



**TESTIMONY OF
GRIFFIN HOSPITAL
SUBMITTED TO THE
FINANCE, REVENUE AND BONDING COMMITTEE**

Friday, February 26, 2016

**Proposed SB 49, An Act Concerning an Exemption from the Hospital Tax for
Hospitals in the Small Hospital Pool**

My name is Patrick Charmel. I serve as President and Chief Executive Officer of Griffin Health Services. Thank for the opportunity to present testimony on **Proposed SB 49, An Act Concerning an Exemption from the Hospital Tax for Hospitals in the Small Hospital Pool.**

I would like to thank the sponsors of SB 49 for recognizing that the state's small independent hospitals are an indispensable part of Connecticut's healthcare delivery system that provide high-quality and efficient acute care, rehabilitative care and preventive services that are responsive to the healthcare needs of the communities they serve, and their continued operation is essential to the economic vitality of and quality of life in their community.

The value that small independent hospitals deliver was acknowledged by the legislature when in state fiscal year 2014 the Small Hospital Pool was established to supplement the Medicaid payments made to small hospitals that were shown to be more efficient, have higher than average government payer mix and that were receiving relatively low Medicaid payment rates. This Pool was intended to insulate those hospitals from the adverse financial impact of the hospital tax.

It is important to note that in the year that the Small Hospital Pool was established, the industry wide net hospital tax burden was \$119,278,856 and the Small Hospital Pool was \$15,100,000 (as displayed in the table on the following page). In state fiscal year 2016 the industry wide net tax burden has grown to \$391,797,000 and the Small Hospital Pool is now

\$14,100,000. As a result, the Small Hospital pool is no longer sufficient to provide the necessary insulation from the adverse impact of the provider tax.

Even with the Small Hospital Pool supplemental payment factored in, Small Hospital Pool beneficiary hospitals now have a substantial net tax burden. For example, The Charlotte Hungerford Hospital has a net tax burden of \$3,287,616. Griffin Hospital’s net tax burden is \$2,863,904. For Bristol Hospital, the net tax burden is \$2,381,183 and for Day Kimball Hospital it is \$1,826,985.

	Tax Assessment Paid by Hospitals	Supplemental Medicaid Payment Received by Hospitals	Low Cost Hospital Pool	Net Tax/ Subsidy
FY 2012	\$349,122,279	\$399,486,836		\$50,364,55
FY 2014	\$349,122,279	\$214,743,423	\$15,100,000	\$119,278,856
FY 2015	\$349,122,279	\$80,500,000	\$15,100,000	\$253,522,279
*FY 2016	\$556,000,000	\$150,200,000	\$14,100,000	\$391,700,000

Given that these small hospitals accept much lower than average payment rates from the state’s managed care companies/health insurers, and in doing so offer considerable value to the consumer who is paying a growing share of the contracted rate out of pocket in the form of co-pays and deductibles, they have no way to shift the burden of the provider tax and Medicaid underpayment to commercial payers. Office of Health Care Access FY 2014 filing data indicate that the four Small Hospital Pool beneficiary hospitals mentioned previously have an average commercial payment per case of \$8,608 compared to a statewide average payment per case of \$11,217.

Amplifying the burden of the provider tax in the current state fiscal year is the fact that Small Hospital Pool and hospital tax funded supplemental payments authorized by the legislature to be paid to Connecticut’s hospitals have not been paid by the Department of Social Services. Through the end of January, Connecticut Hospitals paid approximately \$280,000,000 in tax payments and should have received \$125,000,000 in supplemental and small hospital pool payments by now. Unfortunately, only \$19,000,000 has been paid to date, putting a number of both small and large hospitals in financial jeopardy.

Specifically, Griffin Hospital has paid \$5,687,829 in taxes through January 31, 2016. Supplemental and Small Hospital Pool payments owed to the hospital through March 31, 2016 amount to \$3,539,899, yet to date the Griffin Hospital has only \$600,545 of those payments. This shortfall has resulted in the halting of a multi-phase construction project that will cause considerable operational disruption and increased project cost. It is also putting a refinancing of the hospital's long-term debt, designed to capitalize on the current low interest rate environment, at risk by raising questions about the reliability of the hospital's revenue stream and therefore the hospital's credit worthiness.

While Griffin Hospital would welcome the hospital tax exemption called for in SB 49, we believe that a comprehensive approach to reducing the burden of the Hospital Tax on all Connecticut hospitals is warranted. By returning to a Hospital Tax model in which all tax dollars paid by hospitals are returned in the form of supplemental payments (which was the case in year one of the Hospital Tax Program), the tax burden on Connecticut hospitals would be reduced by \$391,700,000, federal matching dollars received by the State of Connecticut would increase by \$263,000,000, but the yield of the hospital tax program to the state would drop by \$128,000,000. However, a 2015 study conducted by the Connecticut Center for Economic Analysis (CCEA) found that when Connecticut Hospital's spend the recovered dollars on technology upgrades, new programs, services and facilities, the resulting direct and indirect economic activity would generate sales and income tax revenue sufficient to more than make up the \$128,000,000 shortfall.

Given that Connecticut's chronic budget problems are due in part to a lack of growth in state economic activity, a stimulative approach to reducing the burden of the hospital tax on Connecticut hospitals -- particularly small independent hospitals -- may be a more beneficial approach, one with a higher likelihood of strengthening the state's healthcare system in the short term and for years to come.

Thank you for your consideration.