

Appropriations Committee Testimony
Susan Herbst
President
University of Connecticut
February 21, 2012

H.B. No. 5014 AN ACT MAKING ADJUSTMENTS TO STATE EXPENDITURES AND REVENUES FOR THE FISCAL YEAR ENDING JUNE 30, 2013.

University of Connecticut Health Center

Senator Harp, Representative Walker, Senator Kane, Representative Miner and members of the Appropriations Committee, I appreciate the opportunity to speak with you this afternoon regarding the proposed adjustments to the UConn Health Center's FY13 budget.

The University of Connecticut Health Center (Health Center), as you know, is the State of Connecticut's only public academic medical center. It is the State's primary source of new physicians and dentists, an essential provider of vital health services to some of our most vulnerable citizens, and an important engine of economic growth and vitality. Its mission as an "integrated academic medical center" is improving the health of Connecticut's people through the innovative integration of education, research, and clinical care. And through the recently enacted Bioscience Connecticut (PA11-75) and the related Jackson Labs initiatives (PA11-2, October Special Session), the Health Center will play an even more pivotal role in strengthening Connecticut's economy by creating construction-related jobs immediately and generating long-term sustainable economic growth based on bioscience research, innovation, entrepreneurship and commercialization. The Health Center remains grateful to the Governor and the General Assembly for your investment and confidence. By implementing these initiatives, the Health Center will also be transformed and its future viability secured. But more importantly, Connecticut is positioned to be a global leader in the growing field of bioscience, driven by stem cell research, systems genomics and personalized medicine, and will derive enormous public health and economic benefits for the foreseeable future. We are proceeding aggressively with the planning and implementation of the Bioscience Connecticut Initiative (we expect to break ground on the initial construction projects -- the garage, site work and utility relocations for the new hospital project in June) and look forward to sharing our progress with you.

Infrastructure investments are critical but do not obviate the need for appropriate and sustaining levels of State operating support. In fact, the Health Center's ability to deliver on the promise of Bioscience CT is predicated on it. The capital funds will provide the physical infrastructure needed to support our expanded research, education and clinical care efforts. But it is the operating support that is critically important to move the programmatic components of these initiatives forward. The operating funds will enable the Health Center to recruit additional basic and clinical/translational scientists who are expected to double our research awards and create the medical advancements that lead to innovation, entrepreneurship and commercialization. They will also provide the additional teaching capacity for the forecasted medical and dental school class expansions.

Unfortunately, the proposed FY 13 appropriation for the Health Center, if left unaddressed, presents a serious setback to our effort to advance these initiatives. The revised block grant for FY13 is \$97.8 million, an amount equivalent to the Health Center block grant in FY08. This proposed reduction is nearly \$12 million below what the Health Center received in FY12 (\$108.5m) and nearly \$12 million below the Health Center's FY13 appropriation that was included in the biennial budget approved last spring. This reduction and the related fringe benefits impact (\$5.0M) total \$17 million and will result in a significant operating deficit at the Health Center. The normal response by management would be to reduce expenses or increase revenues. At the Health Center, any personnel expense reductions by layoffs is prohibited by the SEBAC agreement and our ability to generate additional revenue is limited. For example, raising tuition and fees which represents 2.4% of our revenue budget would have little effect on our budget; and patient care revenues which are 44% of our budget are generated primarily from state and federal payors (50%) whose reimbursement for FY13 will remain flat and in some cases potentially reduced. We have communicated the severity of the potential deficits to the Administration and are working with them, and hopefully with you, to resolve this matter.

It is important to inform you that changes the State recently instituted for reimbursing the Health Center for inpatient services for Medicaid eligible inmates that are eligible for federal matching funds, could contribute an additional \$3M operating loss in FY12 and \$4M in FY13. The proposed budget includes several other changes to the Medicaid program that will likely adversely impact the Health Center's finances. These include proposed changes to the Medicaid Low Income Adult Program (LIA) and reductions in reimbursement for dental services provided to Medicaid eligible individuals at UConn's dental clinics. UConn Health Center staff are still evaluating the magnitude of the fiscal impacts of these proposed changes.

The Health Center receives just 21.2% of its operating budget from the state of Connecticut. The remaining 78.8% is derived from clinical revenues, research grants, tuition and fees, and philanthropy. Operating in an extremely competitive and rapidly changing environment, the Health Center continually identifies operational efficiencies, cost reductions and revenue enhancements. Since 2000, and with guidance provided by PricewaterhouseCoopers (PwC), the Health Center has implemented more than \$100 million in operating expense reductions and revenue enhancements. Seeking cost reductions and revenue enhancements is engrained in the culture at the Health Center. The Health Center must be persistent in looking for ways to gain efficiencies while making prudent strategic investments and managing financial risk. This task, however, is increasingly challenging as the readily apparent efficiencies and cost savings have already been addressed.

