

September 7, 2017

Kimberly Martone
Director of Operations
Department of Public Health
Office of Health Care Access
410 Capitol Avenue
P.O. Box 340308
Hartford, CT 06134

RE: 15-32033-CON Affiliation of
Lawrence + Memorial Corporation
with Yale New Haven Health
Services Corporation

15-32032-CON Merger of L&M
Physician Association, Inc. and
Northeast Medical Group

Dear Ms. Martone,

As part of the approval of the affiliation of Lawrence + Memorial with Yale New Haven Health, an independent consultant reporting directly to the State Office of Health Care Access (OHCA) has delivered its conclusions regarding costs and pricing in the eastern Connecticut market and establishing caps on any increases Lawrence + Memorial Hospital and Northeast Medical Group can seek to negotiate with third party payers.

These conclusions are based upon a broad assessment of the eastern Connecticut market in high frequency inpatient, outpatient and physician services and comparisons between L+M's market basket fees and those of the rest of the defined market, inclusive of government payers. The report anticipates expected Medicare decreases for inpatient and outpatient services in January 2018 and declining reimbursements from the State's funding of inpatient and outpatient services covered by Medicaid. Medicare and Medicaid services represent 65 percent of L+M's discharges.

It is clear from this independent assessment that the impacts of Medicaid and Medicare cuts have seriously eroded L+M's financial position over time. While the impact of the state tax on hospitals was not directly factored into the report, it is equally clear that the provider tax on hospitals also had a direct and damaging impact on the financial viability of hospitals across the state, including Lawrence + Memorial Hospital.

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These issues are complicated by the evolution of healthcare policy at the national level. With great concern about potential Medicaid cuts in the vicinity of \$750-800 billion over the next ten years, the situation could grow more complicated and more serious. This is especially true since Connecticut was one of the first expansion states under the Affordable Care Act and is particularly vulnerable to eligibility restrictions and funding over time. These risk factors are not accounted for in the report and its conclusions.

As a result of its full review of the current market conditions in eastern Connecticut, Milliman, the independent consultant, has concluded that Lawrence + Memorial Hospital trails its counterparts in reimbursement and would be able to sustain increases capped at the amounts set forth in the report for inpatient, outpatient and physician services without exceeding the market price for similar services in the region.

However, it is important to note that these rate increase caps are not simply applied. Instead, any rate increases are the result of vigorous negotiations with third party payers who have a defined interest in keeping costs low. As a result, the likelihood of achieving overall rate increases of this magnitude is remote. Additionally, Yale New Haven Health will work to ensure costs are controlled and will develop a collaborative approach with insurance companies and third party payers to ensure any rate increases are reasonable and sustainable in the region.

Sincerely,



Gayle Capozzalo
Chief Strategy Officer

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