March 2017

For NYC Health + Hospitals, Many Fiscal Risks Remain

NYC Health + Hospitals (H+H), the city's public hospital system and the country's largest municipal health system, began calendar year 2017 facing increased uncertainty due to recent H+H leadership changes and the strong possibility of major changes in federal health care, on top of the ongoing challenges in bringing its spending and revenues into balance. This fiscal uncertainty comes as hospitals across the country are grappling with declining inpatient admissions, excess capacity, and decreasing federal and state funding. It also comes during a period of increasing H+H reliance on government support.

The H+H transformation plan, *One New York: Health Care for Our Neighborhoods/Transforming Health + Hospitals*, released by the Mayor in April 2016, is an attempt to resolve the hospital system's annual operating budget deficits, which H+H projects will grow to $1.8 billion by 2020 (all years are city fiscal years unless indicated otherwise). The plan includes a set of corrective actions that aim to increase revenue, decrease expenses, and rebuild and further shift H+H from an inpatient-focused service delivery model to one with a greater emphasis on outpatient care. While the city would provide $100 million in revenue generated from pursuing development opportunities on H+H property as part of the transformation plan, the bulk of additional revenues are expected to come from the federal and state governments. As of February 2017, however, about $1.3 billion or 51 percent of the $2.5 billion in expected federal and state revenue in the transformation plan for 2017 through 2020 has still not been approved. Additionally, $306 million of expected revenue from a federal waiver program for the uninsured has been put on hold.

In the short run H+H can take other corrective actions and draw on existing Upper Payment Limit revenue to offset its shortfall for 2017. However, H+H's exposure to potential federal policy changes, along with the uncertainties in achieving the required federal and state cooperation assumed in its transformation plan, could create budget shortfalls in 2018 and beyond.

City Support for H+H. H+H's ongoing fiscal challenges stem in large part from its reliance on Medicare and Medicaid, which do not provide sufficient reimbursement to fully cover the cost of patient care delivered through these programs, along with H+H's mission to provide care regardless of a patient's immigration status or ability to pay. To support H+H's role in providing health care services to needy New Yorkers, the city provides a wide variety of funding to the public hospital system and this funding has increased in recent years. In 2016 the de Blasio Administration provided funding for collective bargaining increases for H+H and Emergency Medical Service staff totaling $282.7 million from 2017 through 2020 (the funds for ambulance staff are transferred to the fire department, which now houses the city ambulance service). Also forgiven were debt service payments totaling $735 million on city bonds that H+H was scheduled to pay from 2017 through 2020. The city also forgave $337 million of payments H+H was scheduled to make in 2016 for debt service on city bonds, medical malpractice, and employee health insurance (see IBO's March 2016 and June 2016 reports).

Since the 2017 budget was adopted, the de Blasio Administration has increased H+H's funding for providing health care in the city's jails (increased staff for compliance reporting and patient relations and health services for Department of Correction employees) and other services. After adjusting for the $400 million prepayment of H+H's

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Changes in City and Intra-City Financial Support to NYC Health + Hospitals Since the 2017 Adopted Budget *Dollars in millions*					
	2017 Budgeted	**2018 Planned**	**2019 Planned**	**2020 Planned**	**Four-Year Total**
Net NYC Payments to H+H in 2017 Adopted Budget	$1,747,912	$1,865,859	$1,881,860	$1,878,372	$7,374,003
Added Since June 2016					
Correctional Health, including new funding for DOC employee health services and compliance	37,995	13,207	12,807	12,807	76,816
Additional Modifications	33,296	3,020	3,020	3,020	42,356
Net NYC Payments to H+H in January 2017 Preliminary Budget	**$1,819,203**	**$1,882,086**	**$1,897,687**	**$1,894,199**	**$7,493,175**

SOURCES: Mayor's Office of Management and Budget; Financial Management System
NOTES: This value includes all payments in the NYC H+H expense budget as well as payments of H+H debt service, medical malpractice claims, and health insurance and Medicaid supplemental payments. All figures are as budgeted, except for Medicaid supplemental payments, which are IBO estimates. Figures do not include payments for Emergency Medical Services and utilities. Figures are expressed as net New York City payments to H+H taking into account payments that H+H reimburses New York City for (some debt service payments, medical malpractice claims, employee health insurance, unless forgiven by the city). Table is adjusted for $400 million prepayment. $100 million for H+H development opportunities is included.