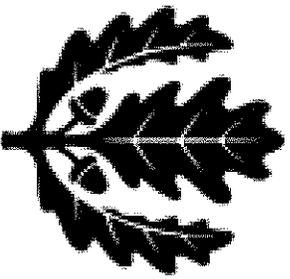
Continued operating support through our block grant and assistance with John Dempsey Hospital's fringe benefit differential is essential for the Health Center's financial viability during this period and for the future. We are very grateful that the Governor's proposed budget maintains the provision approved in the biennial budget to have the Comptroller continue to fund the \$13.5 million for the fringe benefit differential in FY13.

The Governor's proposed budget also includes the consolidation of the University of Connecticut (UConn) and the Health Center into one agency as part of the Administration's larger effort to reduce the number of state agencies. Notwithstanding the physical distances between our Storrs and Farmington campuses and our differences (such as teaching undergraduates vs. providing clinical services), we are one institution united by the shared mission of educating Connecticut students, conducting vital research, driving economic development, and serving the people of the state of Connecticut. Our faculty, staff and students increasingly collaborate in a variety of ways as we continue to seek to maximize our academic and research efforts.

In addition, the proposed budget includes the consolidation of the Office of the Chief Medical Examiner (OCME), currently housed in a building owned and operated by the Department of Public Works that is located on the Health Center campus, with the University of Connecticut. It is our understanding that the Health Center will be expected to handle OCME's administrative functions

The UConn Health Center remains one of our State's greatest assets. The Bioscience CT plan will enable us to improve the quality of healthcare for all of Connecticut's citizens while serving as an engine for economic development by strengthening our state's position as a national and global center for bioscience innovation, entrepreneurship and commercialization. I appreciate the extremely challenging fiscal environment in which the Governor and members of the General Assembly are called upon to decide how best to attain a vibrant economic future for our State. In making these critically important decisions, I would respectfully urge you to continue the investment in our only public academic medical center so that our state can benefit from the unique contributions the Health Center can make to Connecticut's public health and economic vitality, now and for the foreseeable future.

Thank you for your continued support.



University of Connecticut

Health Center Update
February 2012

As an Integrated Academic Medical Center: UCHC'S Mission is to provide education, research and patient care

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Connecticut's only public academic medical center :

- **3 Schools:**
 - Medical School (352 students)
 - Dental School (176 students)
 - Graduate School of Bio-Medical sciences (323 students)
- **Residency Training:** 700 residents (601 medical and 99 dental) who train and provide patient care in local hospitals and community settings in more than 20 communities across the State
- **Biomedical Science and Research:** \$90M in federal and other research grants for discovery and innovation to improve patient health and outcomes e.g. Stem Cell research, cancer vaccines, hormone therapies, biomaterials and biomedical devices
- **Patient Care:** All UCHC clinical care venues serve as sites for teaching and learning and are essential for attracting talented faculty who teach, do research and provide patient care
 - **John Dempsey Hospital (JDH):** an acute care university teaching hospital licensed for 234 beds.
 - **UConn Medical Group (UMG):** the region's largest multi-specialty faculty clinical group practice
 - **University Dentists and UConn Dental Clinics:** Connecticut's single largest provider of dental care for the under and uninsured

UCHC: A Worthy Investment

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Critical source of the State's health care professionals

- 35% of School of Medicine graduates practice in the State
- 47% of School of Dental Medicine graduates practice in the State
- Connecticut residents comprise 81% of the School of Medicine students and 52% of the School of Dental Medicine students for the entering class of 2011
- Minority enrollment in both schools is at or above the national average

Economic driver for the region and state

- Catalyst for new biomedical and biotech jobs, e.g. Stem cell, genomics and personalized medicine
- Generates nearly \$1 billion in Gross State Product
- State-of-the-art lab and office incubator space for small startup businesses
- Robust clinical enterprise

Major Employer:

- 5030 employees

UCHC: Partner & Resource to Other Hospitals

51 UConn Internship/Residency Programs contribute to the quality of healthcare service in the participating hospitals & also drive additional Medicare reimbursement revenues:

Hospitals FY 10	GME* & IME** Reimbursement
CT Children's	\$3.3M
Hartford Hospital	\$40.1M
Hospital of Central Connecticut	\$7.1M
John Dempsey Hospital	\$20.6M
St. Francis Hospital	<u>\$26.7M</u>
TOTAL	\$97.8M

* GME = Graduate Medical Education

** IME = Indirect Medical Education

UCHC: Partner & Resource to Other Hospitals, Community and State

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- Trained physicians and staff of Waterbury and St. Mary's for regional cardiac surgery and interventional cardiology programs and continue to provide profusionist services to the program
- Provide workforce at Hartford-based St Francis/UConn Burgdorf Clinic and Asylum Hill Family Medicine Practice
- Provide the largest amount of dental emergency room services in the state
- Provide pediatric dentistry program at Connecticut Children's Medical Center
- Provide Statewide Neonatal Transport Program - In FY11, the program transported 296 neonates from 94 Connecticut towns
- In partnership with Connecticut Children's, is home to the new regional Connecticut Children's Neonatal Intensive Care Unit at UCHC
- Training site for UConn nursing, allied health schools, pharmacy, and dental hygiene programs

