New York City Independent Budget Office Fiscal Brief

November 2022

A Life Line?
An Examination of City Operating Support To New York City Health + Hospitals

Summary

Health + Hospitals (H+H), New York City's public hospital system, is the largest and one of the oldest public hospital systems in the country, serving more than 1.1 million New Yorkers each year. H+H played an important role in responding to New York City's Covid-19 public health emergency. It expanded bed and staffing capacity at the start of the Covid-19 surge and launched new temporary initiatives such as the Test & Trace Corps and staffing vaccination sites across the city, as well as built three new Covid-19 community health centers, and expanded its telemedicine offering.

These recent initiatives have been largely paid for with federal funds provided through Covid-19 response and relief appropriations. However, throughout the pandemic and prior, the system was heavily reliant on the city for operating support. In this brief, IBO examines city support for H+H and identifies risks that the city's public hospital system is facing that may make city subsidies in the future even more critical.

Among our findings:

- IBO estimates that the city will provide a total of $2.3 billion in operating support to H+H in 2023 (all years refer to city fiscal years). This is in addition to the $564 million the city has budgeted to provide to H+H for delivering services on its behalf. City operating support planned for H+H is similar to what the city provided in 2022. However, city support has been growing in recent years; its subsidies to H+H averaged $1.5 billion per year from 2018 to 2021.
- The primary source of city operating support for H+H is through supplemental Medicaid payments. Because H+H serves a disproportionate share of Medicaid and uninsured patients, it is eligible for additional Medicaid funding. By providing these supplemental payments, the city triggers an equal amount of funding from the federal government. The city plans to provide $1.5 billion for its share of the supplemental Medicaid payments in 2023.
- H+H is facing a growing list of financial challenges, which will likely impact how much operating support the city will have to provide in the future. The hospital system is projecting that its year-end cash balance will decline from a $751 million surplus in 2023 to an $80 million surplus in 2026.
- This decline is largely due to an anticipated drop in revenue from the federal share of supplemental Medicaid payments. These cuts, announced as part of the Affordable Care Act, have been delayed several times, most recently due to the pandemic. However, they are planned to go into effect in 2024, unless postponed again.

Other risks to H+H's bottom line include the possibility of continued pandemic-related costs as federal relief programs expire, as well as the role that H+H is playing in helping the city provide medical care and case management for the city's newly arrived asylum seekers. All of these costs could require the city to increase its support—at a time when the city's financial outlook is increasingly at risk.

IBO

New York City
Independent Budget Office
George Sweeting, Acting Director

110 William St., 14th floor
New York, NY 10038
Tel. (212) 442-0632

Fax (212) 442-0350
iboenews@ibo.nyc.ny.us
www.ibo.nyc.ny.us

Background

In addition to its 11 acute care hospitals, H+H operates diagnostic and treatment centers, long-term care and rehabilitation facilities, community care services, which include school-based health centers, among other services. It also administers MetroPlus, a managed care health plan. H+H is the largest provider of emergency room care, care for mental health diagnoses, and uninsured care in the city.

H+H has had a history of financial difficulties since its incorporation as a public benefit corporation in 1969. Its financial problems stem from the system's mandate to treat all New Yorkers regardless of their ability to pay, even if there is no private or government insurance to reimburse the system. H+H is highly reliant on the Medicaid program and supplemental Medicaid payments. The former tends to reimburse claims below cost on average, and the latter, are subject to federal approval, which delays reimbursement and results in unpredictable cash flow.

Prior to its establishment as a public benefit corporation, the public hospitals were part of the municipal Hospital Department. Thus, H+H's hospital facilities are owned by the city and are leased to H+H for an annual rent of $1. The city also pays for some of H+H's capital improvements. This brief, however, focuses just on city support provided to H+H within the city's revenue and expense budgets.

City Operating Support for H+H

IBO estimates that as of the 2023 Adopted Budget New York City will provide a total of $2.3 billion in net city subsidies to H+H this fiscal year (2023). This operating support is in addition to the funding that the city provides H+H for delivering services on the city's behalf, which in 2023 is currently budgeted to total $564 million. City operating support for H+H in 2023 is only very slightly higher (0.4 percent) than what the city provided in 2022. However, city support has been growing, city subsidies to H+H averaged $1.5 billion per year from 2018 to 2021.

Nearly two-thirds of the city's operating support for H+H comes through what are known as supplemental Medicaid payments. In addition to paying health care providers for treating Medicaid patients, the Medicaid program can also provide subsidies to hospitals that care for disproportionally large shares of Medicaid and uninsured patients in the form of supplemental payments. The city provides funding to H+H to trigger an equal amount of federal matching supplemental payments for the public hospital system.

