



STATE OF CONNECTICUT
OFFICE OF POLICY AND MANAGEMENT

TESTIMONY PRESENTED TO THE PUBLIC HEALTH COMMITTEE
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Testimony Supporting Proposed Bill No. 5174

AN ACT CONCERNING SALARIES FOR NONPROFIT HOSPITAL ADMINISTRATORS

Senator Gerratana, Representative Ritter and distinguished members of the Human Services Committee, thank you for the opportunity to offer testimony in support of HB 5174, An Act Concerning Salaries for Nonprofit Hospital Administrators.

This bill proposes to amend the general statutes to require: (1) nonprofit hospitals to limit the salaries and bonuses paid to hospital administrators to \$500,000 per year or (2) if any administrator's salary and bonuses exceed such amount in one year, the nonprofit hospital pay property taxes to the municipality in which the hospital provides services thereby saving municipalities and the state money.

As nearly half¹ of the net revenue of Connecticut's hospitals derives from governmental payers, the state has a right and a duty to ensure that hospitals are expending taxpayers' funding in a reasonable manner and that special benefits for non-profits are reserved for only those providers that do not seek undue personal benefits at public expense.

In 2014, the top earners in hospitals received average salaries of over \$800,000. Seven of the hospital top earners had salaries over \$1 million, with the top earners at Yale-New

¹ 48% in FFY 2014

Haven Hospital and Saint Francis Hospital making \$2.6 million and \$2.8 million respectively. And these figures do not include fringe benefits. With the addition of fringe benefits, the highest compensated employee from each hospital received an average of more than a million dollars (\$1,025,190) in 2014; with the highest – at Yale-New Haven Hospital – receiving over \$3.5 million.

This proposal before you today has three main benefits:

First, the bill safeguards use of our state’s Medicaid funding. The state provides over \$1.8 billion annually to Connecticut hospitals to pay for medical assistance for low income and disabled individuals. We need to ensure that limited state funding is targeted toward patient care, not to undue compensation of hospital administrators. In an industry which receives about half of its funding from the federal and state government, a salary of a half a million dollars must be considered adequate compensation. With 28 hospitals in our state of three million residents, that amount still represents substantial aggregate funding for hospital administration.

Second, the bill ensures that property tax exemption benefits for nonprofits are reserved for only those providers that adhere to a recognizable definition of “nonprofit.” We agree with the proponent of this legislation that nonprofit hospitals should behave like nonprofits. At some point, paying exorbitant salaries to administrators ought to prevent these entities from receiving benefits that are in place solely based on their nonprofit status.

Third, the bill represents a reasonable and fair approach by allowing hospitals to pay salaries over \$500,000 if they so choose. This bill would allow hospitals to continue to pay exorbitant salaries to hospital administrators, but provides protections to municipalities and the state, so that those that do will begin paying their fair share of property taxes rather than expecting the public to shoulder that burden for them.

In summary, Governor Malloy has recognized that we are in a new economic reality and his budget adjustments for FY 2017 reflect that new reality. The time is now for hospitals to also acknowledge this new economic reality. This proposal will incentivize hospitals to decrease the overly generous compensation of their top earning administrators in order to maintain nonprofit status. Hospitals electing to adhere to the \$500,000 salary cap will maintain the rightful advantage of property tax exemption that comes along with nonprofit status and taxpayer funding will no longer be contributing to salaries of top level executives within hospitals that are higher than \$500,000.

On behalf of the Malloy administration, I offer our fullest support for this bill and thank Representative Johnson for raising this important issue. I respectfully request that the committee support this bill and thank you for the opportunity to present written testimony.