UCHC: An Essential Healthcare Provider to Connecticut's Underserved Citizens

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Service to Medicaid Patients in FY11:

- JDH ranks among the top 3 hospitals in the state in Medicaid inpatient days as a percentage of total inpatient days.
- UConn dental clinics are the single largest provider of dental services to Medicaid recipients and the under- and uninsured (138,658 total visits all sites)
 - 68.2% of patient visits to the UCHC dental clinics are Medicaid clients (Farmington, Burdorf and Connecticut Children's Medical Center) (94,908 total visits)
 - Services are provided in 21 community sites across the state (Hartford, New Britain, East Hartford, Manchester, Waterbury, Norwich, New Haven, Derby, Willimantic, Putnam, Bridgeport, Torrington and Farmington) (45,545 Total visits)
- 15.9% of UMG visits were Medicaid patients

Clinical Service Collaboration:

- Department of Correction: Provide medical and dental care to 18,700 inmates in DOC custody
- Departments of Public Health, Mental Health & Addiction Services, Veteran Affairs, and Developmental Services
- Telehealth demonstration projects with community health centers

Statewide Resource:

- Operate the Connecticut Poison Control Center (per State Statute)

UCHC: A Resource to the Community and the State

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Community Service: UConn physicians, dentists, residents, medical and dental students provide thousands of hours of free healthcare to Connecticut's most medically vulnerable citizens

- Migrant Farm Worker Clinic
- South Park Inn Medical Clinic (Hartford)
- South Marshall Street Homeless Clinic (Hartford)
- Connecticut Poison Control Center
- YMCA Adolescent Girls Medical Clinic (Hartford)
- Camp Courant Dental Screening Program
- Covenant House (Willimantic)

Building and Developing the Healthcare Provider Pipeline: Initiatives to grow the number of under-represented minorities enrolled in healthcare education and increase the number of healthcare professionals practicing in urban settings and other areas across the state:

- AETNA Health Professions Partnership Initiative
- Area Health Education Center program (AHEC), located in Farmington with four regional centers located in Bridgeport, Hartford, Norwich and Waterbury
- Urban Service Track

About John Dempsey Hospital (JDH)

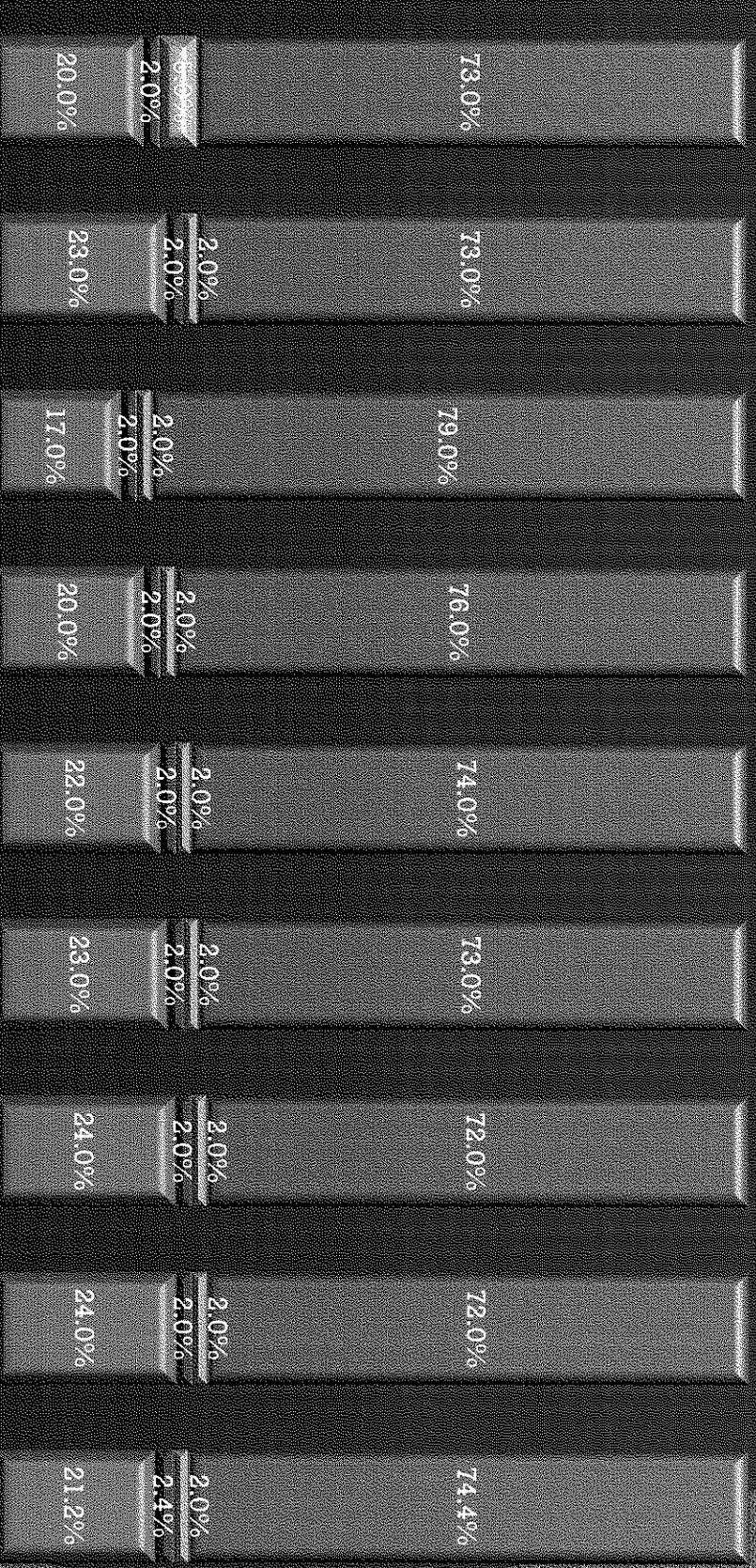
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- Opened in 1975, JDH is the only public acute care hospital in Connecticut and the 2nd smallest academic health center hospital in the U.S.; originally planned as 400 beds, JDH was built at 200 beds. The 2nd tower was never built.
- Key service statistics (FY11)
 - 9,256 inpatient admissions
 - 822,361 outpatient services (289,258 JDH and 533,103 UMG)
 - 94,908 dental clinic visits
- Licensed at 234 beds, of which 184 are currently staffed (50 medical/surgical beds will come on-line upon completion of new hospital tower), 65 are very specialized (Correctional, Psychiatry, Maternity), 119 are medical/surgical (flexible) beds, and home to 40 NICU beds licensed by Connecticut Children's Medical Center.
- Medicaid recipients account for 27% of 52,707 JDH inpatient days. JDH is a disproportionate share hospital for Medicaid and Medicare (one of only five).
- Faces same challenges as the state's other 29 acute care hospitals: Medicaid/Medicare cutbacks, uncompensated care, declining reimbursement rates, nursing and other health care professional shortages and an intensely competitive marketplace.

