CONNECTICUT HOSPITAL ASSOCIATION

TESTIMONY OF
CONNECTICUT HOSPITAL ASSOCIATION
SUBMITTED TO THE
APPROPRIATIONS COMMITTEE
Tuesday, March 5, 2019

HB 7148, An Act Concerning The State Budget For The Biennium Ending June Thirtieth, 2021, And Making Appropriations Therefor

The Connecticut Hospital Association (CHA) appreciates this opportunity to submit testimony concerning **HB 7148, An Act Concerning The State Budget For The Biennium Ending June Thirtieth, 2021, And Making Appropriations Therefor**. CHA opposes any change to the terms and conditions of the current agreement in place between hospitals and the state pertaining to supplemental payments.

Before commenting on the bill, it is important to point out that Connecticut hospitals and health systems provide high quality care for everyone, regardless of their ability to pay. They do more than treat illness and injury. They build a healthier Connecticut by improving community health, managing chronic illness, expanding access to primary care, preparing for emergencies, and addressing social determinants of health. By investing in the future of Connecticut's hospitals, we will strengthen our healthcare system and our economy, put communities to work, and deliver affordable care that Connecticut families deserve.

In 2017, Connecticut faced operating deficits projected to be as high as $317 million in the current fiscal year and $3.5 billion over the next biennium. At the same time, Connecticut hospitals were plagued by an onerous hospital tax that was never intended to be a direct tax on healthcare services. When the tax was originally enacted in 2011, the state intended to use the revenue collected to make supplemental benefit payments to hospitals for healthcare services provided to patients enrolled in the Medicaid program. These supplemental payments would qualify the state for increased federal reimbursement. Unfortunately, the previous Administration abandoned this strategy within a year of its adoption, and opted instead to keep larger and larger portions of the tax payments received from hospitals while reducing supplemental payments to hospitals, thus foregoing the opportunity to qualify for increased federal funding.

Rather than shying away from the dual challenges of (1) placing government on a path forward to fiscal stability and (2) addressing what had become a direct tax on healthcare services, Connecticut hospitals stepped forward and volunteered to work with legislative leadership and the Administration. The results were an historic bipartisan three-year agreement – one that Connecticut hospitals continue to support strongly.

In short, revenue the state collected from hospitals through the tax would increase from $556 million per year to $900 million per year during each of the first two years (FY 2018 and FY 2019, from July 1, 2017 to June 30, 2019). Payments back to hospitals would also increase during this period from $118 million per year to $691 million ($671 million in Medicaid payments).

This agreement helped both the state and hospitals. For hospitals, the financial loss under the tax was reduced from $438 million per year to $229 million per year. For the state, the gain from the tax was increased from about $520 million per year to $650 million per year.

In the third year of the agreement, which covers the first year of the next biennium (FY 2020, from July 1, 2019 through June 30, 2020), revenue generated by the tax was set at $384 million. Medicaid payments back to hospitals were lowered to $175 million – leaving hospitals with the same loss to start FY 2020 as they incurred in FY 2019.

The reduction in hospital tax revenue by $516 million in the third year of the agreement is matched with a corresponding reduction in payments to hospitals by $516 million. This is not a tax break. It is a dollar for dollar reduction in taxes equal to the 2020-budgeted reduction in payments to hospitals.

In 2017, this three-year agreement was passed in the Senate by a unanimous 34-0 vote and in the House by a vote of 123-12, receiving overwhelming support from a majority of members of all four caucuses. The governor signed it into law.

In 2018, the legislature provided for $166.5 million in supplemental payments in FY 2020. This change was approved in the Senate by a unanimous 36-0 vote and in the House by a vote of 142-8, again receiving massive support from vast majorities in each of the four caucuses. The governor signed this change into law.

The 2017 agreement has helped address the chronic and persistent operating deficits in the state budget by enabling the state and hospitals to benefit from increased federal reimbursement, while diminishing the state's reliance on a direct tax on healthcare services.

HB 7148 proposes to abandon the agreement between hospitals and the state during its third and final year. If enacted into law, hospitals will experience a $516 million increase in the hospital tax, with a corresponding reduction in supplemental payments amounting to $43 million – to $453 million.

CHA opposes those sections of **HB 7148** which propose to:

- Reduce hospital inpatient payments resulting from the implementation of Version 36 of the 3M APR-DRG Grouper, for a reduction of approximately $60 million in FY 2020 and approximately $62 million in FY 2021. (The budget proposes to restore partially the $230 million reduction from the implementation of the Grouper.)

- Link hospital payments to readmission rates, for a reduction of $6.1 million in FY 2020 and $7.3 million in FY 2021.
- Set a ceiling on the maximum price that the state employee health plan will pay for services (hospitals and providers) based on a percentage (not yet defined) above the Medicare payment rate.
- Increase utilization management in the Medicaid program for a reduction of $1.4 million in FY 2020 and $9.8 million in FY 2021.

Connecticut hospitals implore this General Assembly to honor the state's commitment to hospitals by keeping our agreement in place. We urge you to reject any and all efforts to deviate from our 2017 hospital agreement.

Thank you for your consideration of our position. For additional information, contact CHA Government Relations at (203) 294-7310.