CONNECTICUT HOSPITAL ASSOCIATION

TESTIMONY OF
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BEFORE THE
U.S. SENATE COMMITTEE ON HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS
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The American Recovery and Reinvestment Act:
Making the Economic Stimulus Work for Connecticut

My name is Stephen Frayne. I am the Senior Vice President, Health Policy, of the Connecticut Hospital Association (CHA). I appreciate the opportunity to testify on how the funds provided by the American Recovery and Reinvestment Act of 2009 will help Connecticut communities – in particular my testimony will focus on how those funds can best be used to help Connecticut hospitals.

Connecticut hospitals are more than facts and figures and dollars and cents – Connecticut hospitals, at their core, are really people taking care of people. Each year the more than 66,000 people employed in Connecticut hospitals work hard to provide the patients they serve with the very best care. Providing patients and communities with the finest quality healthcare services is the highest priority for Connecticut's not-for-profit hospitals. Hospitals fulfill a vital role, caring for Connecticut residents 24 hours a day, seven days a week, and they make enormous contributions to the health and quality of life for millions of Connecticut residents. Last year, Connecticut hospitals provided 2.1 million days of inpatient care and more than 4 million outpatient visits, including 1.5 million emergency department visits, 179,000 ambulatory surgery visits, 31,000 cardiac procedures, 94,000 cardiac rehab visits, 153,000 gastroenterology procedures, 46,000 chemotherapy visits, 192,000 radiation therapy visits, 804,000 outpatient rehabilitation visits, 332,000 psychiatric care visits, and 623,000 primary care visits. Every moment of every day, hospitals touch the lives of Connecticut residents by providing high quality healthcare services.

Hospitals also make vital contributions to the state's economy. Connecticut's hospitals are both the economic bedrock and engine in their communities. They are major employers, offering jobs at all skill and salary levels in a growing employment sector. Connecticut hospitals won't move out of Connecticut in search of a more favorable business climate – Connecticut hospitals are here to stay. Hospital purchases provide important secondary income and job benefits to the local economy. Hospitals serve as a magnet for other healthcare business and serve as a stimulus for economic development, attracting other businesses into the community, such as retail shops, banks, grocery stores, and family restaurants. CHA analysis of the economic impact of Connecticut hospitals shows Connecticut hospitals and health systems:

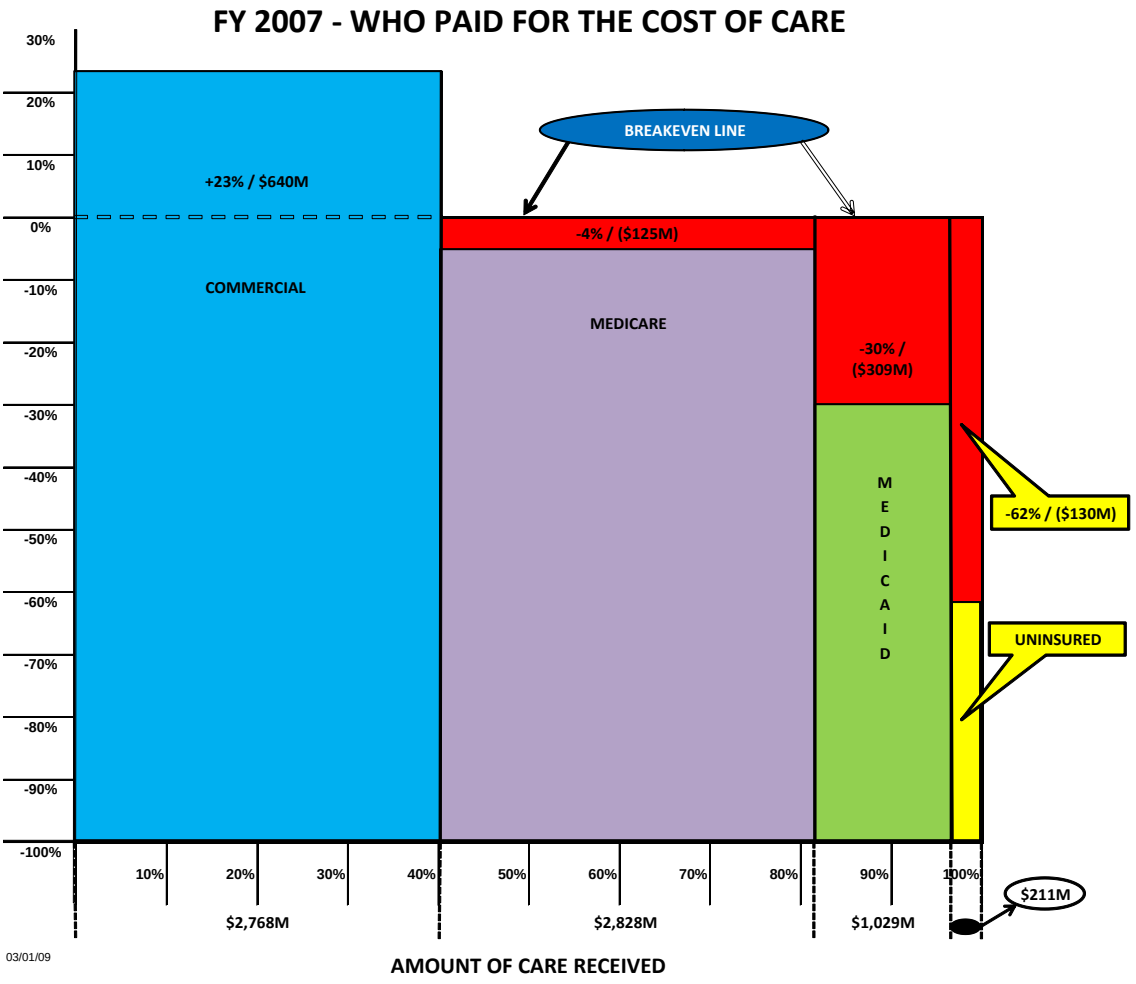
- Generate nearly **$12.8 billion** per year for the state and local economies;
- Provide **97,000** jobs in our communities generating approximately **$7.0** billion in annual local economy payroll; and

- Purchase goods and services generating approximately **$5.8** billion annually in local economic activity.

During the last four years, there has been a 31% increase in hospital contributions to Connecticut's economy—from $9.8 billion in 2004 to $12.8 billion in 2007.

