Testimony of James E. Shmerling, DHA, FACHE  
President and CEO of Connecticut Children’s Medical Center  
to the Appropriations Committee  
Regarding House Bill 7148 An Act Concerning the State Budget for the Biennium Ending  
June Thirtieth, 2021, and Making Appropriations Therefor  
March 5, 2019

Senator Osten, Representative Walker, members of the Appropriations Committee, thank you for the opportunity to submit testimony regarding the Department of Social Services budget. Connecticut Children's Medical Center is focused on improving the physical and emotional health of children through family-centered care, research, education and advocacy. We embrace discovery, teamwork, integrity and excellence in all that we do. I would like to share with you some information about the unique resources and specialized care that Connecticut Children’s provides to our State’s most vulnerable citizens and our relationship with the HUSKY program.

Background

Connecticut Children’s is a nationally recognized, 187-bed not-for-profit children’s hospital driving innovation in pediatrics. With over 2,600 employees and over 1,100 on our medical staff, we are the only hospital in the State dedicated exclusively to the care of children. Through our partnerships with adult hospitals and primary care providers across Connecticut, we are able to offer a continuum of care for children, from primary prevention to complex disease management, closer to their home. Our locations include pediatric inpatient units in Hartford and Waterbury, neonatal intensive care units (NICUs) in Hartford and Farmington, licensed to provide the highest level of care, a state-of-the-art ambulatory surgery center in Farmington, primary care centers in East Hartford and West Hartford, and specialty care office locations in twelve Connecticut towns. The Pediatric Trauma Center at our main campus in Hartford, which is also licensed to provide the highest level of care, is the busiest between Boston and New York.

Connecticut Children’s has entered into several partnerships and affiliations with adult hospitals, state agencies, academic institutions and research centers. We now provide pediatric inpatient management services in an alliance with the Western Connecticut Health Network (WCHN) and provide newborn care services through our statewide neonatal network at ten different hospitals. Last year alone, Connecticut Children’s directly cared for more than 15% of all kids in Connecticut covered by Medicaid and spent over $90 million in free and uncompensated care. Last year, we were nationally ranked in four pediatric specialties by U.S. News & World Report and named a Best Children’s Hospital by the Women’s Choice Award for the second year in a row.
Forging partnerships and expanding access

The pediatric healthcare landscape is unique. Children and adolescents make up only 20% of the total population of the nation and the State and minors get sick much less frequently than adults. Of the over 9,000 staffed beds throughout Connecticut, less than 600 are dedicated to children, including the 187 at Connecticut Children’s. Since the total number of child patients is significantly less than that of adults, pediatric specialists are not needed as often as their adult counterparts. Economic realities thus dictate that only health providers that see enough kids needing specialty care, like Connecticut Children’s, can afford to employ the full range of these specialists.

On top of that, a consensus exists that there is both a nation- and state-wide shortage of pediatric specialists. As the only hospital in Connecticut that focuses exclusively on children’s needs, we are acutely aware of this shortage. Our organizational strategy is focused on providing the unique expertise of our pediatric specialists to more children in all corners of the State.

One way to meet this goal is to partner with local primary care pediatricians. By sharing best practices, care protocols and guidance to primary care physicians throughout the State, Connecticut Children’s is helping pediatricians to manage the care they provide to children and adolescents with chronic conditions, like asthma and diabetes, within their own practices. Not only does this help reduce costly hospital visits, it allows the child to receive care in a more familiar location and frees up the time of Connecticut Children’s specialists to care for our sickest patients.

We have also recently received Federal Trade Commission approval for our clinically integrated network, which currently includes more than 70 primary care pediatricians across the State. The goal of this network is to leverage the combined scope and knowledge of the hospital, our specialists and primary care pediatricians to improve care and reduce costs. Our members are excited to use the network to improve patient care and satisfaction and become a collective voice that’s defining what value means for pediatric care.

We are the primary pediatric teaching hospital for the University of Connecticut School of Medicine and the Frank H. Netter MD School of Medicine at Quinnipiac University, having trained 284 medical students, 375 physician residents and 71 physician fellows last year. In fact, a large number of the pediatricians working in Connecticut received their training at Connecticut Children’s.