State Support as a % of Total Revenues (\$M)

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State Support Tuition & Fees Auxillaries All Other Revenues



FY91 FY99 FY06 FY07 FY08 FY09 FY10 FY11 FY12 Est
 \$270.6M \$370.9M \$622.2M \$661.8M \$717.7M \$741.5M \$756.6M \$780.4M \$795.2M

In FY12, 21.2% of the UCHC budget is State supported, 78.8% comes from other revenues (clinical, research, tuition and philanthropy)

State Appropriations (\$M)

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State Appropriation
JDH Fringe Benefit Differential

Deficit Appropriation

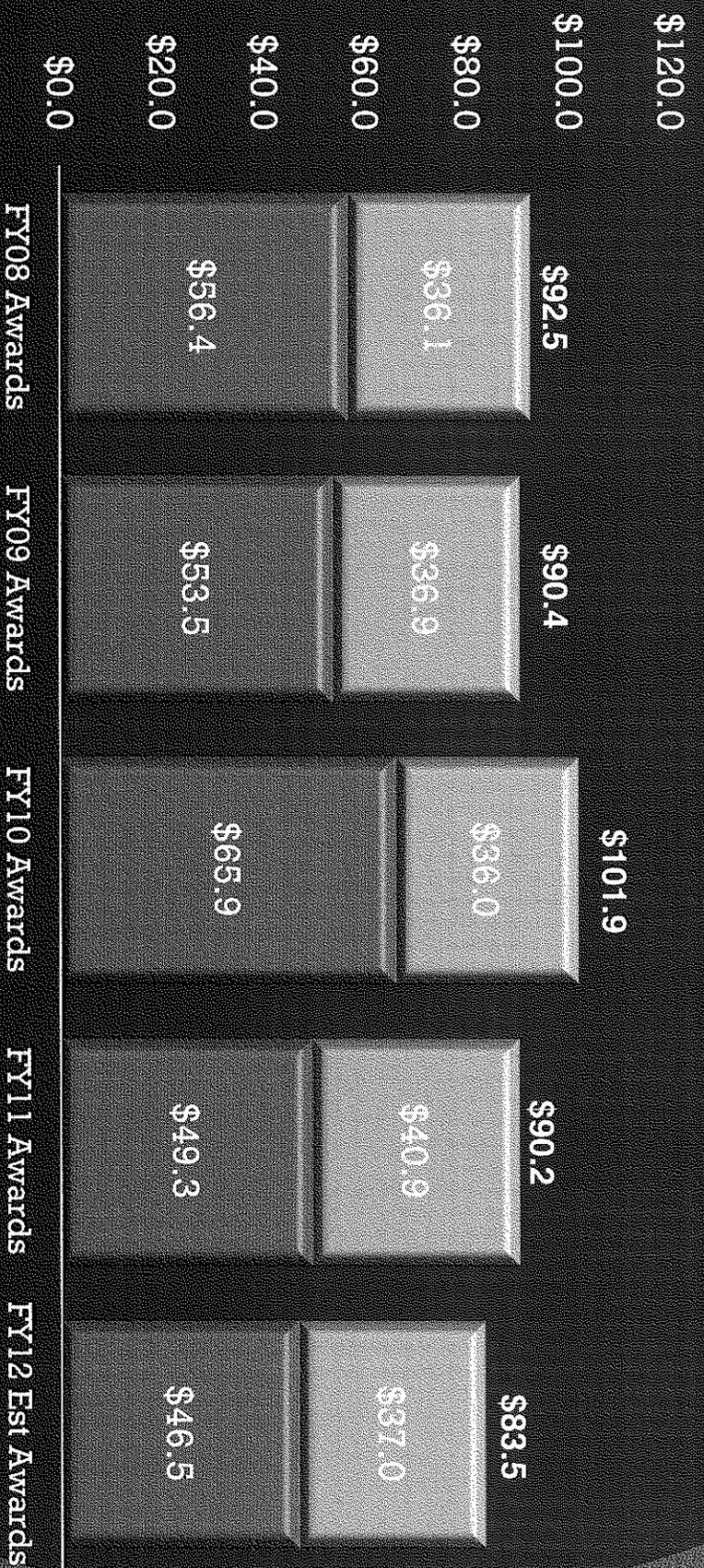


Not adjusted to account for \$20M transferred from the UCHC Medical Malpractice Trust Fund to the General Fund in FY10 and FY11.



Research Awards (\$M)

Note: this graph includes the full grant amount in the year the grant is awarded (even if the award is a multi-year award)