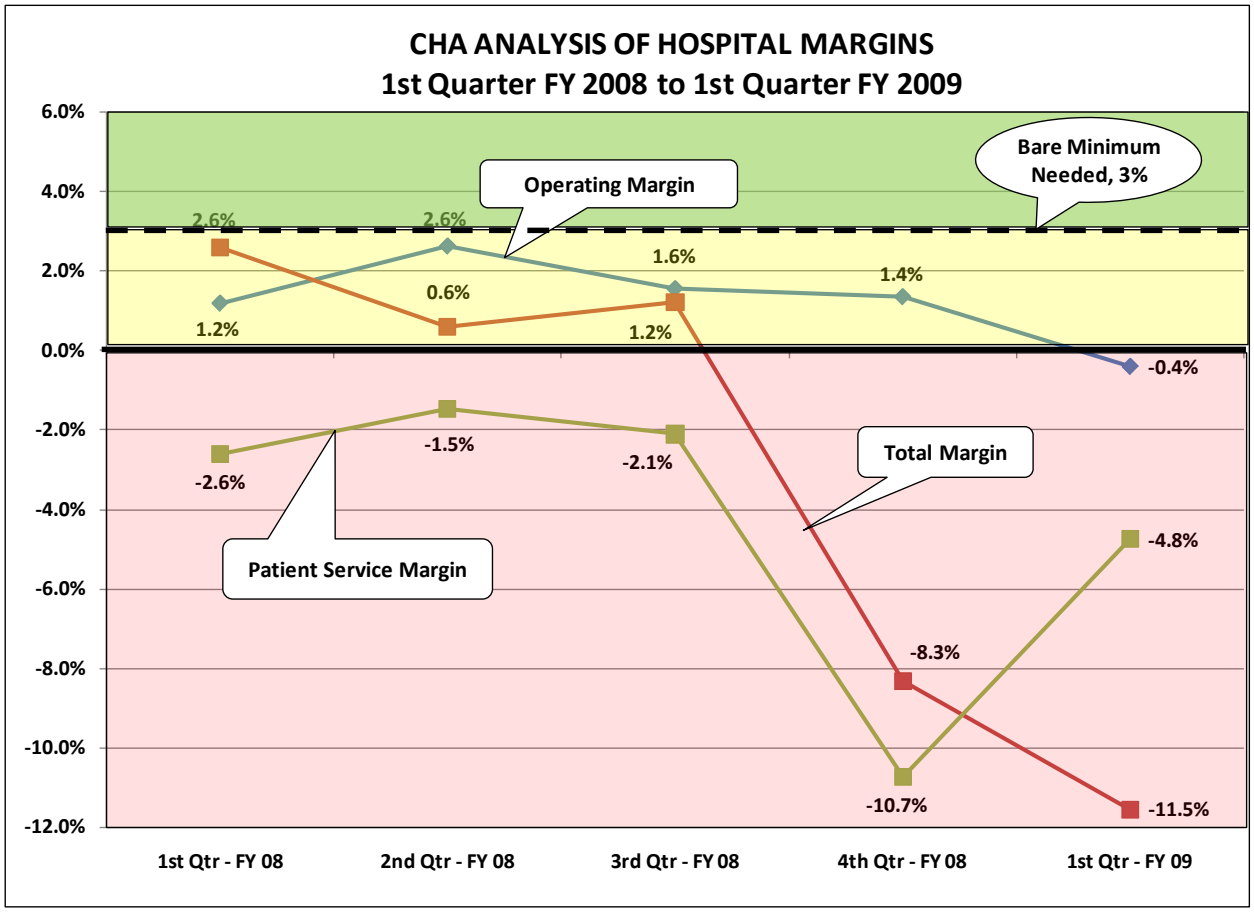
In more ways than one, the health of our communities is inextricably linked to the health of their local hospitals. In the best of times, the ability of Connecticut hospitals to continue to provide the highest quality care and to make contributions to the broader Connecticut economy is constantly threatened. Payments for individuals enrolled in state and federal programs always fall short of the amount needed to cover the cost of care. These deficits rob Connecticut hospitals of the dollars needed for investment in staff, facilities, and acquiring modern technology.

As the chart below clearly indicates, every year, before a hospital plans a new program, hires another nurse, or invests in a quality initiative, it must figure out how to cover the annual $564 million deficit caused by state and federal government underfunding as well as providing services to those who are uninsured. This challenge is never ending and the gap is ever growing, causing Connecticut hospitals to have to annually implore the state and the federal governments for help.



The constant pressures of inadequate government funding, the need to attract and maintain a superior workforce, rising input costs, and the continuous effort to improve the care given have put Connecticut's hospitals in the best of times in a financially tenuous position. Unfortunately, these are not the best of times; at this point, 2007 looks like "the good old days."

As the table below indicates, contrary to popular belief, hospitals are not recession-proof. The economic crisis is ravaging the health of our hospitals. In 2008, one of the traditional means hospitals use to make ends meet—non-operating (investment) income—more than disappeared, going negative for the first time ever. Instead of investments supporting operations, hospitals posted a non-operating revenue loss of over $200 million. In comparison to the year before, this represented a year-over-year nose dive in non-operating revenue of $416 million. Unfortunately, the slide from the end of 2008 has continued unabated into the first quarter of 2009. In the first quarter of 2009, hospitals lost another $200 million. We have never seen results as bad as these.



However, not all the news is bad. Thankfully, with your leadership, Senator Lieberman, Congress is delivering through the stimulus package much needed relief. I am going to focus the balance of my comments on four areas: 1) the increase in funding for the Medicaid program through enhanced federal match; 2) the increase in hospital funding to care for the uninsured; 3) the increase in Medicare hospital funding for meaningful adopters of electronic health records; and 4) the availability of a federal match of 5-to-1 for states that create a loan program for providers wishing to borrow funds to implement electronic health records.