The city's supplemental Medicaid funding, which is budgeted to total $1.5 billion in 2023, consists largely of Upper Payment Limit (UPL) payments and Disproportionate Share Hospital (DSH) payments.[1] UPL payments increase the Medicaid reimbursements for providers treating a large share of fee-for-service Medicaid payments and DSH payments go to hospitals that provide care for a large share of Medicaid and uninsured patients. In the case of H+H, New York City largely determines its UPL payments through the rates it is willing to pay and what it can negotiate with the federal government. In the case of DSH, New York State decides how to allocate its federally allotted payments among hospital systems across the state.

In addition to the supplemental Medicaid payments, city operating support for 2023 includes funding for personnel costs from H+H's collective bargaining agreements and funding for NYC Care, H+H's health care access program, which provides low-cost and no-cost services to uninsured New Yorkers. The city also subsidizes the cost of H+H medical malpractice insurance costs, and provides payments for H+H related debt service on city issued bonds, payments for retiree Medicare Part B premiums (H+H employment fringe), and retiree health care.[2]

The city funding to H+H in this brief excludes the portion of city funding H+H receives through the direct reimbursement for services provided under the Medicaid program. New York State requires all counties including New York City to contribute to the state Medicaid program. The city contributes to Medicaid services up to an annual cap of approximately $5.4 billion over the state fiscal year. We exclude the city's direct Medicaid contribution from this analysis of city support for H+H because the city has no role in determining how the Medicaid program operates nor discretion over the size of the annual contribution. Moreover, the city's direct Medicaid includes services delivered in non-H+H facilities.

The city has had various agreements over time regarding whether H+H is responsible for reimbursing the city for some of the support it receives and when H+H is required to pay back such support. These decisions are typically based on H+H financial circumstances at a specific point in time. Allowing H+H to delay repayment serves as a way for H+H to manage its cash-flow shortfalls. In 2023, IBO estimates that H+H is responsible for reimbursing the city total $285 million for medical malpractice insurance, H+H employment fringe and H+H retiree health costs. While H+H is currently responsible for reimbursing the city for its malpractice claims, the city has agreed to give H+H a small

New York City Net Support to NYC Health + Hospitals as of the Fiscal Year 2023 Adopted Budget by Fiscal Year *Dollars in millions*							
	Actuals			**Budgeted**			
	2019	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**
Total Unrestricted City Subsidy	**$266.2**	**$67.8**	**$98.2**	**$154.8**	**$169.1**	**$186.5**	**$185.7**
Supplemental Medicaid Payments	**$1,020.2**	**$1,010.3**	**$1,008.9**	**$1,551.6**	**$1,536.3**	**$1,364.7**	**$1,364.7**
DSH Payments*	715.5	712.6	728.2	584.8	658.3	658.3	658.3
UPL Payments*	304.7	297.7	61.8	207.1	229.1	236.5	236.5
Medicaid Initiatives	-	-	18.9	759.7	648.9	469.9	469.9
NYC Care	$0.0	$25.0	$75.0	$100.0	$100.0	$100.0	$100.0
Collective Bargaining Agreements	$376.9	$238.7	$176.4	$249.1	$229.9	$242.2	$242.2
Other City Support for H+H	**$433.3**	**$456.7**	**$492.9**	**$556.4**	**$594.2**	**$636.7**	**$684.6**
Medical Malpractice**	135.6	113.4	108.4	157.3	157.3	157.3	157.3
Debt Service on City Issued Bonds***	169.0	202.5	228.5	256.2	287.1	321.9	360.8
Employment Fringe**	26.4	28.0	34.5	24.9	24.9	24.9	24.9
Retiree Health****	97.1	104.4	112.7	112.0	120.0	128.0	137.0
General Services	5.2	8.4	8.8	6.0	$4.8	$4.6	$4.6
City Support to H+H	**$2,096.6**	**$1,798.5**	**$1,851.4**	**$2,611.9**	**$2,629.5**	**$2,530.1**	**$2,577.2**
H+H Payments Back to City When Buyer on H+H's Behalf	**$613.3**	**$228.5**	**$450.6**	**$276.9**	**$284.9**	**292.9**	**301.9**
Total Medical Malpractice**	118.3	96.1	91.1	140.0	140.0	140.0	140.0
H+H Employment Fringe**	26.4	28.0	34.5	24.9	24.9	24.9	24.9
H+H Reimbursement for Debt Service on City Bonds***	$0.0	0.0	212.4	0.0	0.0	0.0	0.0
H+H Retiree Health****	$97.1	104.4	$12.7	112.0	120.0	128.0	137.0
H+H Reimbursement for Prior Year Payments	371.5	0.0	0.0	0.0	0.0	0.0	$0.0
Net City and Intracity to H+H	**$1,483.3**	**$1,570.0**	**$1,400.7**	**$2,335.0**	**$2,344.6**	**$2,237.2**	**$2,275.3**