ARRA Awards
 FY2009 \$1.8M
 FY2010 \$13.0M

NIH Grants All Other Grants

Research Revenue Recognition (\$M)

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NIH Grants
 All Other Grants

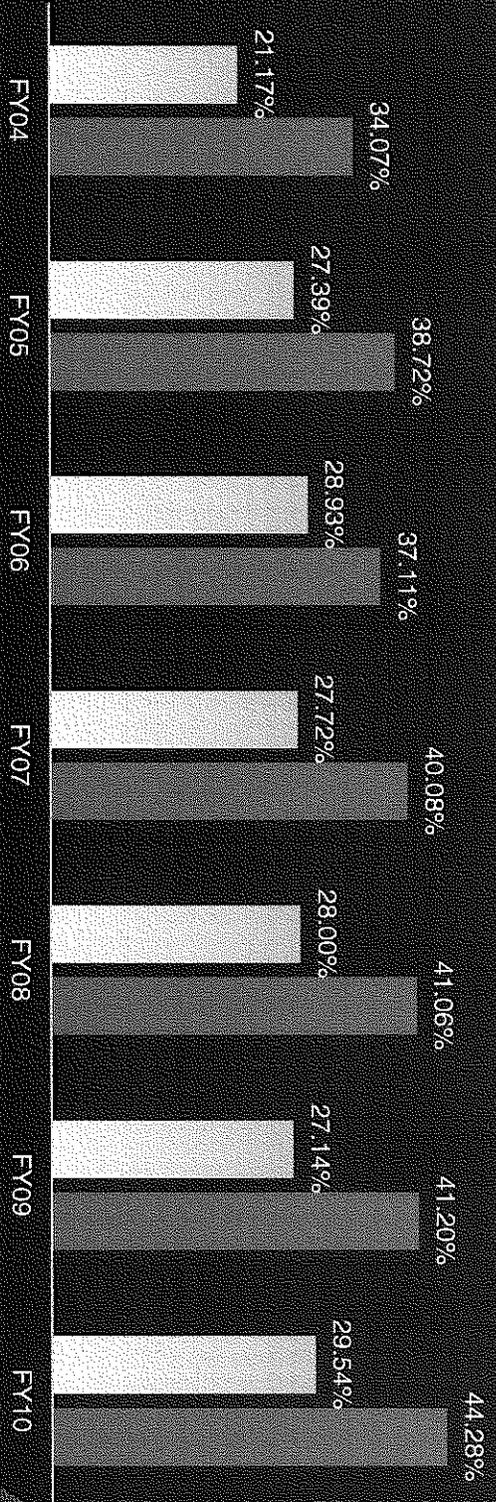
JDH: Fringe Benefit Cost Differential

JDH v. CHA Member Hospital Average

- As a state entity, JDH fringe rates significantly exceed those other hospitals.
- JDH has historically absorbed the full fringe benefits cost for its employees.
- In FY09, \$3.6M in the state comptroller's fringe account was allocated to help offset some of that cost. In FY10 and FY11 that number was increased to \$13.5M.
- The dollar value of the differential (the difference between the State's fringe rate and average rate for private Connecticut hospitals) was \$13.2M in FY09, \$14.5M in FY10 and was estimated to be \$15.4M in FY11.