The enhanced federal match for Medicaid offers Connecticut much needed relief. This relief will come in the form of an increase in Connecticut's match rate from the current 50 percent to about 60 percent. The relief is estimated to total over $1.32 billion through December 2010. Sadly, even with this enormous relief it is unlikely any of it will reach providers; options before the legislature range from at best a rate freeze for two years to Medicaid funding cuts totaling about $170 million over the next two years. Some of the proposed cuts are:

- Imposing co-payments in the Medicaid program
- Establishing premiums for HUSKY A Adults
- Eliminating self-declaration at application and redetermination
- Modifying the definition of medical necessity and appropriateness under Medicaid
- Eliminating state-funded non-emergency medical assistance to non-citizens
- Limiting the dental services benefit for adults to emergencies
- Increasing premium payment requirements under HUSKY B
- Eliminating supplemental payments to FQHCs and hospitals for prenatal care when the mother is undocumented
- Eliminating medical interpreters under Medicaid
- Eliminating funding for the LIFE STAR helicopter

Given the size of the congressional lifeline, Medicaid funding should be enhanced, not reduced. Medicaid funding should be used first and foremost to absorb the growing numbers seeking eligibility, maintain coverage, and make another down payment on bringing provider rates closer to covering the cost of care. In other words, use Medicaid funding for Medicaid and help those who need it most, support those providing the help, and then use the balance, which will likely exceed $1.1 billion dollars, to contribute to balancing the state budget. In these difficult economic times, it is more important than ever that we remain steadfast in our commitment to help those who cannot help themselves. If we use the funds in this way, rather than just to plug the state deficit, we would create over 2,800 Connecticut jobs, provide $1.1 billion to the general fund, increase economic activity in the Connecticut general economy by about $350 million per year, and increase Connecticut salaries and wages by over $125 million per year.

Section 5002 of the American Recovery and Reinvestment Act offers states the ability to ensure access to healthcare for the uninsured by covering the costs of that care at hospitals. Eligible hospitals are those that serve a disproportionate share of low-income or uninsured individuals and are known as Disproportionate Share Hospitals (DSH). In Connecticut, every hospital in the state is eligible. The Recovery Act increases the amount of funding available for Connecticut hospitals by about $5 million per year for the next two years. Unfortunately, Connecticut hospitals will not receive any additional funds to take care of the growing number of uninsured – because to receive those funds, states must first spend DSH funds that are already available. Connecticut does not use all the DSH funds already available to it.

Section 4102 of the American Recovery and Reinvestment Act of 2009 sets forth a Health Technology Medicare Incentive Payment for hospitals. As the table below indicates, Connecticut hospitals are likely to receive almost $150 million dollars over four years if they are able to demonstrate "meaningful use" of electronic health records. If a hospital qualifies for this incentive payment, the hospital will receive payments beginning in Federal Fiscal Year (FFY) 2011 that will continue and phase out over four years. Hospitals that do not qualify by FFY 2015 will not receive any incentive payments. Beginning in FFY 2015, hospitals that do not qualify as meaningful users of EHR will be penalized with a reduced market basket update to their Medicare payment rates. These reductions will be transitioned in over three years such that by FFY 2017, three-quarters of the market basket will be held back if a hospital does not qualify.