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subsidy that was paid in 2016 for 2017, IBO expects total city funding for H+H to increase by 4 percent over the four-year period to $1.9 billion in 2020.

Progress on Cost Reductions, Revenue Increases

The Mayor's Office of Management and Budget (OMB) expects total H+H revenues to be relatively flat from 2017 through 2020, in spite of increased city support. In the budget adopted for 2017, OMB projected a $1.3 billion operating gap for 2017, growing to $1.8 billion in 2020. H+H aims to close these gaps by increasing revenues each year, with the increase rising from $541 million in 2017 to $1.1 billion in 2019 and 2020. Over the same period, H+H plans to reduce expenses by $118 million in 2017, with the cuts rising to nearly $700 million in 2020. H+H's transformation plan includes a number of initiatives aimed at maximizing efficiency and revenue as well as restructuring H+H's health delivery system.

Improve Internal Operating Efficiency. H+H has aligned its management along lines of service—its hospitals report as one entity, outpatient clinics as another, skilled nursing facilities as a third—and has centralized shared services for finance, human resources, and emergency care among the agency's many facilities to leverage the benefits of greater integration and standardization of quality. H+H is also continuing to use evidence-based-management programs to address the highest need populations. The hospital system has estimated cost savings of $63 million in supply chain management, care management coordination, labs, and pharmacies in 2017, increasing to $154 million by 2020. H+H also expects to generate additional revenue of $55 million in 2017, growing to $106 million in 2020, through initiatives such as enhanced coding and charge capture to reduce billing problems; investing in insurance contract management and information technology capabilities; and standardizing workflows, training and processes.

Staff salaries (38.5 percent of total H+H expenses in 2016, or $2.7 billion) continue to be H+H's biggest expense, and are projected to increase in H+H's financial plan by 1.7 percent from 2017 through 2020.[1] For purposes of comparison, data taken from H+H's cash receipts and disbursement reports show that staff salaries rose a total of 11.8 percent from 2013 through 2016, which suggests that holding salary growth to 1.7 percent for 2017-2020 may be overly optimistic. H+H's financial plan projects staff savings

NYC Health + Hospitals Financial Plan as of 2017 Adopted Budget *Dollars in millions, calculated on an accrual basis*				
Adopted Budget Projected	**2017**	**2018**	**2019**	**2020**
Revenues	$6,064	$6,177	$6,207	$5,974
Expenses	7,315	7,412	7,569	7,726
Total Before Corrective Actions	($1,251)	($1,235)	($1,362)	($1,753)
Revenue Generating Initiatives	$541	$903	$1,099	$1,101
Expense Reducing Initiatives	118	404	569	698
Total After Corrective Actions	($592)	$72	$307	$47
Accrual to Cash Adjustment	$709	$52	($163)	$131
Closing Cash Balance	**$116**	**$124**	**$143**	**$177**

SOURCE: Mayor's Office of Management and Budget; H+H financial plan
NOTES: Figures adjusted to align with Mayor's Office of Management and Budget plan. Adjusted figures include: 2016 H+H $400 million subsidy prepayment from 2016 back to 2017 and transfer of $120 million of the value-based payment quality improvement program from 2017 to 2016.

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NYC Health + Hospitals Transformation Plan 2017-2020 *Dollars in millions*					
H+H Transformation Plan	**2017**	**2018**	**2019**	**2020**	**4 Year Total**
Maximize Internal Operating Efficiency (All Internal Initiatives)					
Total Expense Initiatives to Maximize Internal Operating Efficiency	$113.0	$187.0	$221.0	$254.0	**$775.0**
Total Revenue Initiatives to Maximize Internal Operating Efficiency	55	60	85	106	**306**
Maximize Revenue (Internal Initiatives and Initiatives Requiring External Approval)					
Total Revenue Initiatives to Maximize Revenue	486.1	843.1	1,014.2	995.4	**3,338.8**
Total Internal Initiatives to Maximize Revenue	114.4	117.3	100.3	209.6	**541.6**
Total Initiatives to Maximize External Revenue	371.7	725.8	913.9	785.8	**2,797.2**
Total Initiatives to Maximize External Revenue Approved	308.2	366.8	338	203.9	**1,216.9**
Total Initiatives to Maximize External Revenue Unapproved	45.5	263	479.9	485.9	**1,274.3**
Total Initiatives to Maximize External Revenue Put on Hold	18	96	96	96	**306**
Restructure Health Care Delivery System (Internal Initiatives)					
Total Expense Initiatives to Restructure Healthcare Services	5	216.5	348	444	1,013.5