SOURCES: H+H expense budget; Misc. Revenue budget; Mayor's Office of Management and Budget calculations and IBO estimates.
NOTES: *OMB based on H+H's 2022 Accrual Adopted Budget. ** OMB actual FY2019, FY2020, and FY2021. ***OMB actual for FY2020. IBO estimates for FY2019, FY2022, FY2023, FY2024, FY2025. Calculation for FY2019 grew actual debt service of 2017 by average growth rate of actual debt service for 2015-2017. Calculation for FY2022-FY2024 used FY2021 OMB actual as a base and growing it by average growth rates for actuals for FY2018-2021 (2018 and 2019 are IBO estimates, not actuals) ;**** OMB. FY2019, FY2020, and FY2021 are actuals. FY2022+ are estimates from 2021. Medicaid initiative line provided by OMB on October 3, 2022.

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amount of these payments ($17 million a year) budgeted over the 2023 to 2025 period for keeping the number of suits low.

In addition to providing support in some areas, the city also pays H+H for providing health care services on behalf of the city.[3] There is also funding for the inspector general office at health and hospitals. These city funding amounts are not included in the city's operating support total, but are budgeted to be $564 million in 2023.

Financial Risks Facing H+H

H+H is facing financial challenges in the foreseeable future, which are magnified because of the ongoing changes in the health care sector and the Covid-19 pandemic. City support is helping mitigate the effects of some, but not all, of these negative risks.

Decline of Supplemental Medicaid Payments. The overall size of both supplemental Medicaid payment programs (UPL and DSH payments) are expected to decline over time due to changes at the state and federal levels, which will lower the amount of federal funding the city can generate by making Medicaid supplemental payments. These payments are the city's preferred option for funding H+H because city funds are fully matched with federal funds, doubling total funding to H+H. The city contribution to UPL funding has declined because of New York State is transitioning its Medicaid program away from fee-for-service towards managed care. Because federal policy requires UPL payments to be determined by fee-for-service Medicaid receipts, the result has been a decline in UPL funding for the city.

To offset some of the decline in UPL payments and make the remaining declines more predictable, H+H received

City and Intracity Support to NYC Health + Hospitals for the Provision of Services on Behalf of the City *By Fiscal Year, dollars in millions*							
	Actuals			**Budgeted**			
	2019	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**
Department of Investigation	$9.5	$9.5	$9.5	$9.5	$9.5	$9.5	$9.5
H+H Provider of Health Services	$362	$388	$489	$445	$554	$354	$354
NYC Test + Trace	0	0	102	27	200	0	0
Covid-19: Vaccines				10			
Mental Health Services Corps	0	6	$13	13	12	12	12
Correctional Health	267	271	277	276	274	274	274
Just Home	0	0	0	1	1	1	1
Forensic Health Clinics	5	5	5	5	5	5	5
Health Services	90	106	93	112	62	62	62
Total City Funding to H+H for Services Provided	**$371.0**	**$397.7**	**$498.1**	**$435.4**	**$563.5**	**$363.7**	**$363.7**

SOURCES: Mayor's Office of Management and Budget. New York City H+H expense budget as of the Fiscal Year 2023 Adopted Budget

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state and federal approval to convert UPL payments to Medicaid rate add-ons in 2020. This conversion ('Medicaid Initiatives' line in the accompanying table) is expected to result in H+H receiving more stable and higher UPL payments that would more than offset the declines in UPL funding over the period.

To fund this conversion initiative, the city transferred funding from the H+H unrestricted subsidy budget to the city's Medicaid budget in June 2020 and April 2021, although some of the shift has been restored to the H+H subsidy budget due to lower revenue assumptions for these initiatives and the associated local shares.[4] Transferring city funding back to the H+H unrestricted subsidy budget as opposed to just taking down funds in the city Medicaid budget, reduces the fiscal impact on H+H to $110 million a year for 2023 onwards, rather than what would potentially have been a $146 million and $219 million dollar cut in 2024 and 2025, respectively.