Despite the necessity of having organizations like ours to employ and train the pediatricians needed by our kids, children’s hospitals face financial barriers that other hospitals do not. For example, children’s hospitals receive only about half as much reimbursement for training a pediatric specialist as an adult hospital would be reimbursed for physician training costs. In 2017, we spent $18.5 million educating health professionals. In order for us to continue training pediatric physicians, advanced practitioners and other providers so the State will have a sufficient supply of experts to care for the children of Connecticut, the State needs to adequately reimburse for those training costs.
Promoting innovation

Another one of our goals is to create more efficiency and value in the provision of pediatric healthcare. Last year we invested in specialized hardware and software enabling us to launch Connecticut’s first pediatric telehealth network. A number of studies now show the health and economic benefits gleaned from the utilization of telemedicine. Further, Connecticut Children’s collaboration with the Jackson Laboratory for Genomic Medicine places us at the cutting edge of genetics and genomics, allowing advanced care for our patients. Our research programs are robust, having invested over $8 million last year to develop, test, and deploy the latest advances in medical and surgical care.

Our innovative work has attracted some of the nation’s top physicians to Connecticut Children’s over the past few years. These doctors understand that our pediatric health system will provide them with the resources and workforce needed to treat their complex patients and research the development of cures. Our impact on children and families has greatly expanded because we have tripled the number of physicians who care for our patients since our doors first opened in 1996.

Conversations about the future of health care often include mention of population health, value-based payments and social determinants; at Connecticut Children’s, we are taking those terms to heart, focusing on patient outcomes instead of increased patient volumes. We understand that the circumstances and environments in which people live and work have more than twice the impact on the overall health of an individual as does the health care they receive. For this reason, Connecticut Children’s offers a range of programs and services that tackle critical contemporary issues in kids’ lives like asthma, opioid dependence, home hazards, domestic violence, teen driving safety, sexually transmitted diseases, suicide and behavioral health issues.

Despite not being reimbursed for most of this non-clinical care, we feel it is necessary to ensure the future health and wellbeing of the State’s children. However, with decreased Medicaid reimbursement and cuts to our line item each year, it will be extremely difficult to maintain these services. This is why we are actively pursuing value-based reimbursement arrangements with our private payers that will enable us to provide a more cost-effective and holistic approach to healthcare focused on patient outcomes. We look forward to engaging in similar partnerships with the State as new Medicaid reimbursement models are developed and implemented.

Behavioral Health

The behavioral health needs of children and adolescents are not being met by the current system of care because access to needed services is insufficient. Last year, nearly 3,900 children and adolescents required emergency evaluation services in Connecticut Children’s Emergency Department (ED). More than 520 of those patients (13.5%) remained in our ED for more than 24 hours. In some cases, their discharge was delayed because they needed to be transferred to a psychiatric inpatient facility and no bed was available. In other cases, the patient’s ability to be safely discharged required an existing source of behavioral health care in their community and they lacked access to that resource.
In January, Connecticut Children’s launched a new behavioral health transitions clinic to connect patients who come to our Emergency Department in psychiatric crisis with a care team the next day, if needed, to reduce the likelihood that they will return to the ED in crisis. Much more work needs to be done in order to provide children and adolescents with the access to care that they deserve. We welcome the opportunity to partner with the State to change payment policies and encourage investment in a true behavioral health system that would better meet the needs of our patients and their families.

**Continuing our relationship with Medicaid**

Without the support of Medicaid, which plays a distinctive role at Connecticut Children’s, many of our innovative programs and services would not be possible. More than 55% of our patients rely on Medicaid and the almost non-existent role of Medicare in the pediatric setting makes Connecticut Children’s payer mix unique among hospitals in the State. However, the continued erosion of Connecticut Children’s Medicaid revenue jeopardizes our ability to provide the care that all children need, regardless of the source of their health coverage.

![Connecticut Children's payer mix](image)

**Source:** OHCA’s FY2017 Annual Report On The Financial Status Of Connecticut’s Short Term Acute Care Hospitals

With more than half of our patients reliant on Medicaid, Connecticut Children’s has by far the highest Medicaid percentage of any hospital in the State. The combination of recent Medicaid rate decreases, and ongoing reductions in our Disproportionate Share Hospital (DSH) payment over the past several years create an unsustainable trend that is negatively impacting our ability to care for all of the State’s children.