FRINGE BENEFIT COST JDH vs. CHA Member Hospital Average

■ Connecticut Hospital Association ■ John Dempsey Hospital



UCHC's Financial Challenges

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- Structural financial deficits facing UCHC have been described to the General Assembly over the past five years
- Since 2000, the Health Center has achieved over \$100M in cost reduction and revenue enhancements

FY12 Budget Highlights

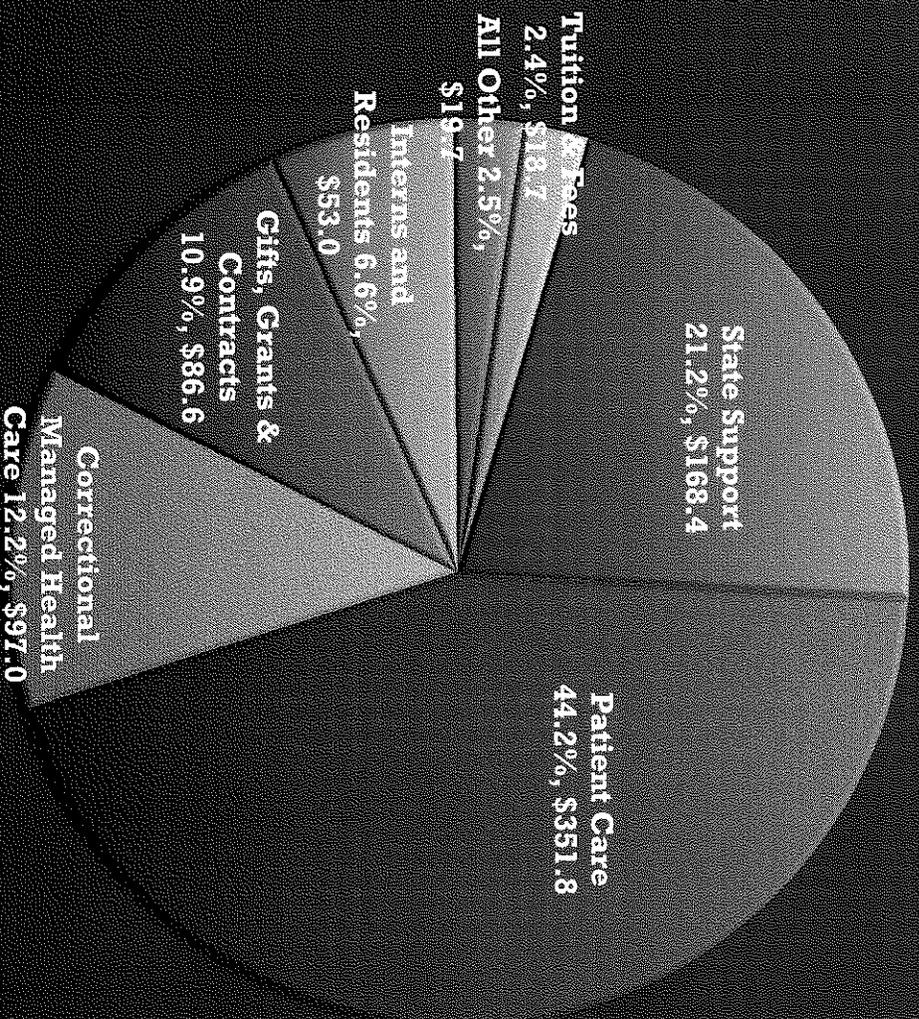
- 5% increase in tuition & fees
- Higher clinical revenues due to volume & rate
- Decrease in State support
- Two months of bargaining unit increases due to SEBAC
- Medical supplies increase due to DaVinci instrumentation
- Nursing education and magnet status expenses
- Clinical faculty recruitment in Urology, Musculoskeletal, Dermatology & Cancer Center

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FY12 Revenue Budget-\$795.2M