SOURCE: OMB, H+H Transformation Plan.
NOTE: Adjustments include transfer of $120 million of value-based payment quality improvement program from 2017 to 2016, under 'total initiatives to maximize external revenue approved' in order to align with H+H's Financial Plan.

of $50 million in 2017 and $100 million per year from 2018 through 2020 to be achieved through staff attrition rather than layoffs. In November 2016, H+H reported 47,589 full-time equivalent (FTE) employees, 1,821 fewer than reported in the previous year (a 3.6 percent decrease).[2] While the number of FTE's was slightly higher than H+H's internal target for the month, the reduction in headcount is a sign that H+H's cost-savings goal is achievable.

Increasing Revenue. H+H expects to generate some additional revenue by pursuing real estate opportunities, including repurposing some of its existing sites for supportive housing and community-based care among other uses. H+H also expects to generate revenue by increasing federal and state funding, enrolling more uninsured patients in health insurance, and by boosting outpatient care. Successful implementation of these measures, along with the billing and other revenue cycle initiatives discussed previously, would increase H+H's expected revenue by $3.6 billion in 2017 through 2020.[3]

Of the total $3.6 billion of additional revenues that the H+H transformation plan forecasts for 2017 through 2020, 57 percent ($2.1 billion) are derived from initiatives that have either already received approval or are internal initiatives that do not require external approval to implement. Of the remainder, a number of initiatives that would create $1.3 billion in additional revenue still await federal and state approval, and a separate federal waiver program for the uninsured that would increase revenue by $306 million has been put on hold. H+H does not expect to receive approval of most of the unapproved external revenue initiatives until 2018—an expectation that remains uncertain.

Government Support. H+H has been seeking a number of changes in federal and state procedures that would yield substantial additional revenue for H+H. These include: a delay to Disproportionate Share Hospital (DSH) reductions scheduled under the Affordable Care Act (ACA); a change to the state's distribution of DSH payments; leveraging New York State's Delivery System Reform Incentive Payments for supplemental Medicaid funding; increasing Medicaid reimbursement for safety net hospitals; and adding a federal waiver program for caring for the uninsured, among other measures.[4]

Enrollment. H+H is projecting increased revenue of $114.4 million in 2017, $117.3 million in 2018, $110.3 million in 2019, and $109.6 million in 2020, from increased enrollment in MetroPlus and by enrolling eligible uninsured patients in health insurance. H+H is on track to meet its 2017 target to enroll 53,000 patients in health insurance, with 26,000 new patients enrolled by December 2016. MetroPlus membership was within 2 percent of its internal target for revised figures for the last quarter of 2016 (510,000 vs. 520,000) and trending upwards. Continued progress increasing MetroPlus enrollment is dependent on the future of the Affordable Care Act, which helped to decrease the number of uninsured individuals treated at H+H facilities by 11 percent from 477,957 in 2011 to 425,089 in 2016 and contributed to the increase in MetroPlus enrollment.[5]

Revenues from Outpatient Care. Like many health care systems, H+H is experiencing low inpatient bed occupancy rates and declining inpatient admissions. But it has been unable to also generate a concomitant increase in outpatient visits. Inpatient discharges decreased by 3.5 percent from 2013 through 2016, while outpatient visits declined by 6.5 percent during the same period.[6] More recent figures reported by H+H for July through November 2016 indicate that inpatient visits were down by 3.4 percent and outpatient visits decreased by 7.2 percent. According to H+H, the declines in outpatient visits are due to the undesirable locations of some of its facilities and greater competition for patients in the communities served, among other reasons.[7]