Planned DSH cuts were originally required by the Affordable Care Act to begin in federal fiscal year 2014, but have been continuously postponed, most recently due to Covid-19 and then by the 2021 Consolidated Appropriations Act. Cuts are now forecast to resume in federal fiscal year 2024 (beginning October 1, 2023). While cuts to DSH cuts are planned at the federal level, the city has not yet removed its contribution to the DSH program from the Medicaid budget because it is still uncertain whether DSH cuts would really materialize.

Cash-Flow Challenges as a Result of Federal Covid-19 Reimbursement Delays. In 2021 and 2022, H+H had to delay some of its payments to the city due in part to delays in DSH and Federal Emergency Management Agency (FEMA) payments. H+H so far has only received a total of $620 million in FEMA for its Covid-19 response aid as of late September, even though FEMA aid budgeted for 2021 and 2021 totals $782 million.[5] As a result of the delay in FEMA and other federal payments, in 2021, the city agreed to delay approximately $700 million in payments for obligations incurred on H+H's behalf, including a one-time payment of $212 million for debt service reimbursement.[6]

H+H paid the city the last of its financial obligations for 2021 in May 2022 ($126 million for medical malpractice and Medicare part B premiums). The city has yet to agree to payment delays for 2022, but as of September 23, 2022, the city has so far only received $88 million for retiree health in June 2022 and expects further payments during the close or over the course of the year. The city has not received any 2023 payments yet.

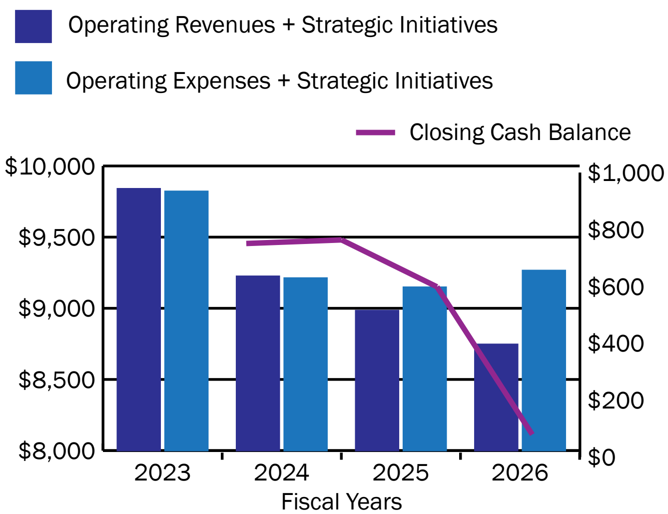
A large amount of aid that H+H has budgeted for is still pending. Total FEMA aid approved for Covid-19 for H+H over the 2022 to 2026 period is up to $1.2 billion. However, H+H has budgeted a higher amount of FEMA aid in its most current financial plan: $1.8 billion over the same period.[7] A reimbursement package for additional FEMA funding of $137 million for personal and protective equipment is still under review with Washington. The actual amount of FEMA reimbursement will ultimately be based on Covid-19 related costs that FEMA deems reimbursable.

Overall Outlook

H+H ended July 2022 with a $679 million cash surplus and the system's latest financial cash plan as of the 2023

New York City Projected Operating Revenues, Expenses and Closing Cash Balance as of the H+H Fiscal Year 2023 Executive Financial Cash Plan

All dollars in millions



SOURCE: NYC Health + Hospitals Fiscal Year 2023 Executive Financial Cash Plan

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Executive Budget projects H+H to end 2023 with a $751 million cash surplus. At the end of July, the system had approximately 28 days of cash-on-hand for operations, which is high compared with historic levels. This is largely the result of a few factors: the direct Covid-19 federal aid made to the hospital system, cuts that have been postponed because of federal relief bills, a lack of significant cuts to the Medicaid program, and continued support from the city, the latter which was made possible through the city's own federal Covid-19 relief.

Despite this overall positive situation now, H+H is projecting its cash balance to decline over the 2024 to 2026 period, from $763 million in 2024 to $599 million in 2025, and then to $80 million in 2026. This decline is due primarily to an anticipated drop in revenues because of the long-delayed cuts to the DSH program. Reducing the reserves like this is the strategy that H+H has adopted to respond to the DSH cuts discussed above, which are scheduled for 2024 but may or may not actually materialize.