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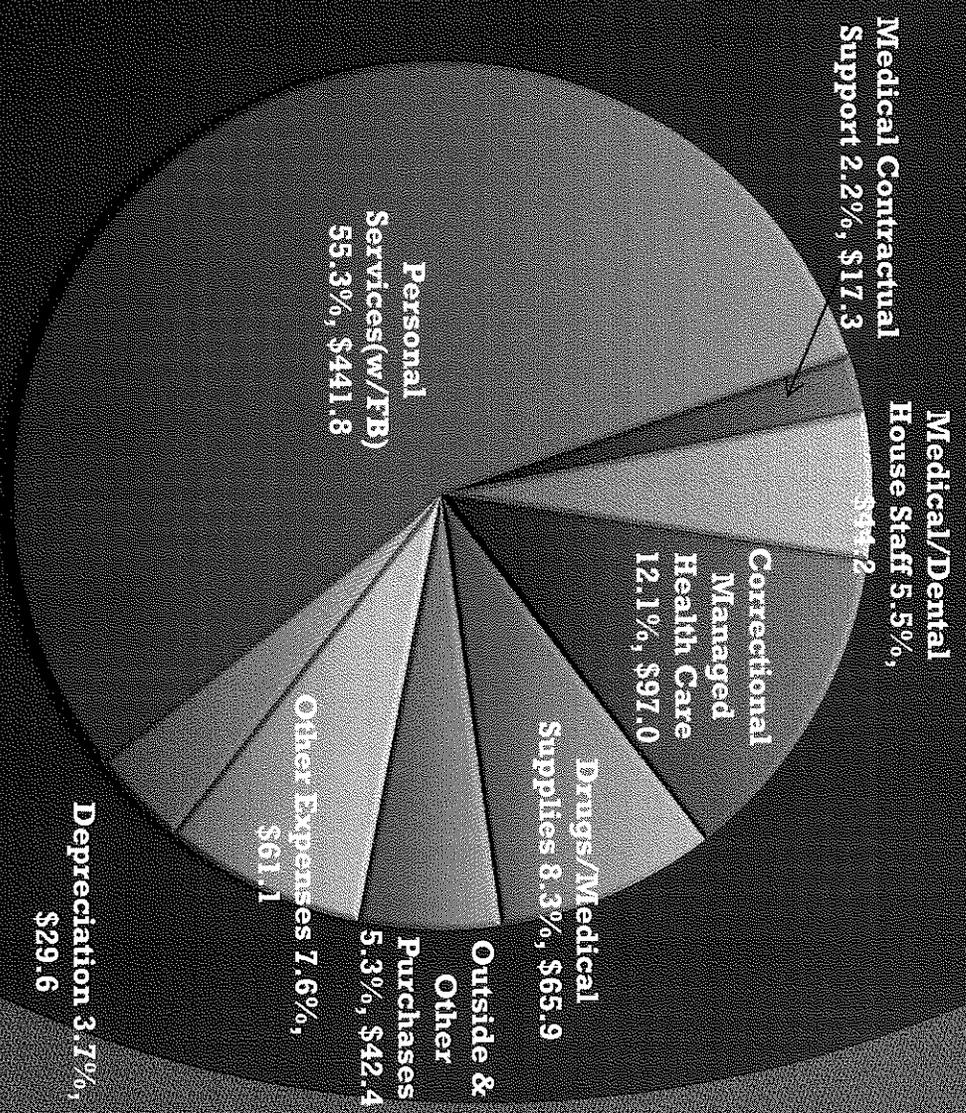
- 21.2% of the Health Center budget is State supported
- 78.8% comes from other revenues (clinical, research, tuition, philanthropy)



- State Support 21.2%
- Patient Care 44.2%
- Correctional Managed Health Care 12.2%
- Gifts, Grants & Contracts 10.9%
- Interns and Residents 6.6%
- All Other 2.5%
- Tuition & Fees 2.4%

FY12 Expenditure Budget by Major Category - \$799.3M

- Personal Services(w/FB) 55.3%
- Medical Contractual Support 2.2%
- Medical/Dental House Staff 5.5%
- Correctional Managed Health Care 12.1%
- Drugs/Medical Supplies 8.3%
- Outside & Other Purchases 5.3%
- Other Expenses 7.6%
- Depreciation 3.7%



FY12 Budget and Finances

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- The UCHC's appropriation was reduced by \$9.5M from the amount received in FY11. To address this significant reduction, a cost reduction and revenue enhancement plan was developed and is being implemented.
- Even with this plan, the Health Center budgeted a \$4.2M operating deficit for FY12. UCHC plans to cover the deficit by reducing its planned capital and equipment spending (of non-UConn 2000 funds) by an equivalent amount and reallocate those funds to cover the operating deficit.
- The \$1.2M rescission announced on January 24th, is additive to the \$4.2M budgeted loss and is expected to increase the projected year-end operating deficit. UCHC continues to manage expenses to reduce the amount of its projected deficit. It will cover the operating deficit as outlined above.

Actions to Reduce FY12 Deficit (\$M)

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	Expense Reductions	Revenue Increases	Total
Academic/Research	\$ 2.00	\$ 0.50	\$ 2.50
Administration	\$ 0.89		\$ 0.89
Hospital	\$ 1.72		\$ 1.72
Insurance	\$ 1.80		\$ 1.80
Marketing	\$ 0.30		\$ 0.30
Public Safety	\$ 0.30	\$ 0.06	\$ 0.36
UMG	\$ 0.79		\$ 0.79
CCMC Contract		\$ 1.90	\$ 1.90
Grand Total	\$ 7.80	\$ 2.46	\$ 10.26

FY 12 Priorities

- Achieve financial stability
- Secure long term future of John Dempsey and Health Center
- Increase clinical volume
- Strengthen and expand research
- Strengthen academic programs
- Implement Bioscience Connecticut

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Financial Stability

- Sustain levels of state operating support
- Renegotiate commercial insurer contracts
- Increase Hospital based practice clinics
- Limit budget expenses

Clinical Services

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- Revise clinical strategic plan
- Improve outcomes, operations and patient satisfaction
- Refine quality metrics in all clinical areas to:
 - Assist with culture changes
 - Enhance quality
 - Improve reliability of care
 - Address patient satisfaction
- Improve patient access to physician and ancillary services

