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Johnson Memorial Medical Center

**TESTIMONY OF
KARL KAMYK, ASSISTANT VP, ANCILLARY SERVICES
JOHNSON MEMORIAL HOSPITAL
SUBMITTED TO THE
FINANCE, REVENUE AND BONDING COMMITTEE
TUESDAY, APRIL 21, 2015
HB 7058, An Act Concerning The Hospital Tax**

Johnson Memorial Hospital appreciates this opportunity to submit testimony in support of **HB 7058, An Act Concerning The Hospital Tax**.

Before commenting on the bill, it's important to point out that Johnson Memorial, like other Connecticut hospitals, treats everyone who comes through their doors 24 hours a day, 7 days a week 365 days a year regardless of ability to pay. Johnson Memorial Hospital treats more than 3100 inpatients and 82,000 outpatients each year. We employ 617 employees (1100 staff for the system) including 69 active medical staff. Beyond the lifesaving care we provide 24 hours a day, we contribute over \$129 million dollars to our local and state economies each year and invest \$170,000 in improving the health of our community.

This is a time of unprecedented change in healthcare, and Johnson Memorial and other Connecticut hospitals are leading the charge to transform the way care is provided. We are all focused on providing safe, accessible, equitable, affordable, patient-centered care for all, and they are finding innovative solutions to integrate and coordinate care to better serve their patients and communities.

HB 7058 proposes phasing out the hospital tax over a five-year period. The first step in that phase-out would begin on January 1, 2017, at which time each hospital's tax liability would equal eighty percent of the amount of the tax imposed on the hospital during the fiscal year commencing July 1, 2012. Then, on each subsequent January 1, the tax would decline from the amount paid in the fiscal year commencing July 1, 2012 (i.e., each hospital's tax liability would be sixty percent on January 1, 2018; forty percent January 1, 2019; twenty percent January 1, 2020; and zero on January 1, 2021).

The hospital tax was adopted in 2011 and began operating in state fiscal year 2012. Its original purpose was to provide a small amount of financial assistance to the hospitals (approximately \$50 million a year) and significant help to the state (approximately \$150 million a year). It worked originally through the following mechanism: hospitals paid \$350 million in taxes and

received back \$400 million in payments. The state claimed the \$400 million in payments to hospitals as Medicaid payments and received \$200 million from the federal government. The \$200 million from the federal government was split: \$50 million was provided as a "subsidy" to the hospitals and \$150 million went to the state to balance its budget. In short, for every new federal dollar, a quarter went to help hospitals and three quarters went to reduce the state deficit. Unfortunately that structure only lasted one year and, in December of 2012, the hospital tax began costing hospitals more and more. In short, hospitals were expected to keep paying the \$350 million in taxes but the amount returned kept dropping by about \$100 million per year. The damage inflicted by that rapid descent, by year, by hospital is detailed in the table below.

In 2014, Connecticut hospitals paid \$349.1 million in the so-called hospital tax. The Governor has proposed to increase that tax by \$165 million, bringing the tax to \$514.4 million per year. This is in addition to proposed reductions to Medicaid provider rates by \$107.5 million in FY 2016 and \$117.5 million in FY 2017, the elimination of a \$15 million low-cost hospital pool, and the withholding of hospital supplemental payments of \$12.9 million in FY 2014 and \$16.1 million in FY 2015.

Hospitals have made difficult choices to account for the resources lost due to government underfunding of the Medicaid program, the hospital tax, and other cuts, and over the last few years, many jobs were eliminated, services were reduced, and investments in technology and infrastructure were put on hold. Since the inception of the Hospital Tax, we had to reduce expenses well over \$5,000,000. The cuts were in areas of employee benefits, community education, inpatient and outpatient resources, and staffing reductions, reducing resources to our community we serve. In addition, for Johnson Memorial Hospital the impact over two years will be in excess of \$4 million. This type of financial reduction will pose a significant burden on our operations and services that our community continues to rely on for their care 24 hours a day 7 days a week. As we continue on the pathway of investing in the highest quality delivery of patient care, by investing in staff, technology, patient experience and quality improvement initiatives, our community deserves the best care for their families. The tax will absolutely have a chilling effect on our ability to meet the health care needs of the towns we serve in Northeast Connecticut. Smaller community hospitals, such as Johnson Memorial, are faced with strengthening their future by affiliating and/or being acquired by other hospital systems. However, that is not the absolute cure for our financial wherewithal and/or the preservation of our ability to strategically plan for the future needs of our community's health care. We know time is of the essence. Please know Johnson Memorial remains thoroughly committed to transforming our health care system. We will work with the Administration and the Legislature to identify the most innovative, cost effective systems of care in the State of Connecticut.

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While the hospital tax cannot end soon enough for hospitals, we support the phase-out outlined in HB 7058. We do, however, ask that the draft bill be amended to specify the amount and level of the tax allowed for the eighteen months beginning July 1, 2015 and ending December 31, 2016 (i.e., the period before the phase-out begins). Specifically, we ask that that the amount of tax by hospital be no higher than the current tax by hospital and that the aggregate of the tax between July 1, 2015 and December 31, 2020 not exceed the aggregate of the related supplemental payment structure.

Thank you for raising this bill and considering the modifications offered. Now is the time to act to preserve patient care, protect jobs, and reduce the cost of care in Connecticut. Support HB 7058.

Thank you for your consideration of our position. For additional information, contact Stuart E. Rosenberg, President and CEO, Johnson Memorial Hospital at (860)-684-8101.

Respectfully submitted,

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Assistant VP
Ancillary Services