If the DSH cuts do materialize, then this strategy of waiting to plan ahead has major risks to the city. If all the H+H reserves are depleted as a result of the cuts, then the system would be in a very precarious situation and would either need to drastically cut expenses and services (likely through layoffs or closures), or require a city bail-out. This situation could be averted by spreading out expense cuts over time, which H+H has neglected to do thus far, likely due to the lack of certainty around DSH cuts.

There also are other risks to H+H including the uncertainty around what will happen to the state's Medicaid program once federal funds expire and the federal public health emergency period ends (see IBO's 2022 report). The current federal public health emergency period is set to expire in mid-January 2023, unless extended again by 90 days.[8]

Another risk stems from the continued Covid-19 pandemic as federal funding begins to dry up. As of H+H's Fiscal Year 2023 Preliminary Financial Plan, the hospital system had budgeted their Covid-19 related costs and revenue to be net neutral across the financial plan, underpinned by two main assumptions: the first assumption is that Covid-19 reimbursements and expenses will balance out across the life of the financial plan. The second assumption is that Covid-19-related expenses will not continue into 2024. One problem with these assumptions is that it is possible that total FEMA approved revenues come in lower than the amount budgeted. This could leave H+H with an operational shortfall. Another problem with these assumptions is that the system may continue to incur unreimbursed Covid-19 related costs after federal funding and the public health emergency period end.

If that is the case, H+H or the city would have to absorb the cost. Indeed, this has already begun to happen. Covid-19 federal relief for the uninsured and programs for Covid-19 testing and treatment ended in March 2022; in April 2022 for funding for vaccine administration was shutdown. The city's latest adopted budget included $200 million of city funds for Test and Trace in 2023. Test and Trace was a temporary program and H+H is integrating its Covid-19 testing and vaccine efforts into the system's regular patient visits to ensure the sustainability of these services.

One other risk is that H+H is also currently facing higher salary costs and basic operating expenses. Inpatient discharges are lower than what they were prior to the pandemic and have been declining over time prior to the pandemic, in-line with health care trends.

The final risk to H+H is the current influx in newly arrived asylum seekers in New York City. H+H is managing operations at the city's recently opened Humanitarian Emergency Response and Relief Center, which is providing medical care, case management services, and referrals to incoming asylum seekers.[9] While the Adams administration is working to maximize funding from the federal government, it remains to be seen what impact this will have on H+H and if it will mean that the city will need to support the public hospital system.

Overall, there is greater uncertainty for H+H's fiscal situation in 2024 and beyond. This fiscal outlook is closely intertwined with that of the city as a whole. If the city financial outlook should dampen, any significant city cuts could undermine H+H's ongoing efforts to bring its revenues and expenses into balance.

Prepared by Melinda Elias
New York City Independent Budget Office

Endnotes

[1]The amounts for city support for Disproportionate Share Hospital (DSH) payments and Upper Payment Limit (DPL) payments are based on estimates from the 2022 H+H Adopted Accrual Plan, which is over a year old, however, it is the city's Office of Management Budget's most current estimated numbers.
[2]Under de Blasio administration the city agreed to take on additional personnel costs associated with collective bargaining increases (since 2015), and support NYC Care (since 2020).
[3]This includes but is not limited to funding H+H for providing health care services for city programs, agencies, and residents, including health care to correction officers and at correctional facilities, for the mental health service corps, forensic clinics, and for running the temporary test-and-trace program.
[4]The 2023 November Budget includes a one-time budget transfer of $50 million from the Medicaid budget to H+H's unrestricted subsidy budget for 2022. The 2023 Executive Budget includes a $73.1 million transfer from the Medicaid budget to H+H's unrestricted budget for 2022 and a $109.6 million budget transfer for 2023 onwards.
[5]H+H's Covid-19 related budget expenses and revenues are consistent with H+H's 2023 financial executive cash plan.
[6]In 2021, H+H paid the city a total one-time payment of $212.4 million of debt service payments. However, the payment is viewed by the city to be just a one-time adjustment. There is currently no obligation for the system to routinely pay the city back for H+H debt service on city-issued bonds for 2022 and beyond.
[7]Covid-19 related reimbursement assumptions remain consistent with H+H's 2023 Executive Financial cash plan.
[8]The Biden Administration has said it will give states a 60 day notice before the PHE expires. COVID-19: Renewal of Determination that a Public Health Emergency Exists (hhs.gov) Accessed November 9, 2022.
[9]Mayor Adams Announces Humanitarian Emergency Response and Relief Centers | City of New York (nyc.gov) Accessed October 3, 2022.