hartford-area hospitals, and we at the UConn Health Center took even more fundamental steps forward in enacting a plan to begin to address John Dempsey Hospital's structural issues. Public Act 10-104 was supported by all of the region's major healthcare providers. It authorized the construction of a new John Dempsey Hospital patient bed tower and adjusted John Dempsey Hospital's bed mix significantly by increasing the number of John Dempsey Hospital's medical/surgical beds by 50 (from 119 to 169, a 42% increase), and the transfer of the license for its neonatal intensive care unit (40 beds) to Connecticut Children's Hospital. The act also approved funding for the establishment of the UConn Health Network, a series of regional collaborative healthcare initiatives. This compromise plan reflected the best efforts of many within the health community, State government, and the University of Connecticut.

When implemented, the plan promises to bring much needed financial stability to UConn Health Center's operations and will, as all the major stakeholders agree, lead to expanded research discoveries and revenue, significant job growth, enhanced tax revenues, and a growing gross State domestic product.

Since the enactment of P.A. 10-104, we have experienced both progress and a temporary set-back. Just a few months ago, the state Office of Health Care Access approved the joint Certificate of Need for the

new patient tower and the license transfer of the 40 NICU beds to Connecticut Children's Medical Center. In addition, we retained an architectural firm, and the planning and design process for the new tower is well under way.

We were disappointed to learn that we would not be the recipient of a \$100 million federal grant to support the renewal of the existing John Dempsey Hospital's facility. Pursuant to the provisions of the public act, receipt of funds in that amount from non-state sources is a prerequisite to commencing construction of the new tower. We have been conferring with OPM Secretary Barnes about possible options to move the hospital project forward and will share the outcome once a direction is determined.

Continued operating support through our block grant and assistance with John Dempsey Hospital's fringe benefit differential is essential for the Health Center's financial viability during this period and for the future.

We are very grateful that the Governor's budget includes a provision to permit the Comptroller to continue to fund the \$13.5 million for the fringe benefit differential in FY12 and FY13. The proposed reductions to our block grant, however, are significant. The proposed appropriation for FY12 is \$114 million -- a 14% reduction from our request of \$133 million (which reflects the cost of the 27th payroll period), and is \$5 million less than our FY 11 appropriation (if you include the associated fringe, the reduction is \$8 million). In addition, the proposed budget reduces non emergency dental services for adults on Medicaid (e.g. exams, cleanings and radiographs) from a twice-a-year to a once-a-year schedule and eliminates some restorative and prosthodontic procedures through a new pre-authorization program. The estimated impact of the proposed changes in coverage is a \$643,000 annual loss to the Dental Clinics at the UConn Health Center. For FY13, the proposed block grant amount is further reduced to \$110 million.

The effect of the proposed FY12 block grant creates an approximate deficit in UConn Health Center's operating budget of \$19.5 million prior to the implementation of any expense reductions. As President Austin and I shared with you at the full committee meeting last week, this poses a real challenge and will have an effect on operations at the UConn Health Center as will the proposed reductions in non-emergency dental services for adults under Medicaid.

We recognize the significant fiscal challenges confronting our state and will be prepared to consider a series of difficult options in an effort to maintain a balanced budget. Should the proposed Health Center's appropriation remain unchanged, it would represent a significant step back from the progress made during the recent legislative sessions. For all the reasons I noted earlier, we are extremely limited in the areas where we can achieve significant savings or reductions. Please be assured that we will continue to explore all avenues available to us to increase revenues. The options likely to be considered include:

Raising Revenue: Consideration will be given to continuing to negotiate improvements in commercial insurer reimbursements, increasing contributions from area hospitals for administration of residency programs, and increasing student tuition and fees (although not a source of significant revenue; only 2.5% of total revenues come from tuition and fees due to the limited size of our total student body).

Management Efficiencies: Following the completion of the PwC exercise, seeking cost reductions has become part of the culture at UCHC. We continually look for ways to gain efficiencies while making prudent strategic investments and managing financial risk, but we have long since achieved the "easy"

wins. We do not anticipate discovering large savings after so many years of close scrutiny. For example, lifting the hospital off probationary status a year ahead of schedule and seeking Magnet status for our nursing program have required and will continue to require smart investments.

Recruitment and Retention: Over the next three years, recruiting 40 new clinicians in key practices areas such as primary care, orthopaedic surgery etc.) is integral to our John Dempsey Hospital renewal plans. In addition, we begin negotiations later this week with the newly formed AAUP bargaining unit on a first contract for our faculty, who as a defined group, are the only state employees who as a group have not received a general wage increase since FY08. While I am sure this is an unintended consequence, reduced State support for the UConn Health Center will impede our efforts to recruit and retain our faculty – the source of intellectual capital that drives our academic, research and clinical engines.

Elimination of Programs and Services: Through a program by program analysis, we will continue to determine each program's relevance to the UConn Health Center's core mission. Careful consideration will have to be given to any reductions that would adversely affect the quality of our educational, research and clinical programs. Also, this effort could lead to a reduction of services to Medicaid-eligible patients or the elimination of clinical and other programs that are not financially self-supporting.

I feel obligated to inform the committee again, that the unfortunate sweep of \$20 million from the UConn Health Center's medical malpractice trust fund in the last biennium, renders the UConn Health Center and ultimately the state with a potential unfunded financial liability. We hope to work with the Administration and the General Assembly to address this matter during the session.

The UConn Health Center remains one of our State's greatest assets. We are working to improve the quality of healthcare for all Connecticut's citizens while serving as an engine for economic development. The plan reflected in PA 10-104 allows this work to move to new levels. Specifically it will allow the state to derive significant economic benefits including 5000 new jobs by 2020 and more than 6800 by 2030, and \$1.1 billion in new tax revenue for the State by 2040.

We all appreciate the extremely challenging fiscal environment our Governor and the members of the General Assembly are confronting. As our state's public policy leaders, you bear the burden of overcoming the immediate magnitude of the current deficit and, simultaneously, have the opportunity to determine how best to ensure a vital economic future for our State. In making these difficult and important decisions, I would respectfully ask that you appreciate the value of your only public academic medical center and what it can uniquely offer in terms of adding to the quality of life of Connecticut residents now and for the foreseeable future.

Thank you for your continued support.