Research Enterprise

- External funding increased 30.5% from FY01 (\$69.1M) to FY11 (\$90.2M)
- 400 Farmington Avenue-incubator space is full
- Recruit additional research faculty

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Educational Enterprise

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- Dental Medicine first time taker passing rates on National Exams have averaged 99% (national average is 91%)
- Medicine first time taker passing rates on Step 2 National Exams have averaged 98% (national average is 97%)
- Student facts & figures over the last 10 years (fall 2001-2011):
 - Medicine applications have increased by 66%
 - Dental Medicine applications have increased by 36%
- 2009 LCME accreditation visit
 - 14 citations: All substantially addressed and corrected by November 2011
 - Preparing for scheduled visit in late February

UCHC's Viability and Role in Economic Growth in the State

- Through the recently enacted Bioscience Connecticut Initiative (PA 11-75), the UCHC will play a pivotal role in contributing to improving Connecticut's economy by creating construction related jobs immediately and generating long-term sustainable economic growth based on bioscience research, innovation entrepreneurship and commercialization.
- The UCHC remains grateful to the Governor and General Assembly for their investment and confidence.

Long Term Future

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- **Bioscience Connecticut Initiative**
 - Grow faculty
 - Double research productivity
 - Commercialize research
 - Increase medical & dental class enrollment by 30%
 - Implement a loan forgiveness program for UConn medical and dental school graduates who pursue primary care careers in Connecticut
 - Construct new and renovate existing UCHC facilities
 - Strengthen UCHC financial performance
 - Collaborate with the region's health care providers to improve access to care

Securing the Future of UCHC and Transforming Health Education, Research and Clinical Care in the Greater Hartford Region

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DATE	ACTION
2007/ Feb-June	University proposes a new hospital; General Assembly requires a needs-based analysis of the plan; retains the Connecticut Academy of Science & Engineering (CASE)
2008/ Mar-Dec	CASE issues its report to the General Assembly; General Assembly requires that UCHC implement CASE plan; University issues Solicitation of Interest (SOI); University receives Expressions of Interest (EOI)/affiliation proposals; University announces a principal partnership with Hartford Hospital and creation of the Connecticut Health Collaborative; University announces a principal partnership with Hartford Hospital and creation of the Connecticut Health Collaborative; University announces plans to obtain support for a new hospital
2009/Jan-Nov	CASE issues its monitoring report to the General Assembly; University presents replacement hospital and proposed partnership with Hartford Healthcare to the General Assembly; University announces plans to pursue alternative options for clinical facilities at UCHC; Board of Trustees leadership embarks on a listening tour
2010/ Mar-Dec	Governor Bell proposes and General Assembly enacts UConn Health Network and Connecticut Bioscience Initiative (Pa. 10-104); JDH/CT Children's CON application approved; HRSA \$100M grant application not awarded.
2011/Jan- June	Ongoing communication between University and Governor Malloy's administration on the future of the John Dempsey Hospital; Governor Malloy announces a bold initiative to transform the UCHC campus and use UCHC as a vehicle that will strengthen our State's position as a national and global center for bioscience innovation and improve access to quality healthcare for Connecticut citizens while simultaneously securing the UCHC's finances and future as a top tier academic medical center
June – Implementation of Bioscience CT	General Assembly enacts Bioscience CT (PA 11-75)



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HB-05014 DOE-Connecticut Association for Human Services-Budget Proposed- Diehl, Dupont, Liz, Policy Director-TMY.PDF

HB-05014 DOE-Funding for College Students-Shah, Shivani, Student at University of Hartford-TMY.PDF

HB-05014 DSS-PCSW-TMY.PDF

HB-05014 DSS-State of Connecticut Fatherhood Initiative-Bostic, Blannie, New Haven Family Alliance-TMY.PDF

HB-05014 Education-Early Education Funding-Connecticut Early Childhood Alliance-Adair, Maggie-TMY.PDF

HB-05014 Permanent Commission on the Status of Women-Younger, Teresa, Executive Director-TMY.PDF

HB-05014 TRB-Comptroller Office take over STRB-Bendel, Linda-TMY.PDF

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HB-05014 DOE-CONNCAN-Riccards, Patrick, CEO-TMY.PDF

HB-05014 DOE-Funding for College Student-Giuliani, Carmela & Robert, Parents-TMY.PDF

HB-05014 DOE-Funding for Schools-CONNCAN-Alexander, Jenifer, Vice president of Research & Partnerships-TMY.PDF

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HB-05014 Education-Child Care Services-Child Care Director's Forum-Burnham, Mary E.-TMY.PDF

HB-05014 PCSW-TMY.PDF

HB-05014 Teachers Retirement Board-Perez, Darlene, Administrator-TMY.PDF

HB-05014 TRB-State comptroller's office take over STRB-Bendel, Linda, Retired Teacher-TMY.PDF

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