Total revenue growth has remained relatively flat for H+H from 2011 through 2016—a decrease of 1.7 percent—while total expenses increased by 17.0 percent. The flat revenue growth was a result of a 5.8 percent decrease in inpatient revenue, which was only partly offset by a 10.9 percent increase in outpatient revenue. While the number of outpatient visits declined during the period, outpatient revenue increased, driven in part by changes in H+H's outpatient payer mix. Excluding emergency department visits, the share of visits that were uninsured decreased from 29.6 percent of all visits in August 2013 to 25.6 percent in August 2016 and the share of visits covered by private insurance increased from 7.6 percent to 10.9 percent during the same period.

Restructure H+H's Health Care Delivery System. The transformation plan's goal of reducing costs through investment in outpatient care acknowledges the drivers behind its low inpatient bed occupancy rates and is in line with the industry trend towards greater focus on outpatient care due to advances in medicine, changes in consumer preferences, and investments in preventive care. H+H also hopes to deflect some clients who have tended to use its busy emergency departments towards preventive and primary care clinics for nonemergency treatment. H+H expects savings of $5 million in 2017, growing to $444 million by 2020, from restructuring health care services by shifting to greater use of outpatient rather than inpatient care. H+H is currently assessing community needs and working with stakeholders. It is not yet clear how or which facilities, staff, and services will be affected in the restructuring process.

While investments in outpatient, preventive, and community-based care have benefits for patients and some parts of the hospital system, they result in less income and fewer patients for H+H's hospitals than would otherwise be the case. H+H has hospital-centric infrastructure and inpatient volume is still the main revenue driver. The transition to a greater focus on prevention and community health, outpatient care, and an outcome-based payment environment will take time and H+H will need outside support in the interim if its transition is to occur as smoothly as planned.

Federal Changes Loom. The fiscal future of H+H is highly dependent on the outcome of the health care debate in Washington. Potential changes to ACA, Medicaid, and Medicare would have major impacts on H+H's efforts to bring its revenues and expenses into balance. The current House Republican plan, released on March 6, would place a heavy burden on H+H in the coming years. While the plan would provide some assistance to H+H's bottom line by repealing cuts to DSH payments beginning in 2020 and increasing funding for the Community Health Center Fund, on balance the plan poses a severe threat to H+H's financial condition over time. The plan would gradually reduce the federal government's support by introducing per capita caps to Medicaid and reduce the federal matching rate for ACA's Medicaid expansion starting in 2020. This, along with requirements for citizenship or permanent resident status at time of application and increasing the frequency for eligibility redeterminations, would make Medicaid coverage more difficult to maintain, which would likely result in fewer H+H patients being eligible for Medicaid coverage over time. Similarly, the proposed individual tax credits, which will result in less government support for vulnerable patients and elimination of the health insurance mandate, among other measures, could lead to fewer H+H patients with private health insurance. In addition, proposed cuts in federal funding would further reduce the chances that H+H will receive the additional government funding assumed in its transformation plan. While there is still widespread uncertainty and a multitude of possible outcomes, H+H's exposure to these program changes, coupled with H+H's low operating margin and its increased reliance on government support for its operating revenues, could create major obstacles to implementing the transformation plan.

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Endnotes

[1]Data taken from H+H Financial Board Meeting Minutes: Cash Receipts and Disbursements Reports for various fiscal years.
[2]FTE include H+H staff and overtime, hourly, temporary and affiliate FTEs.
[3]This figure has been adjusted to include transfer of $120 million of the value-based payment quality improvement program from 2017 to 2016 to be in line with H+H's financial plan. Without adjustment total would be $3.76 billion.
[4]DSH cuts pose a financial risk for H+H but the impact of DSH cuts under ACA has already been reflected in the H+H Financial Plan for 2017-2020.
[5]Figures for the uninsured come from Mayor's Management Reports for various years.
[6]Data taken from H+H Financial Board Meeting Minutes: Utilization Reports for various fiscal years.
[7]H+H also reports increased competition for Medicaid patients in its hospitals.

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