CHA Estimate of American Recovery and Reinvestment Act of 2009

Medicare Health Information Technology Incentive Payments

Hospital Name	First Year Payment	Second Year Payment	Third Year Payment	Fourth Year Payment	Maximum HIT Funding Available
The William W. Backus Hospital	1,949,854	1,462,391	974,927	487,464	4,874,636
Bridgeport Hospital	2,622,483	1,966,862	1,311,241	655,621	6,556,206
Bristol Hospital	1,642,537	1,231,903	821,269	410,634	4,106,343
Hospital of Central Connecticut	3,239,908	2,429,931	1,619,954	809,977	8,099,770
Connecticut Children's Medical Center	-	-	-	-	-
Danbury Hospital	3,180,707	2,385,531	1,590,354	795,177	7,951,768
Day Kimball Hospital	1,505,871	1,129,403	752,935	376,468	3,764,676
John Dempsey Hospital	1,314,760	986,070	657,380	328,690	3,286,900
Greenwich Hospital	1,737,784	1,303,338	868,892	434,446	4,344,461
Griffin Hospital	1,805,863	1,354,398	902,932	451,466	4,514,659
Hartford Hospital	3,004,672	2,253,504	1,502,336	751,168	7,511,679
The Charlotte Hungerford Hospital	1,689,681	1,267,261	844,840	422,420	4,224,202
Lawrence & Memorial Hospital	2,301,961	1,726,470	1,150,980	575,490	5,754,901
Manchester Memorial Hospital	1,673,258	1,254,944	836,629	418,315	4,183,146
Middlesex Hospital	2,400,204	1,800,153	1,200,102	600,051	6,000,511
MidState Medical Center	2,175,585	1,631,689	1,087,792	543,896	5,438,962
Milford Hospital	1,371,716	1,028,787	685,858	342,929	3,429,289
New Milford Hospital	1,276,928	957,696	638,464	319,232	3,192,319
Norwalk Hospital	2,715,704	2,036,778	1,357,852	678,926	6,789,261
Rockville General Hospital	1,372,186	1,029,139	686,093	343,046	3,430,465
Saint Francis Hospital And Medical Center	3,009,170	2,256,878	1,504,585	752,293	7,522,925
Saint Mary's Hospital	2,297,863	1,723,397	1,148,932	574,466	5,744,658
Hospital of Saint Raphael	3,766,731	2,825,048	1,883,365	941,683	9,416,827
St. Vincent's Medical Center	3,020,892	2,265,669	1,510,446	755,223	7,552,230
The Stamford Hospital	2,322,672	1,742,004	1,161,336	580,668	5,806,679
Waterbury Hospital	2,483,274	1,862,456	1,241,637	620,819	6,208,185
Windham Community Memorial Hospital	1,594,908	1,196,181	797,454	398,727	3,987,270
Yale-New Haven Hospital	2,123,721	1,592,790	1,061,860	530,930	5,309,302
State Total	**59,600,89**	**44,700,669**	**29,800,446**	**14,900,223**	**149,002,230**

Finally, section 3014 of the American Recovery and Reinvestment Act offers competitive grants to states for the development of loan programs to facilitate the widespread adoption of certified electronic health record technology. No one disputes the need to convert to electronic health records or the quality and cost saving advantages that will accrue as a consequence of such conversion. So what is taking so long to get it done? Converting to electronic health records is a time consuming, complex, and very expensive undertaking, which will take years to complete and will cost into the tens of millions of dollars per hospital. Given the potential for cuts in Medicare funding if we do not succeed in implementing electronic health records, it is critical that hospitals have access to capital at reasonable rates. We are talking to members of the administration and legislative leaders about the necessity to take advantage of this critically-needed program and are cautiously optimistic that it will be pursued.

Hospitals are in a very difficult spot, being challenged past the breaking point in today's environment. The numbers of uninsured and those enrolling in Medicaid are rapidly growing. Current input costs, like staff, extraordinary pension funding expense, drugs, implants, fuel, and power to name a few, are rising. New costs, like electronic health records, are being added. Revenue to cover these demands is at best flat and the value of other assets to cover losses is down sharply. The confluence of these challenges and the speed at which they are being hurled at hospitals is unprecedented and is taxing the ability of hospitals to deliver excellent patient care with the best staff in modern facilities with the latest equipment.

Yet, many of the resources available to help meet these challenges lie just beyond the reach of hospitals; access to these resources is dependent on others willing to help hospitals and other providers. Absent the State legislature and the administration acting affirmatively, all of the additional Medicaid funding will flow to balance the state budget and none will go to hospitals or other providers; hospitals will not be able to access the increased DSH funding available to care for the growing number of uninsured; and, hospitals and other providers will not be able to access a loan program so that we can have the funds to proceed with electronic health record implementation.

Thanks to your hard work, before us we have some unprecedented opportunity – which we cannot afford to squander. We hope the legislature and the administration will work together to use some of the Medicaid funds to help providers make ends meet, access the additional DSH funds to help hospitals cover the growing number of uninsured, and pursue the electronic health record loan program. I would be happy to answer any question you might have.

Thank you for your consideration of our views.

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