Connecticut Children’s is grateful that the Governor’s budget proposes to maintain our DSH payment at current levels next year, but changes to the way the Department of Social Services (DSS) pays for hospital services has exacerbated this problem. In late 2018, Connecticut Children’s filed three Medicaid rate appeal letters with DSS. DSS has stated that their intent was not to impose Medicaid revenue reductions to hospitals in the APR-DRG transition from version 35 to 36, but Connecticut Children’s projects that this change will result in nearly a 20% decrease in annual inpatient reimbursement equaling approximately $10 million. While the Governor’s budget proposes to address this reduction, the precise impact on Connecticut Children’s is unclear and it does not appear to completely restore the unintended cuts. The State
can reverse Connecticut Children’s revenue reduction by increasing our base rate, which is
unique given our exclusive focus on pediatrics, to compensate for the weight reductions and
retroactively applying that new base rate to 10/1/2018 when the weight reductions took effect.
This adjustment would leave us with a projected Medicaid shortfall of $88.7 million, assuming
that our DSH payment remains at $10.1 million.

Additionally, the Governor’s budget includes a proposal to impose a penalty for hospital
readmissions although the relevant methodology is not clearly stated in the budget narrative.
Connecticut Children’s estimates that this change could reduce our annual Medicaid
reimbursement by an additional $500,000 to $900,000.

Over the last eight years, Connecticut Children’s has seen less Medicaid reimbursement for the
same amount of service. Hospitals often refer to a unit of service as an “adjusted patient day”
(APD) which reflects the total amount of care a patient will receive during one day of an
inpatient stay including both ‘inpatient’ and ‘outpatient’ services. As you can see in the chart
below, the amount of care Connecticut Children’s provides has increased over time from about
47,000 APD in 2011 to almost 49,000 in projected APD in the current year (brown line). Our
costs per APD (blue bars) have increased by about 6% over that period, which is in line with the
medical rate of inflation but does not take into account the significant jump we have seen in
patient acuity so one could argue that Connecticut Children’s has experienced cost effective
growth in expenses.

During that time however, our Medicaid reimbursements per APD (green bars) have decreased
and our Medicaid shortfall per APD (red bars) has increased. The bottom line is that
Connecticut Children’s is getting paid significantly less per unit of care today than we were eight
years ago.

![Diagram showing Medicaid results]

Connecticut Children’s submitted testimony, James E. Shmerling, March 5, 2019
In 2019, with the recent revenue reductions in place, Connecticut Children’s Medicaid costs will exceed our Medicaid payments by $98.7 million. That is, for every $1 we spend caring for children who rely on Medicaid, we expect to be reimbursed only 58 cents by the State on a per APD basis. For comparison, as shown below, our Medicaid shortfall in 2015 was $50 million and our cost coverage was 67%. Since that time, Connecticut Children’s DSH payment has gradually eroded from $15.6 million to $10.1 million this year. The original intent of Connecticut Children’s DSH payment was to compensate for most if not all of our Medicaid shortfall but the State has moved far from that intent over the years.

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<th>Impact of Connecticut Children’s declining Disproportionate Share Hospital Payment on our “Cost Coverage” (% of costs covered by Medicaid payments on an adjusted patient day basis) FY2011-Projected FY2020</th>
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<tr>
<td>2015</td>
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<td>DSH payment</td>
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<td>Cost coverage</td>
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Cutting reimbursement does not result in reducing costs. Connecticut Children’s expenses reflect the resource requirements that the growing acuity and volume of our patients demands for the provision of safe, quality care. In a recent Children’s Hospital Association study, Connecticut Children’s ranked 7th lowest in cost per day out of 30 independent children’s hospitals surveyed, despite operating in one of the most expensive areas of the country. Connecticut Children’s has worked with commercial payers to raise the rates they pay to help offset low Medicaid reimbursement. However, they are unwilling to bear any additional responsibility for the Medicaid cost shift.

**Looking to the Future**

Healthier kids today mean healthier adults tomorrow. Investing in our children is an essential step for building our future workforce and reducing the cost of their future health care needs. State policies must support the programs, services and delivery systems that will promote each child’s optimal emotional and physical health. Connecticut Children’s needs to maintain our strong partnership with the State so we can continue to provide the care that is critical for Connecticut’s future.
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